

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF HIGHER EDUCATION
FOR THE FISCAL YEARS ENDED June 30, 2014, 2015 and 2016*

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

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EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes we have audited certain operations of the Office of Higher Education. The objectives of this review were to evaluate the office’s internal controls, compliance with policies and procedures, as well as certain legal provisions, and management practices and operations for the fiscal years ended June 30, 2014, 2015 and 2016.

The key findings are presented below:

Finding 1 Page 6	The Office of Higher Education did not accurately report equipment balances on its Fixed Assets/Property Inventory Report/GAAP Reporting Form (Form CO-59). The Office of Higher Education should timely submit its Fixed Assets/Property Inventory Report/GAAP Reporting Form (Form CO-59) with accurate cost data in accordance with state regulations.
Finding 2 Page 7	The Office of Higher Education did not follow established procedures relating to proper Core-CT segregation of duties. The Office of Higher Education should strengthen controls over segregation of duties conflicts within the Core-CT system and develop a method of tracking any exceptions or waivers granted to employees.
Finding 3 Page 7	The Office of Higher Education did not prevent employees from access to Core-CT after termination. The Office of Higher Education should strengthen controls over access to Core-CT when employees leave.

STATE OF CONNECTICUT



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February 20, 2020

AUDITORS' REPORT OFFICE OF HIGHER EDUCATION FOR THE FISCAL YEARS ENDED June 30, 2014, 2015 and 2016

We have audited certain operations of the Office of Higher Education (OHE) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2014, 2015 and 2016. The objectives of our audit were to:

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

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

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

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the office's management and the state's information systems, and was not subjected to the procedures applied in our audit of the office. For the areas audited, we identified:

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

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

COMMENTS

FOREWORD

The Office of Financial and Academic Affairs for Higher Education, subsequently renamed the Office of Higher Education, was created pursuant to Public Act 11-48, effective July 1, 2011. The new agency assumed many of the responsibilities of the former Department of Higher Education. The department and the Board of Governors for Higher Education were eliminated with the passage of the act. The Office of Higher Education operates, generally, under relevant parts of Sections 10a-1d through 10a-57 and 10a-161 through 10a-173 of the General Statutes.

In April 2016, the Governor appointed Keith M. Norton acting executive director of the Office of Higher Education following the retirement of Jane A. Ciarleglio.

Recent Legislation

Public Act 13-247, effective July 1, 2013, section 174 removed the provision that the agency be within Board of Regents for Higher Education for administrative purposes only. Section 182 of the act created the Governor's Scholarship Program, a single, consolidated state financial aid program for state residents who are undergraduates at in-state public and private institutions of higher education. The program replaced three financial aid programs: the Connecticut Aid to Public College Students Grant Program, the Connecticut Independent College Student Grant Program, and the Capitol Scholarship Program.

Public Act 14-21, effective July 1, 2014, redesigned the OHE teacher loan reimbursement program by making it an incentive grant and loan reimbursement program for college students studying to become bilingual education teachers or English teachers for students who speak other languages. The act redesigned the program by, among other things, (1) targeting it to

undergraduates rather than certified teachers and (2) removing the participant cap and employment commitment requirements.

Public Act 15-5, effective July 1, 2015, reduced from 0.5 to 0.4 percent, the amount of tuition revenues that private occupational schools must pay into the private occupational school student protection account. The account is used to make tuition refunds to students unable to complete a course at a private occupational school because the school becomes insolvent or ceases operating. It is funded by (1) quarterly assessments on private occupational schools' tuition revenue received from Connecticut students and (2) other fees related to the schools' operations.

Public Act 16-179, effective July 1, 2016, made numerous changes to the Governor's Scholarship Program, the state's financial aid program for Connecticut residents who attend a public or independent higher education institution in the state. In addition to renaming the program as the Roberta B. Willis Scholarship Program, the act revised requirements concerning the (1) allocation of funds to institutions and (2) awarding of scholarships to students.

RÉSUMÉ OF OPERATIONS

General Fund

General Fund receipts totaled \$120,447, \$333 and \$837 during the fiscal years ended June 30, 2014, 2015 and 2016, respectively. These totals represent refunds of prior years' expenditures.

General Fund expenditures totaled \$43,580,440, \$46,102,843 and \$47,113,031 during the fiscal years ended June 30, 2014, 2015 and 2016, respectively. A comparative summary of General Fund expenditures from the office's appropriations for the fiscal years under review and the preceding fiscal year follows:

	<u>Fiscal Year Ended June 30,</u>			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Personal Services and Benefits	\$ 1,385,053	\$ 1,968,616	\$ 2,277,890	\$ 2,447,796
Contractual Services and Commodities	122,031	281,392	(1,483,198)	87,313
Grants	<u>48,191,686</u>	<u>41,330,431</u>	<u>45,308,151</u>	<u>44,577,923</u>
Total General Fund Expenditures	<u>\$49,698,770</u>	<u>\$43,580,440</u>	<u>\$46,102,843</u>	<u>\$47,113,031</u>

The increase in personal services expenditures resulted from the transfer of positions and personnel from the Board of Regents for Higher Education to the Office of Higher Education. The three largest grant programs, representing 95 percent of total grant expenditures from the General Fund, are presented in the table below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Roberta B. Willis Scholarship Program	\$39,635,625	\$42,777,580	\$41,983,787
Minority Advancement Program	1,294,979	2,101,502	2,586,046
Minority Teacher Incentive Program	401,779	427,068	362,544

Federal and Other Restricted Accounts Fund

During fiscal year 2013-2014, the agency deposited \$3,693,294 in federal and non-federal contributions to the Federal and Other Restricted Accounts Fund. The total deposited in fiscal year 2015-2016 was \$5,591,306, an increase of 51 percent. The increase was due to the return of prior transfers from the Private Occupational Schools Student Protection Fund to the General Fund totaling \$2,500,000 that were required for deficit mitigation. Resources were returned to the fund in the 2015-2016 fiscal year. A summary of Federal and Other Restricted Accounts Fund receipts for the fiscal years ended June 30, 2014, 2015 and 2016 follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Federal Aid – Restricted	\$2,798,732	\$3,645,197	\$2,157,718
Non Federal Aid – Restricted	1,381,278	1,290,989	921,522
Other Restricted Aid	(500,000)	(2,000,000)	2,500,000
Investment Interest	<u>13,283</u>	<u>13,252</u>	<u>12,066</u>
Total Federal & Other Restricted Accounts Receipts	<u>\$3,693,294</u>	<u>\$2,949,438</u>	<u>\$5,591,306</u>

Restricted account activity during the audited period consisted primarily of the administration of federal grant programs. Total Federal and Other Restricted Accounts Fund expenditures for fiscal years 2014, 2015 and 2016 were \$4,106,778, \$3,507,011 and \$3,597,492, respectively. This consisted primarily of expenditures for the GEAR UP Scholarship Trust, AmeriCorps and Teacher Quality Partnership federal programs.

Endowed Chair Investment Fund

The office, 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 Connecticut State University System. The distribution of earnings from the fund to the various chairs totaled \$9,701, \$10,322 and \$4,363, respectively during the 2013-2014, 2014-2015 and 2015-2016 fiscal years. The Endowed Chair Investment Fund had a fund balance of \$5,638,032 as of June 30, 2016.

Teacher Incentive Loan Program Fund

The Teacher Incentive Loan Program Fund was repealed effective July 1, 2013. There were no receipts or disbursements within the Teacher Incentive Loan Program Fund during the 2013-2014 and 2014-2015 fiscal years; however, in the 2015-2016 fiscal year, total receipts were \$498,728. The Teacher Incentive Loan Program Fund had a fund balance of \$611,099 as of June 30, 2016.

Academic Scholarship Loan Program Fund

The Academic Scholarship Loan Program Fund, established under the provisions of Section 10a-163a of the General Statutes, was repealed effective July 1, 2013. However, the fund has a

remaining balance of \$10,229 as of June 30, 2016 that has not been transferred. There were no receipts and expenditures during our audit period.

Private Occupational School Student Protection Account

The Private Occupational School Student Protection Account, established by Section 10a-22u of the General Statutes, is administered by the Office 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 totaled \$308,051, (\$1,202,777) and \$3,132,409 during fiscal years 2013-2014, 2014-2015 and 2015-2016, respectively. These receipts consisted of assessments to the schools, fees, interest earned, and letters of credit. The variances in cash receipts was due to transfers related to deficit mitigation that were returned to the account in the 2015-2016 fiscal year. Disbursements from the account totaled \$66,988, \$63,026, and \$15,500 during fiscal years 2014-2014, 2014-2015 and 2015-2016, respectively. There were \$455, \$46,410 and \$15,500 for tuition reimbursements in fiscal years 2014-2014, 2014-2015 and 2015-2016, respectively. The largest expenditures for the account other than tuition reimbursements were for personal services and other administrative expenses.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Inaccurate GAAP Reporting

- Criteria:* The State Comptroller's Property Control Manual states that each agency shall appoint a person to be responsible for the preparation and timely submission of the annual report. Agencies must file a Fixed Assets/Property Inventory Report/GAAP Reporting Form (Form CO-59) listing all real and personal property having a cost of one thousand or more for assets acquired prior to July 1, 2015. Effective July 1, 2015, the reporting threshold increased to personal property having a cost of five thousand dollars or more. This information must be updated annually on or before October 1st.
- Condition:*
1. OHE overstated its beginning and ending equipment balances between \$40,000 and \$60,000 in all 3 years under audit on its Form CO-59. Equipment additions and deletions listed did not agree with Core-CT on the 2015 report. OHE understated additions by \$2,426 and understated deletions by \$17,107.
 2. OHE did not include software, totaling \$27,486, on the licensed software line on its Form CO-59.
 3. OHE submitted the 10/1/15 CO-59 Report 67 days late and the 10/1/16 CO-59 Report 18 days late.
- Effect:* The overstatement of equipment balances and the lack of accurate cost data associated with additions, deletions and omitted software costs, reduces the accuracy of the state's reporting of equipment for financial statement purposes. Furthermore, the Office of Higher Education did not comply with the State Comptroller's Property Control Manual reporting requirements.
- Cause:* A lack of administrative control contributed to these conditions.
- Prior Audit Finding:* This finding has been previously reported in the last audit report covering fiscal years ended June 30, 2012 and 2013.
- Recommendation:* The Office of Higher Education should timely submit its Fixed Assets/Property Inventory Report/GAAP Reporting Form (Form CO-59) with accurate cost data in accordance with state regulations.
- Agency Response:* "Property control procedures have been developed to more easily account for fixed assets, the agency has updated its inventory list, and the latest CO-59 was submitted on time. Staff has been trained in the area of asset management and property control by the members of the Core-CT team."

Lack of Core-CT Segregation of Duties

- Criteria:* The Core-CT Security Liaison Handbook outlines security responsibilities when an agency needs to assign roles to a user that does not allow for the proper segregation of duties. Supervisors are required to provide documentation to Core-CT (via their security liaison) that explains why the roles are necessary and describes the audit functions in place to detect and prevent inappropriate actions by a user.
- Condition:* We reviewed the office’s Core-CT user role conflicts during the audited period. Two employees had human resource and financial role security conflicts. The Core-CT security liaison did not notify Core-CT security of one person’s conflicts, and did not describe accompanying mitigating controls, as required.
- Effect:* Overlapping roles can have a detrimental effect on internal controls. There is an increased risk of impropriety if such roles are not segregated.
- Cause:* OHE did not follow established procedures.
- Prior Audit Finding:* This finding has not been previously reported.
- Recommendation:* The Office of Higher Education should strengthen controls over segregation of duties conflicts within the Core-CT system and develop a method of tracking any exceptions or waivers granted to employees.
- Agency Response:* “The agency will establish procedures to strengthen controls when conflicts occur in Core-CT and establish mitigating controls to eliminate role conflicts in the future.”

Access to Core-CT upon Termination

- Criteria:* The Core-CT Security Liaison Guide requires an agency’s security liaison to immediately request deletion of access upon notice of an employee’s termination, retirement or transfer. The guide further instructs the security liaison to reset passwords to lock out user account access immediately upon notice of separation.
- Condition:* We reviewed Core-CT user accounts for employees terminated during our audit period. We found that 14 of 18 employee accounts were not blocked at the time of our testing. OHE blocked the other 4 accounts 12 to 327 days after the separation of the employees. In addition to these 14 cases, OHE did not prevent Core-CT access to 17 terminated employees during the current fiscal year.

Effect: There is an increased risk of unauthorized access to Core-CT and possible manipulation or destruction of data.

Cause: OHE did not follow established procedures.

Prior Audit Finding: This finding has been previously reported in the last audit report covering fiscal years ended June 30, 2012 and 2013.

Recommendation: The Office of Higher Education should strengthen controls over access to Core-CT when employees leave. OHE should add necessary steps to its separation procedure checklist to ensure that it promptly prevents employee access after termination.

Agency Response: “The agency has established a protocol for termination of Core-CT access which has been included in its employee separation procedures.”

RECOMMENDATIONS

Our prior audit report on the Office of Higher Education contained 7 recommendations. Four have been implemented or otherwise resolved and 3 have been repeated or restated with modifications during the current audit. The following is a summary of the action taken on the prior recommendations.

Status of Prior Audit Recommendations

- The Office of Higher Education should strengthen its internal control system by making sure that the control environment provides a sound basis for carrying out internal control; assessing those internal and external risks that threaten the agency's achievement of its objectives; update, or where necessary, develop, policies and procedures that will mitigate identified risks; communicate the information necessary for carrying out internal control responsibilities; and carry out ongoing evaluations to ascertain whether the five components of internal control are present and functioning. **The current audit disclosed that sufficient improvement has been made in this area. Therefore, the recommendation is not repeated.**
- The Office of Higher Education should locate the documentation necessary for federal reimbursement for the Teacher Quality Partnership Program and other expenditures that may not have been submitted for reimbursement. The agency should develop written procedures, including record-keeping procedures, for federal reimbursements. **Based on reviews of written procedures and discussions with OHE staff, this recommendation has been implemented. Therefore, the recommendation is not repeated.**
- The Office of Higher Education should re-evaluate its accounting practices related to recording transactions to ensure that they are properly identified and charged to the appropriate funds, SIDs, and accounts in order to maintain accurate records for financial management and reporting. OHE should take steps to create or update written procedures for its program, accounting, and record-keeping processes. **Based on our review, written procedures were created for all business functions in order to maintain a consistent level of accuracy and the highest level of integrity in agency business functions. In addition, the office has cross-trained employees in these functions in case of absence of the employee who is primarily responsible for the task. Therefore, the recommendation is not repeated.**
- The Office of Higher Education should determine the reports it is required to file, and ensure that there are procedures and personnel in place to file those reports. **The recommendation is restated with modification. (See Recommendation 1.)**
- The Office of Higher Education should strengthen its internal control system to ensure that it maintains accurate inventory records in accordance with the State Property Control Manual, performs physical inventories annually, and prepares and submits the annual CO-59 Fixed Assets/Property Inventory Reports. **The recommendation is restated with modification. (See Recommendation 1.)**

- The Office of Higher Education should comply with its own regulations in order to expedite determination of eligibility for private or hospital-based occupational schools to operate in the State of Connecticut. **The application has been updated to track when it is complete to facilitate determination of eligibility within required timeframe. Therefore, the recommendation is not repeated.**
- The Office of Higher Education should implement procedures to ensure prompt action to delete Core-CT access for terminated employees. **The recommendation is repeated. (See Recommendation 3.)**

Current Audit Recommendations

- 1. The Office of Higher Education should timely submit its Fixed Assets/Property Inventory Report/GAAP Reporting Form (Form CO-59) with accurate cost data in accordance with state regulations.**

Comment:

- OHE overstated its beginning and ending equipment balances between \$40,000 and \$60,000 in all three years under audit on its CO-59. Equipment additions and deletions listed did not agree with Core-CT on the 2015 report. OHE understated additions by \$2,426 and understated deletions by \$17,107.
 - OHE did not include software, totaling \$27,486, on the licensed software line on its Form CO-59.
 - OHE submitted the 10/1/15 CO-59 Report 67 days late and the 10/1/16 CO-59 Report 18 days late.
- 2. The Office of Higher Education should strengthen controls over segregation of duties conflicts within the Core-CT system and develop a method of tracking any exceptions or waivers granted to employees.**

Comment:

We reviewed the office's Core-CT user role conflicts during the audited period. Two employees had human resource and financial role security conflicts. The Core-CT security liaison did not notify Core-CT security of one person's conflicts, and did not describe accompanying mitigating controls, as required.

- 3. The Office of Higher Education should strengthen controls over access to Core-CT when employee's leave. OHE should add necessary steps to its separation procedure checklist to ensure that it promptly prevents employee access after termination.**

Comment:

We found that 14 of 18 employee accounts were not blocked at the time of our testing. OHE blocked the other 4 accounts 12 to 327 days after the employees terminated their employment. In addition to these 14 cases, OHE did not prevent Core-CT access to 17 terminated employees during the current fiscal year.

ACKNOWLEDGMENTS

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Martha Escudero
Todd Clark

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of Higher Education during the course of our examination



Martha O. Escudero
Associate Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor