

# STATE OF CONNECTICUT



***AUDITORS' REPORT  
DEPARTMENT OF HIGHER EDUCATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007***

**AUDITORS OF PUBLIC ACCOUNTS**

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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January 16, 2009

**AUDITORS' REPORT  
DEPARTMENT OF HIGHER EDUCATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007**

We have examined the financial records of the Department of Higher Education for the fiscal years ended June 30, 2006 and 2007. 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, 2007, membership of the Board of Governors was as follows:

Frank W. Ridley; Chairman	Harry H. Penner, Jr.
Brian Flaherty; Vice-Chairman	Jean E. Reynolds
William Aniskovich	Robert Robins
Dorothea E. Brennan	Albert B. Vertefeuille
James H. Gatling	Margaret J. Villani
Ross H. Hollander	

As of June 30, 2007, the Board had no vacancies. William Bevacqua and Patricia M. Vissepó 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 throughout the audited period. However, Commissioner Lewis retired February 1, 2008, and Michael P. Meotti was appointed Commissioner, effective March 1, 2008; Associate Commissioner Jane Ciarleglio served as Acting Commissioner during the month of February 2008 and subsequently appointed Deputy Commissioner.

**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 No. 05-60, effective July 1, 2005, amended Section 10a-22c of the General Statutes increases the irrevocable letter of credit amount private occupational schools must submit to the Department and related requirements.

Public Act No. 06-150, effective October 1, 2006, concerns private occupational schools and the Department of Higher Education's authority over a myriad of activities related to school certification to operate.

Public Act No. 07-166, effective from passage on June 19, 2007, is an act concerning the faculty at public institutions of higher education and revisions to various higher education statutes.

**RÉSUMÉ OF OPERATIONS**

**General Fund:**

General Fund receipts totaled \$52,259, \$39,291 and \$25,286 during the fiscal years ended June 30, 2005, 2006 and 2007, respectively. The totals for the 2005-2006 and 2006-2007 fiscal

years are made up of prior year refunds of expenditures and other fees - miscellaneous.

General Fund expenditures totaled \$48,297,448 and \$53,269,523 during the fiscal years ended June 30, 2006 and 2007, respectively. A comparative summary of General Fund expenditures from Department appropriations for the fiscal years under review and the preceding fiscal year follows:

	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Personal services	\$ 2,617,611	\$ 2,875,530	\$ 2,879,264
Contractual services	602,908	651,181	519,086
Commodities	31,833	27,372	25,551
Grants	65,831,716	44,742,365	49,840,892
Capital outlay	<u>4,465</u>	<u>1,000</u>	<u>4,730</u>
Total General Fund Expenditures	<u><b>\$69,088,533</b></u>	<u><b>\$48,297,448</b></u>	<u><b>\$53,269,523</b></u>

Expenditures from budgeted appropriations fluctuated significantly during the audited period, primarily due to State Aid Grant payments. Grant expenditures decreased from the 2004-2005 fiscal year to the 2005-2006 fiscal year by \$21,089,351, or 32 percent, and increased in the 2006-2007 fiscal year from the 2005-2006 fiscal year by \$5,098,527, or 11.4 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 funding during the 2004-2005 fiscal year with \$29,300,000 in budgeted appropriations, which was reduced to \$7,350,000 and \$5,350,000 in fiscal years 2005-2006 and 2006-2007, respectively. Some of the most significant grants, and those of the preceding fiscal year, are presented below:

	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Independent College Student Grant program	\$15,519,517	\$15,519,517	\$15,800,626
Aid for Public College Students program	\$16,520,920	\$16,520,920	\$16,520,920
Capitol Scholarship program	\$ 5,160,907	\$ 6,499,056	\$ 8,435,352
Higher Education State Matching Grants	\$25,300,000	\$ 2,000,000	\$ 5,350,000
Minority Advancement program	\$ 2,424,820	\$ 2,668,958	\$ 2,092,025

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 to those institutions.

**Grants and Restricted Accounts Fund:**

During the 2005-2006 and 2006-2007 fiscal years \$8,458,820 and \$10,437,784, respectively, in Federal and non Federal contributions were deposited to the Grants and Restricted Accounts Fund.

A summary of Grants and Restricted Accounts Fund receipts for the fiscal years ended June 30, 2006 and 2007, follows:

	<u>2005-2006</u>	<u>2006-2007</u>
Federal Aid – Restricted	\$6,365,418	\$ 7,671,559
Non Federal Aid – Restricted	1,369,823	1,527,504
Grants Transfers Federal – Restricted	466,500	465,000
Grants Transfers Non Federal – Restricted	35,000	146,800

Investment Interest	222,079	376,921
Court Ordered Donations	<u>0</u>	<u>250,000</u>
Total Grants and Restricted Accts Receipts	<u><b>\$8,458,820</b></u>	<u><b>\$10,437,784</b></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 2005-2006 and 2006-2007 were \$7,632,111 and \$8,301,470, respectively, and consisted primarily of expenditures for the AmeriCorps Federal program, which totaled \$1,380,713 and \$1,589,391, respectively, and the GEAR UP Federal program, which totaled \$2,807,351 and \$1,867,024, 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 \$165,687 and \$185,315, respectively, during the 2005-2006 and 2006-2007 fiscal years. The Endowed Chair Investment Fund had a fund balance of \$5,620,759 as of June 30, 2007.

**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 \$18,162 and \$6,645 during the 2005-2006 and 2006-2007 fiscal years, respectively.

The Academic Scholarship Loan Program Fund had a fund balance of \$568,665 as of June 30, 2007. 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, 2007, the total amount of interest receivable was \$55,327 and a zero receivable amount for loans.

**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 2005-2006 and 2006-2007 fiscal years, which marks six consecutive years of no receipts or disbursements.

The Teacher Incentive Loan Program Fund had a fund balance of \$61,099 as of June 30, 2007. 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. Section 10a-163a of the General Statutes provides that “these funds shall not lapse or be reverted to the General Fund of the state.”

**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 \$612,976 and \$661,195 during the 2005-2006 and 2006-2007 fiscal years, respectively, and consisted of assessments to the schools and interest earned. The 2005-2006 fiscal year also included a \$20,000 letter of credit. Disbursements from the account totaled \$690,131 and \$260,981 during the 2005-2006 and 2006-2007 fiscal years, respectively, of which \$452,408 and \$60,185 were for tuition reimbursements for the respective fiscal years. Other disbursements were primarily for the administrative expenses of registering private occupational schools. The account had a cash balance of \$2,949,464 as of June 30, 2007.

**Capital Equipment Purchase Fund:**

Equipment purchases from the Capital Equipment Purchase Fund totaled \$26,094 and \$28,957 during the 2005-2006 and 2006-2007 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.

### **Payroll and Personnel – Dual Employment:**

- Criteria:* Section 5-208a of the General Statutes establishes guidelines for State employees performing dual employment roles. The Department of Higher Education goes beyond the statute in its policies and procedures and requires the submission of dual employment form PER-DE-1 prior to employees beginning work at secondary agencies.
- Condition:* Our examination of Department records revealed that seven out of ten dual employment forms were submitted and approved after the employees began performing work at the Department. One of the ten dual employment forms was not approved by the Department.
- Effect:* Employees were in violation of Department policies and procedures regarding dual employment.
- Cause:* The cause was not determined.
- Recommendation:* The Department should ensure that its policies and procedures relative to submitting dual employment form PER-DE-1 prior to employees engaging in dual employment activity are adhered to. (See Recommendation 1).
- Agency Response:* “The cause of this problem was that the Director of the ARC program failed to adhere to agency policy. The Director has resigned from the program and current ARC staff have been fully briefed in the appropriate procedures for dual employment.”

### **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 purchasing card. The Department participates in this program.
- Criteria:* The Office of the State Comptroller established an “Agency Purchasing Card Manual” which prescribes specific commodities that shall not be purchased with the purchasing cards, which includes gifts.
- Condition:* We reviewed 88 purchasing card transactions in general, of which twenty were examined in detail. Of those twenty transactions examined, two were for the purchases of gifts.

<i>Effect:</i>	The Department violated the Comptroller’s Agency Purchasing Card Manual by purchasing gifts with purchasing cards, which is specifically prohibited.
<i>Cause:</i>	The cause has not been determined.
<i>Recommendation:</i>	The 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. (See Recommendation 2).
<i>Agency Response:</i>	“The agency <u>does</u> require that every p-card holder review and sign for the State policies and procedures for p-card use. Individuals who purchased items erroneously have been apprised of the correct policies and procedures.”

**Expenditures – Business Travel:**

<i>Criteria:</i>	The Office of the State Comptroller, per the State Accounting Manual (SAM), requires the custodian of the Petty Cash Fund to obtain statements signed by recipients acknowledging that within five working days of returning from travel they will complete and submit Form CO-17XP, Employee Voucher, to the agency business office. The Department’s policy and procedures require Form CO-17XP to be submitted within five business days after returning from travel.
<i>Condition:</i>	Out of 11 travel authorizations tested, six failed to submit Form CO-17XP within five business days following the return from travel. These six non-compliant submissions were between one and 55 days late.
<i>Effect:</i>	The Department is not ensuring that employees are submitting CO-17XP invoices within the period after travel as specified by the Comptroller’s office via the State Accounting Manual. In cases of petty cash travel advances, the Petty Cash Fund would have to have a higher authorized amount in order to maintain sufficient funds while awaiting reimbursement of invoices filed later than within the required five business days.
<i>Cause:</i>	The cause could not be determined.
<i>Recommendation:</i>	The Department should ensure that employees are familiar with the requirement to submit CO-17XP invoices within five business days after returning from travel and take measures to ensure adherence to the requirement (See Recommendation 3).
<i>Agency Response:</i>	“Agency personnel have been reminded on several occasions to submit co-17xp invoices within five business days. Individuals who fail to comply with this may not be reimbursed in the future.”

**Expenditures – Telephones:**

*Criteria:* The Department has established procedures for monitoring telephone usage by employees, which includes reviewing telephone usage records on a monthly basis.

*Condition:* During our examination of the Department’s monitoring of telephone usage, we found that the Department has not been adhering to its procedure of reviewing telephone records on a monthly basis. During the audited period, we noted that, out of 24 monthly statements that should have been on file, 15 monthly statements were not on file. We were not able to locate the June 2006 statement review performed by the Department, and determined that in fiscal year 2007 only the November and May statements were reviewed.

We also noted that the procedures in place at the Department appeared to be outdated because of changes in the telephone system currently in place. The statements no longer provide detailed calling information. That information is, however, provided on additional electronic versions of the statements.

*Effect:* The Department is not adhering to its procedures for monitoring telephone usage by its staff. Telephone monitoring procedures are outdated and are not kept current with changing conditions.

*Cause:* It appears that changes in telephone monthly statements were not addressed and/or considered for their impact on the internal control processes of the Department and the Department does not appear to be monitoring internal control procedures effectively.

*Recommendation:* The Department should make necessary changes to its telephone usage monitoring procedures as conditions warrant and ensure that procedures are performed through effective supervisory review (See Recommendation 4).

*Agency Response:* “The agency recently installed a new telephone system that does not have the same monitoring functionality as the old system. The agency will be modifying its procedures for monitoring based on the new system’s abilities.”

**Expenditures – Loan Forgiveness Program:**

*Criteria:* Public Act 06-83 established two programs, “Engineering Connecticut” and “You Belong,” to repay student loans. One program is for certain engineers and the other is for certain people with doctoral degrees. Pursuant to Public Act 06-83 a recipient can receive reimbursement grants only for student loan payments made while employed in Connecticut.

*Condition:* During our tests of expenditure transactions, we found that the Department made payments to individuals through the loan forgiveness programs based on outstanding loans the individuals were able to substantiate at the time of their application for participation in the programs, rather than based on the amounts of loan payments made by the individuals while employed in Connecticut.

*Effect:* The Department has not been administering the “Engineering Connecticut” and the “You Belong” student loan forgiveness programs in accordance with Public Act 06-83. Individuals may have received program funds for which they may not have been entitled to under the program.

*Cause:* The Department indicates that the Public Act states that the Department must develop eligibility requirements for reimbursement of recipients, which it does state, but the Public Act specifies that reimbursements are to be only for student loan payments made while employed in Connecticut. Therefore, there may be a failure of the Department to distinguish between authority granted the Department under the Public Act and specific requirements mandated by the Public Act.

*Recommendation:* The Department should ensure that it administers programs in accordance with State laws and regulations and seek assistance in interpreting the same when there are questions as to how to properly administer them. No further payments should be made to participants in the loan forgiveness program until the Department is able to establish a means of identifying qualified applicants and amounts of loan payments made by them in accordance with Public Act 06-83 (See Recommendation 5).

*Agency Response:* “Although the agency will no longer be making payments under this grant as the cohort has ended, the agency respectfully disagrees with the interpretation of what is eligible for loan payments as defined by the auditors in this report.”

*Auditor’s Concluding Comments:*

Our determination of eligibility for loan payments under the program is derived from Public Act 06-83, which states, among other qualifying criteria, that recipients can receive reimbursement grants only for student loan payments made while employed in Connecticut.

**Property Control/Equipment Inventory:**

*Criteria:* The Office of the State Comptroller’s “Property Control Manual” establishes procedures and guidelines for maintaining and

safeguarding property under the authority of State agencies. The Property Control Manual recommends that personal property physical inventories be conducted annually, and prescribes how such physical inventories be performed. In addition, the Property Control Manual states that, beginning with fiscal year 2006, each State agency will generate information within Core-CT and include the information on the Asset Management / Inventory Report / GAAP Reporting Form (CO-59).

*Condition:* During our examination of the Department's management of property inventory we were not able to obtain a signed copy of the Department's CO-59 for fiscal year 2006. The Department did not perform a physical inventory and the inventory information was not processed in Core-CT for the 2006 fiscal year.

Although a physical inventory was taken for the 2007 fiscal year, the Department could not produce a list of assets in-service as determined by that physical inventory.

Our examination of the inventory records found that 11 out of 32 items tested, or 34 percent, did not have appropriate locations listed on the inventory records. Three out of ten, or 30 percent, of items physically inspected and traced to the inventory records did not have serial numbers listed on inventory records. For two items out of 33 on the Disposed Assets Report, the Department did not have the required scrap tickets on file.

*Effect:* The Department is not maintaining an inventory system in accordance with the State Comptroller's Property Control Manual. Missing property may not be identified as being missing in a timely manner. Inventory records are not retained in accordance with retention schedules. Without the retention of inventory records a determination as to the accuracy of the inventory information reported on the CO-59 may not be made.

*Cause:* The Department failed to perform a physical inventory during fiscal year 2006 and failed to print and retain a hardcopy of the inventory report for fiscal year 2007. The Core-CT Asset Management Module does not retain historical information reflecting the inventory representative of non current years, thereby making it necessary for the Department to generate hardcopies of inventory reports at the end of each fiscal year.

*Recommendation:* The Department should maintain inventory records in accordance with the State Comptroller's Property Control Manual, perform physical inventories annually, record inventory information completely and accurately, retain inventory records in accordance with record retention schedules, and ensure that CO-59 property reports are signed by an authorized Department representative (See

Recommendation 6).

*Agency Response:* “The agency is currently reviewing and updating all inventory records. The agency has also requested core-ct training for business office staff.”

**Minority Advancement Program – Reconciliation of Payments:**

*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. Payments from the program are determined via the Department’s database, which records and tracks payments and refunds, as well as document receipt of required budget documents, Memorandum of Agreements (MOA), and Statements of Assurance.

*Criteria:* Any system the Department uses to establish payment of funds should be reconciled to the system generating the payments to ensure that only payments established through the authorization process are the payments that are actually processed through the State’s Core-Ct accounting system.

*Condition:* Our review determined that the Department performed reconciliations of its online database, used for the Minority Advancement Program, to Core-CT prior to fiscal year 2006. However, the Department did not perform such reconciliations during fiscal years 2006 and 2007.

*Effect:* Without the reconciliation of the online database payment authorizations to the Core-CT payments processed the Department may not be able to detect errors or irregularities, relative to the Minority Advancement Program, in a timely manner.

*Cause:* The Department may have overlooked the process of performing the reconciliations as a result of changes in key personnel and management oversight.

*Recommendation:* The Department of Higher Education should adhere to established internal controls and return to performing reconciliations of the online database expenditure information to the Core-CT expenditure reports (See Recommendation 7).

*Agency Response:* “Agree with recommendation.”

**GAAP Reporting:**

*Criteria:* The Office of the State Comptroller (OSC) has established accounting procedures as promulgated through the State Accounting Manual, which directs State agencies to complete GAAP Closing

Packages at fiscal year end. Accordingly, agencies are to report accurate financial information for submission to the OSC, which includes the submission of financial statements for particular types of funds maintained by agencies.

*Condition:* The Department overstated accounts receivables on GAAP Reporting Form – Grant Receivables, for fiscal year 2006, by \$3,000 for the Teacher Quality Partnership program, a Federal grant program.

The Department failed to include the financial statements of the Teacher Incentive Loan Program Fund in its GAAP reporting for fiscal years 2006 and 2007.

*Effect:* The GAAP reporting information was not accurately reported during the 2006 and 2007 fiscal years because of the overstatement of receivables in fiscal year 2006 and the absence of financial statements for the Teacher Incentive Loan Program for fiscal years 2006 and 2007. The \$3,000 overstatement of grant receivables was subsequently included in the Department’s Federal drawdown, which resulted in an overpayment to the Department by the United States Department of Education.

*Cause:* The Department states that a transposition error in recording the receivable caused the overstatement of the grant receivable and subsequent over drawdown of funds. The Teacher Incentive Loan Program financial statements were not included in the GAAP Reporting Package because of lack of oversight and changes in personnel.

*Recommendation:* The Department of Higher Education should take measures to ensure that it is complying with State Accounting Manual procedures relative to GAAP Reporting and ensure that reported information is accurate and complete and that all required financial statements are properly submitted (See Recommendation 8).

*Agency Response:* “Agree with recommendation.”

**Board of Governors – Minutes of Meetings:**

*Criteria:* The By-Laws of the Connecticut Board of Governors for Higher Education, Article IV, Section 3 states, “a majority of the voting members of the Board shall constitute a quorum. Meetings may be conducted in the absence of a quorum provided that all actions taken be confirmed at a subsequent meeting where a quorum is present.”

*Condition:* On three separate occasions, the Board of Governors for the Department of Higher Education held monthly meetings without the necessary quorum. There were no acknowledgements in the minutes of those meetings recognizing the lack of a quorum in the respective

meetings, or acknowledgements in the minutes of subsequent meetings confirming the actions of those meetings held without quorums.

*Effect:* The Board did not act in full compliance with its By-laws.

*Cause:* We were not able to determine the cause.

*Recommendation:* The Board of Governors for the Department of Higher Education should conduct its meetings in accordance with its By-laws and when there is not a quorum, approve actions taken in such meetings in subsequent meetings where a quorum is established (See Recommendation 9).

*Agency Response:* “Since February 1, 2008, the agency has canceled a board meeting when a quorum could not be reached. The new Commissioner is in full agreement with this recommendation.”

**Accelerated Route to Certification – Hiring Instructors:**

*Background:* The Department runs an Accelerated Route to Certification (ARC) program whereby individuals may apply for teacher certification in particular fields on an accelerated basis. The Department provides instructors to provide the necessary training needed for individuals to meet the qualifications for certification.

Several years prior to the audit period, the Department went from contracting with instructors, via personal service agreements, to hiring instructors as part-time department employees.

*Criteria:* According to the Office of the State Comptroller’s Retirement Division, and the provisions of the Teachers Retirement System (TRS), retirees of TRS are not eligible as ARC employees to elect participation in TRS as their retirement system.

*Condition:* Sixteen retired teachers hired by the Department were erroneously allowed to select participation in the Teachers’ Retirement System as a benefit of their employment with the Department.

*Effect:* The Department paid the employer contributions into TRS on behalf of individuals who were not eligible to participate in the system. Sixteen retired teachers employed as ARC instructors did not receive retirement benefit contributions on their behalf and were not able to participate in a retirement system for which they could have received benefits.

*Cause:* Changes in Department key personnel may have contributed to the miscommunication of information. There is evidence that the Department was making inquiries into establishing the proper

handling of ARC instructors as Department employees when changes in a key position within the Department occurred.

*Recommendation:* The Department of Higher Education should determine the correct retirement systems for which ARC instructors are eligible, make the necessary changes in the selection of participation in retirement, and determine the proper course of action to correct the erroneous payments to the Teachers' Retirement System and the loss of retirement benefits of those ARC instructors affected (See Recommendation 10).

*Agency Response:* "The agency has been working with the Office of the State Comptroller to place these individuals in an appropriate retirement system. The Office of the State Comptroller has, however indicated that the agency cannot retroactively place an individual in a different retirement plan."

**Private Occupational School Student Protection Account:**

*Background:* Private occupational schools operating in the State must be authorized to do so by the Department of Higher Education. The schools are also required to contribute to a Private Occupational School Student Protection Account, which is used to refund tuition to students of those schools that cease operations. State statutes also provide for a Private Occupational School Student Benefit Account, which was originally authorized in 1985, but never implemented. The proceeds of the Student Benefit Account were to be used to award financial aid grants to private occupational school students.

*Criteria:* Section 10a-22r of the General Statutes specifies the establishment of an advisory committee to the Commissioner of Higher Education consisting of seven members appointed by the commissioner for the administration of the Private Occupational School Student Benefit Account.

Section 10a-22b (f) of the General Statutes states that an evaluation team shall conduct an on-site inspection of private occupational schools during the application for authorization process and shall submit a written report to the Commissioner of Higher Education recommending authorization or non-authorization.

The Department has an "application checklist" included among various forms and instructions for evaluating prospective private occupational schools for authorization or non-authorization.

*Condition:* The Department has not established an advisory committee for the administration of the Private Occupational School Benefit Account. However, it should be noted that the Department has not been able to establish the Private Occupational School Benefit Account in

accordance with the formula to determine available funding.

Our examination of the Department's evaluation process for authorization to operate a private occupational school found that some of the evaluation team members failed to submit evaluation reports to the Commissioner that included the evaluator's recommendation and/or signature. We found that only one of the six evaluations that we reviewed had the required signed evaluator reports.

Our examination of renewal applications found that, out of five renewal application files examined, three did not contain the Department's application checklist.

*Effect:*

The Department is not in compliance with Section 10a-22r of the Connecticut General Statutes, which requires the establishment of an advisory committee for the administration of the Private Occupational School Student Benefit Account. Although the benefit account has not been established because of the lack of available funding, the statute does not state that the advisory committee should only be established after the benefit account is established. Additionally, the establishment of the advisory committee could ensure vigilance on the part of the Department to not overlook the opportunity to establish the account when the opportunity becomes available.

The Department is not in compliance with Section 10a-22b of the Connecticut General Statutes, which requires the submission of written reports from evaluators of private occupational schools applying for authorization, with such reports recommending authorization or non-authorization. Without the recommendations and signoffs of the evaluators, the Commissioner may not be able to determine the conclusions of the evaluators, and thus, be able to make an informed decision whether to authorize or not authorize the operations of occupational schools in the state.

Failure to use the checklist may result in untimely delays and incomplete application files and could lead to unsupported evaluation conclusions of applying schools.

*Cause:*

The advisory committee appears to have not been established because the Department has not been able to establish funds to setup the Private Occupational School Student Benefit Account.

The cause of evaluation reports not indicating recommendations or non-recommendations and reports not being signed appear to be attributable to a lack of supervisory oversight and possibly a lack of familiarity with statute requirements.

The lack of checklists in the evaluation files of some of the applicant occupational schools may be due to confusion as to whether the checklists are required to be completed by evaluation teams.

*Recommendation:*

The Department should comply with the General Statutes and establish an advisory committee to the Commissioner for the administration of the Private Occupational School Student Benefit Account or seek legislation to amend the statute to have the advisory committee establishment coincide with the establishment or funding of the benefit account. The Department should also ensure that evaluators of applicant schools clearly indicate their positions on recommending authorization or non-authorization complete with their signatures. The Department should also adhere to all established internal control measures, utilize the application checklist, and retain them in the appropriate files (See Recommendation 11).

*Agency Response:*

“There is no money in the Private Occupational School Student Benefit account. The agency has proposed legislation stating that the Commissioner is not required to create an advisory committee if there are not sufficient funds to create a private occupational school student benefit account. Although the legislation did not pass the legislature the agency intends on pursuing this legislation again.”

“The purpose of the evaluation site visit is to confirm all information in the school’s application for approval. During the site visit, the checklist is the instrument used to catalog any areas of deficiency or non-compliance. In addition, there is discussion among the team members and with school officials regarding any area of noncompliance. An evaluation findings letter is then prepared and sent to the school indicating all corrections must be made prior to authorization. Once the school has complied with all corrections as outlined in the evaluation findings letter, the certificate of authorization is prepared for the Commissioner’s signature. Since there is an evaluation checklist, discussion and an evaluation findings letter provided to the school, there is little or no chance of a school being authorized without being in compliance. But in order to confirm the position of the evaluator and provide documentation for the file, the school’s project officer will review all checklists for completion, prior to the conclusion of the evaluation site visit. This action should ensure all checklists are completed and signed at the conclusion of the evaluation visit.”

“The checklist in question is/has been an optional and internal document that is used to ensure completeness of an application prior to an evaluation visit. During the site visit, an evaluation checklist is used to verify the school’s compliance with all required documents and an evaluation findings letter is provided to the school for revisions prior to authorization. It is unlikely that a project officer’s

failure to use the form could result in unsupported evaluation conclusions. The use of the internal checklist, is however, a good tool to use to ensure completeness of an application and will be used by agency staff.”

## RECOMMENDATIONS

*Status of Prior Audit Recommendations:*

- **Department staff should adhere to the requirements of Section 3-117 of the Connecticut General Statutes when making payments to vendors.** This finding related to the “Info-Tech Scholarship Program.” The program is no longer an active program administered by the Department. Therefore, no further action is required.
- **The 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.** We are repeating this recommendation. (See Recommendation 3.)
- **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.** This recommendation has been modified to cover various types of expenditures and is incorporated in two separate recommendations. (See Recommendations 3 and 5.)
- **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.** Our current audit has determined that the Department has satisfied this recommendation. However, we noted that the Department did not reconcile expenditures of the Minority Advancement Program database to Core-CT expenditures. We are therefore revising this recommendation to address that issue. (See Recommendation 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.** During our current review we determined that the Department followed up on the loan information cited during the prior audit and has satisfactorily resolved the exception noted. There were no related exceptions noted during this current audit. We consider this finding satisfied.
- **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.** We consider this recommendation satisfied.

*Current Audit Recommendations:*

- 1. The Department should ensure that its policies and procedures relative to submitting dual employment Form PER-DE-1 prior to employees engaging in dual employment activity are adhered to.**

Comment:

Employees were in violation of Department policies and procedures regarding dual employment form submissions.

- 2. The 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 the Department's expenditure transactions revealed that the Department made purchases with purchasing cards that were specifically not allowed by the P-Card program.

- 3. The Department should ensure that employees are familiar with the requirement to submit CO-17XP invoices within five business days after returning from travel and take measures to ensure adherence to the requirement.**

Comment:

Our examination of employee travel reimbursements revealed instances of employees not submitting CO-17XP invoices within five business days after returning from travel.

- 4. The Department should make necessary changes to its telephone usage monitoring procedures as conditions warrant and ensure that procedures are performed through effective supervisory review.**

Comment:

The Department has not been performing monthly reviews of telephone records and has not updated review procedures to ensure effective internal controls for safeguarding against abuse of Department resources.

- 5. The Department should ensure that it administers programs in accordance with State**

laws and regulations and seek assistance in interpreting the same, when there are questions as to how to properly administer them. No further payments should be made to participants in the loan forgiveness program until the Department is able to establish a means of identifying qualified applicants and amounts of loan payments made by them in accordance with Public Act 06-83.

Comment:

The Department has not been administering loan forgiveness programs in accordance with the public act that created them. The Department has been distributing program funds based on amounts remaining on applicant balances rather than on amounts of student loan payments made while working in Connecticut.

- 6. The Department should maintain inventory records in accordance with the Office of the State Comptroller's Property Control Manual, perform physical inventories annually, record inventory information completely and accurately, retain inventory records in accordance with record retention schedules, and ensure that CO-59 property reports are signed by an authorized Department representative.**

Comment:

During our examination of the Department's management of property inventory, we were not able to obtain a signed copy of the Department's CO-59 for fiscal year 2006. The Department did not perform a physical inventory and the inventory information was not processed in Core-CT for the 2006 fiscal year.

- 7. The Department of Higher Education should adhere to established internal controls and return to performing reconciliations of the online database expenditure information to the Core-CT expenditure reports.**

Comment:

Our review determined that the Department performed reconciliations of its online database, used for the Minority Advancement Program, to Core-CT prior to fiscal year 2006. However, the Department did not perform such reconciliations during fiscal years 2006 and 2007.

- 8. The Department of Higher Education should take measures to ensure that it is complying with State Accounting Manual procedures relative to GAAP Reporting and ensure that reported information is accurate and complete, and that all required financial statements are properly submitted.**

Comment:

The Department overstated accounts receivables on GAAP Reporting Form – Grant Receivables, for fiscal year 2006, by \$3,000 for the Teacher Quality Partnership program, a Federal grant program. The Department also failed to include the financial statements of the Teacher Incentive Loan Program Fund in its GAAP Reporting Packages for fiscal years 2006 and 2007.

- 9. The Board of Governors for the Department of Higher Education should conduct its meetings in accordance with its By-laws and when there is not a quorum, approve actions taken in such meetings in subsequent meetings where a quorum is established.**

Comment:

On three separate occasions the Board of Governors for the Department of Higher Education held a monthly meeting during which a quorum was not established. There were no acknowledgements in the minutes of the meetings recognizing the lack of quorums or acknowledgements in the minutes of subsequent meetings confirming the actions of those meetings held without quorums.

- 10. The Department of Higher Education should determine the correct retirement systems for which ARC instructors are eligible, make the necessary changes in the selection of participation in retirement, and determine the proper course of action to correct the erroneous payments to the Teachers' Retirement System and the loss of retirement benefits of those ARC instructors affected.**

Comment:

Sixteen retired teachers hired by the Department were erroneously allowed to select participation in the Teachers' Retirement System as a benefit of their employment with the Department.

- 11. The Department should comply with Section 10a-22r of the General Statutes and establish an advisory committee to the Commissioner for the administration of the Private Occupational School Student Benefit Account or seek legislation to amend the statute to have the advisory committee establishment coincide with the establishment or funding of the benefit account. The Department should ensure that evaluators of applicant schools clearly indicate their positions on recommending authorization or non-authorization complete with their signatures. The Department should also adhere to all established internal control measures, utilize the application checklist, and retain them in the appropriate files.**

Comment:

The Department has not established an advisory committee for the administration of the Private Occupational School Benefit Account. The Department also did not fully comply with the requirement to submit reports to the Commissioner recommending authorization or non authorization relative to evaluating applications of private occupational schools. Application check lists were not on file for three out of five renewals of authorizations to operate a private occupational school.

## 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, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Higher Education for the fiscal years ended June 30, 2006 and 2007 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or

noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency described in the accompanying "Condition of Records" and "Recommendations" sections of this report to be a significant deficiency in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 7, which relates to the Department not performing a physical inventory and the inventory information not being processed in Core-CT for the 2006 fiscal year.

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

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

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

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

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

The Department of Higher Education's response to the findings identified in our audit is described in the accompanying "Condition of Records" sections of this report. We did not audit the Department of Higher Education's response and, accordingly, we express no opinion on it.

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

**CONCLUSION**

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