

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD OF TRUSTEES FOR
COMMUNITY-TECHNICAL COLLEGES
MANCHESTER COMMUNITY COLLEGE
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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November 10, 2003

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FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

We have examined the financial records of Manchester Community College (College) for the fiscal years ended June 30, 2001 and 2002.

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

This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

Manchester Community College, located in Manchester, Connecticut, is a two-year institution that operates primarily under the provisions contained in Sections 10a-71 through 10a-80 of the General Statutes. The College is one of 12 two-year institutions of higher education which collectively form the Connecticut Community College system. The Board of Trustees for Community-Technical Colleges administers the 12 institutions.

The College is accredited by the New England Association of Schools and Colleges, Inc. until Spring 2012.

Dr. Jonathan M. Daube served as President of the College during the audited period.

Recent Legislation:

The following notable legislation took effect during the audited period:

Special Act 99-10 – Section 11 of this Act appropriated, for the 2000-2001 fiscal year, \$2,199,964 of State General Fund money for the Community-Technical Colleges to be used to help support a tuition freeze. This Section became effective July 1, 1999.

Public Act 00-170 – Section 6 of this Act exempts college textbooks from the sales tax as of July 1, 2000. The exemption applies only to textbooks sold to students enrolled in higher education institutions. Qualifying textbooks must be required or recommended for a college or university course.

Public Act 01-141 – Section 1 of this Act extends by five years the period the Department of Higher Education shall deposit into the endowment fund for the Community-Technical College system grants to match a portion of endowment fund eligible gifts received. The Act sets the new period as the fiscal years ended June 30, 2000, to June 30, 2014.

Section 2 of this Act increased the annual limits of such grants for the fiscal years ended June 30, 2004 and 2005, from \$4,000,000 to \$5,000,000 and from \$4,500,000 to \$5,000,000, respectively. It also set the annual matching grant limit at \$5,000,000 for the fiscal years ended June 30, 2006, to June 30, 2014.

These Sections of the Act took effect July 1, 2001.

Special Act 01-1 (enacted by the November 15, 2001, Special Session of the General Assembly) – Section 1 of this Act appropriated, for the 2001-2002 fiscal year, \$2,236,923 of State General Fund money to the Community-Technical Colleges to be used to help support a tuition freeze. This Act was approved on November 20, 2001.

Public Act 02-107 – Section 1 of this Act changes from “activity fund” to “trustee account” the designation for funds used by State educational institutions (or welfare or medical agencies) for the benefit of employees, students, or clients of such institutions or agencies. Section 5 of the Act changes from “general welfare fund” to “account” the designation for accounts used for gifts, donations, or bequests made to the students or clients of any State educational, medical or welfare agency as a group, and for any corresponding unclaimed funds, and the interest on such funds.

This Act became effective July 1, 2002.

Public Act 02-126 – Section 6 of this Act provides that the Board of Trustees of Community-Technical Colleges shall waive the payment of tuition at any of the community-technical colleges for any State resident who is a dependent child or surviving spouse of a specified terrorist victim who was a Connecticut resident. This Section became effective June 7, 2002.

Public Act 02-140 – Section 2 of this Act allows constituent units of higher education, in the purchasing process, to accept electronic bids, proposals, or competitive quotations within a safe and secure electronic environment. The Act also bars such constituent units from refusing to consider bids, proposals, or quotations because they were not submitted electronically. This Section of the Act became effective July 1, 2002.

Enrollment Statistics:

Enrollment statistics compiled by the College showed the following enrollment of full-time and part-time students during the two audited years:

	Fall <u>2000</u>	Spring <u>2001</u>	Fall <u>2001</u>	Spring <u>2002</u>
Full-time students	1,714	1,477	1,872	1,659
Part-time students	<u>3,421</u>	<u>3,503</u>	<u>3,533</u>	<u>3,507</u>
Total Enrollment	<u>5,135</u>	<u>4,980</u>	<u>5,405</u>	<u>5,166</u>

RÉSUMÉ OF OPERATIONS:

During the audited period, operations of the College were primarily supported by appropriations from the State’s General Fund and by tuition and fees credited to the Regional Community-Technical Colleges’ Operating Fund.

The college also operated two fiduciary funds, the Student Activity Fund and the Institutional General Welfare Fund.

General Fund:

General Fund receipts totaled \$3,545 for the fiscal year ended June 30, 2001, and \$1,970 for the fiscal year ended June 30, 2002. These amounts consisted primarily of refunds of expenditures of budgeted accounts.

General Fund expenditures totaled \$13,674,721 and \$14,142,044 during the fiscal years ended June 30, 2001 and 2002, respectively, and consisted of personal services expenditures. These totals represent increases of \$609,922 (five percent) and \$467,323 (three percent), respectively, during the audited fiscal years, and can be attributed primarily to salary increases.

Operating Fund:

The College’s operating revenues and expenditures (excluding certain personal services expenditures charged to the General Fund) are accounted for within the Operating Fund. Receipts of the Operating Fund consisted primarily of student tuition and fees.

Receipts recorded by the State Comptroller during the audited period and the preceding fiscal year are shown below.

	Fiscal Year		
	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Total Receipts	<u>\$8,738,797</u>	<u>\$9,969,499</u>	<u>\$11,164,981</u>

Total Operating Fund receipts increased 14 percent during the 2000-2001 fiscal year, as a result of a 12 percent increase in the number of full-time students from the previous year, along with a four percent increase in In-State tuition rates. Receipts increased 12 percent during the 2001-2002 fiscal year due primarily to increased funding from the State Department of Higher Education.

Tuition charges are fixed by the Board of Trustees. The following summary shows annual tuition charges for full-time students during the audited period as compared with those charges authorized in the previous fiscal year.

	<u>In-State</u>	<u>Out-of-State</u>	<u>New England Regional Program</u>
1999-2000	\$1,608	\$5,232	\$2,412
2000-2001	\$1,680	\$5,232	\$2,520
2001-2002	\$1,680	\$5,232	\$2,520

Tuition for part-time students is charged on a prorated basis according to the number of credit hours a student registers for.

Operating Fund expenditures recorded by the State Comptroller during the audited period and the preceding fiscal year are shown below.

	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Personal services	\$ 2,258,831	\$ 2,609,254	\$ 3,268,648
Contractual services	2,116,467	2,486,788	2,428,888
Commodities	800,605	920,824	713,025
Revenue refunds	1,566,942	2,194,652	2,142,299
Sundry charges	405,702	327,637	335,352
Equipment	1,113,170	1,363,437	358,266
Building improvements	<u>19,763</u>	<u>50,650</u>	<u>494</u>
Total Expenditures	<u>\$ 8,281,480</u>	<u>\$ 9,953,242</u>	<u>\$ 9,246,972</u>

Personal services expenditures consisted primarily of salaries and wages paid to instructors. The major components of contractual services expenditures were fees for outside professional services and utility costs.

Expenditures increased \$1,671,762 (20 percent) during the 2000-2001 fiscal year. This increase was due primarily to an increase in the amount of financial aid returned to students for non-College aid charges such as living expenses and travel costs.

Expenditures decreased \$706,270 (seven percent) during the 2001-2002 fiscal year. Expenditures for equipment related to the Learning Resource Center and the Arts, Sciences and Technology Center were significantly higher in the 2000-2001 fiscal year.

Capital Projects Funds:

Capital projects funds receipts totaled \$98,676 in the fiscal year ended June 30, 2001. The Department of Public Works has been administering the construction of two new campus facilities, the Learning Resource Center and the Arts, Sciences and Technology Center, for several years. These receipts represented a payment from a private electric company to the Department of Public Works to be used to install energy-efficient equipment at these facilities.

Capital projects funds expenditures totaled \$10,689,491 and \$19,370,734 during the fiscal years ended June 30, 2001 and 2002, respectively. These expenditures consisted primarily of costs incurred by the Department of Public Works on the aforementioned construction projects.

Inter-agency/Intra-agency Grants Fund:

Receipts of the Inter-agency/Intra-agency Grants Fund totaled \$35,000 and \$50,000 during the fiscal years ended June 30, 2001 and 2002, respectively. These receipts represent the proceeds from sales of tax exempt bonds.

Expenditures totaled \$200,212 and \$72,766 during the fiscal years ended June 30, 2001 and 2002, respectively. Expenditures were primarily for equipment.

Fiduciary Funds:

After approval from the Office of the State Comptroller, the Board of Trustees of Community-Technical Colleges directed all of the 12 Connecticut Community Colleges to incorporate their Student Activity Fund and Institutional Welfare Fund accounts into their respective Operating Fund accounts, effective during the 2001-2002 fiscal year. Furthermore, effective during the 2001-2002 fiscal year, the Community Colleges no longer prepared separate financial statements for Student Activity and Institutional Welfare funds. Instead, the Board of Trustees produced financial statements for the Operating Fund as a whole. As such, the Student Activity and Institutional Welfare receipts and disbursements numbers included in this report were based on College financial statements for the 2000-2001 fiscal year and College accounting records for the 2001-2002 fiscal year.

Student Activity Fund:

The Student Activity Fund operated under the provisions of Sections 4-52 through 4-55 of the General Statutes. Section 4-54 of the General Statutes provides for the control of activity

funds by students under specific conditions. During the audited period, the student government managed the Student Activity Fund subject to the supervision of the College administration.

Student Activity Fund receipts totaled \$138,564 and \$145,230 during the fiscal years ended June 30, 2001 and 2002, respectively. The major sources of receipts during this period were student activity fees and funds generated by various student organizations.

Disbursements from the Fund totaled \$139,964 and \$86,876 during the fiscal years ended June 30, 2001 and 2002, respectively. The primary purpose of these expenditures was related to student organizations and related activities.

Institutional Welfare Fund:

The Institutional Welfare Fund operated under the provisions of Sections 4-56 through 4-58, inclusive, of the General Statutes.

Receipts totaled \$211,502 and \$2,157 during the fiscal years ended June 30, 2001 and 2002, respectively. The major source of receipts was student financial aid loan checks deposited into the Welfare Fund checking account.

Disbursements totaled \$203,639 and \$18,075 during the fiscal years ended June 30, 2001 and 2002, respectively. The primary purpose for these disbursements was the distribution of financial aid loan balances from the Welfare Fund to the student and the College.

The significant decrease in activity in the Institutional Welfare Fund for the fiscal year ended June 30, 2002, was due to a change in processing and accounting for student financial aid loan receipts and private scholarships by the College. Prior to this fiscal year, these receipts were required to be deposited into the Welfare Fund checking account in order to allow College staff time to determine the amount that was due to the College, with the remainder being paid to the student. When this determination was made, separate checks were written to the College's Operating Fund and to the student. During this fiscal year, the Welfare Fund checking account was closed and all financial aid loans and private scholarships are now posted directly to students' accounts in Banner, the College's accounting system.

Manchester Community College Foundation, Inc:

Manchester Community College Foundation, Inc. (Foundation) was established to support, promote, and solicit funds for the educational activities of the College.

Sections 4-37e through 4-37j of the General Statutes set requirements for private foundations affiliated with State agencies. The requirements include the annual filing of board members with the State agency, financial recordkeeping and reporting in accordance with generally accepted accounting principles, financial statements and audit reports criteria, written agreements concerning the use of facilities and resources, and compensation of State officers or employees.

Financial statements of the Foundation were included in the audit reports prepared by a

public accounting firm for the fiscal years ended December 31, 2000, and December 31, 2001. These statements reported revenues of \$336,108 and \$321,472, during the same years. Expenses totaled \$148,093 and \$133,991 during the same periods.

CONDITION OF RECORDS

Our review of the financial records at Manchester Community College revealed some areas of concern. Those areas are described in this section of the report.

Time and Effort Reporting:

Criteria: Office of Management and Budget Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements between the Federal government and educational institutions. Under this Circular, the method of distributing payroll charges must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. In order to accomplish this, institutional records must adequately document that payroll expenditures posted to an account were incurred in the course of carrying out the program accounted for in the account.

Per Circular A-21, to confirm that charges to a program represent a reasonable estimate of the work performed by the employee for the benefit of the program during the period, an acceptable method of documentation includes the use of statements signed by the employee, principal investigator, or responsible official(s), using suitable means of verification that the work was performed. For professorial and professional staff, the statements must be prepared each academic term, but no less frequently than every six months.

Condition: We reviewed two Federal grants which incurred personal services charges totaling \$85,246 in the fiscal year ended June 30, 2002. The College did not have a time and effort reporting system as required by Circular A-21.

Effect: The College was not in compliance with Office of Management and Budget Circular A-21 requirements concerning documentation of payroll distribution costs.

Cause: College officials were not familiar with this requirement.

Recommendation: The College should develop and implement a time and effort reporting system for documenting payroll costs charged to Federal grant programs. (See Recommendation 1.)

Agency Response: “The College will implement a time and effort reporting system for documenting payroll costs charged to Federal grant programs in accordance with Circular A-21.”

Internal Control Weakness Between the Human Resources and Payroll Departments:

Criteria: Proper internal controls over the Human Resources and Payroll functions require that these departments be organizationally independent of each other.

Condition: Evidence obtained during our reviews of these areas documents that the Payroll Department is subordinate to the Human Resources Department. This evidence includes the following:

- The organization chart provided to us by College management places the Payroll Department under the supervision of the Human Resources Department.
- The Director of Human Resources has administrative authority over the Payroll Department for such functions as purchasing approval and authorization of biweekly time and attendance reports.
- Attestation by College management that the Payroll Department is subordinate to the Human Resources Department.

Effect: The Human Resources and Payroll functions are not independent of each other.

Cause: The internal control implications of this condition were never made clear to the College.

Recommendation: The College should change the organizational oversight responsibility related to the Payroll Department to ensure that it is independent of the Human Resources Department. (See Recommendation 2.)

Agency Response: “The College will review the existing organizational oversight responsibility related to the Payroll Department to determine if changes should be made to strengthen internal controls within this area.”

Procurement:

Criteria:

- The *Community-Technical Colleges Agency Purchasing Policies*, effective September 22, 1999, require the President to designate those individuals with “requisition authority” or “commitment authority” for various divisions or departments at each college. The President’s designation is made using the Purchasing and A/P Authorization Form.

The Policies also require all authorizations to be maintained in the college’s purchasing files and updated in a timely manner following a change in job duties which changes the employee’s requisition or

commitment authority.

- Proper internal controls related to purchasing require that purchase requisitions be approved prior to receipt of goods and/or services.

Condition: • We noted three instances in the fiscal year ended June 30, 2002, in which the individual approving a purchase requisition did not have the proper authority to make that approval. In two of these instances, the individuals exceeded their cost approval limitation, and in one instance, the individual did not have the authority to approve a purchase for that particular department.

- We noted two instances in each fiscal year in which goods and/or services were received before obtaining the proper approvals.

Effect: The College was not in compliance with these control requirements.

Cause: Controls in place at the College were not sufficient to prevent these conditions from occurring.

Recommendation: The College should improve controls related to the purchase requisition process. (See Recommendation 3.)

Agency Response: “The College will continue to implement steps to improve controls over the purchase requisition process.”

Manchester Community College Foundation, Inc:

Criteria: Section 4-37g, subsection (b), of the Connecticut General Statutes requires the College’s President to transmit a copy of the Foundation audit report to the office of the Auditors of Public Accounts.

Condition: The Foundation audit report for the year ended December 31, 2001, was not transmitted to our Office in accordance with the statute.

Effect: Our Office did not receive a copy of the Foundation audit report for the year ended December 31, 2001.

Cause: The College did not assign responsibility for this procedure to a particular staff member.

Recommendation: The College should comply with the requirements of Section 4-37g, subsection (b), of the Connecticut General Statutes by transmitting a copy of the Foundation audit report to the Auditors of Public Accounts. (See Recommendation 4.)

Agency Response: “The College recently provided the Auditors of Public Accounts a copy of the Foundation audit report for the year ended December 31, 2001. New procedures have been implemented to ensure the Foundation audit report is transmitted to the Auditors of Public Accounts in accordance with the statute.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The College should improve controls over its property by following the property control requirements set forth by the State Comptroller and by implementing recordkeeping procedures to ensure that items are traceable to inventory records and can be readily located. Improvement was noted in this area, so the recommendation is not being repeated.
- The College should improve both its controls and statutory compliance in connection with personal service agreements by ensuring that all such agreements are approved by appropriate officials in a timely manner. We did not note any recurrences of these conditions, so the recommendation is not being repeated.

Current Audit Recommendations:

- 1. The College should develop and implement a time and effort reporting system for documenting payroll costs charged to Federal grant programs.**

Comment:

We reviewed the personal services charges to two Federal grants and noted that the College did not have a time and effort reporting system as required by OMB Circular A-21.

- 2. The College should change the organizational oversight responsibility related to the Payroll Department to ensure that it is independent of the Human Resources Department.**

Comment:

During our review, we obtained both tangible and oral evidence documenting that the Payroll Department is subordinate to the Human Resources Department. These departments should be independent of each other.

- 3. The College should improve controls related to the purchase requisition process.**

Comment:

We noted instances in which individuals approving purchase requisitions did not have the proper authorization to do so. In two instances, the individuals exceeded their cost approval limitation, and in one instance, the individual was not authorized to make an approval for the specific department.

We also noted instances in which goods and/or services were received before obtaining

the proper approvals.

- 4. The College should comply with the requirements of Section 4-37g, subsection (b), of the Connecticut General Statutes that a copy of the Foundation audit report be transmitted to the Office of the Auditors of Public Accounts.**

Comment:

The College should comply with the statute, which requires the College's President to transmit a copy of the Foundation's audit to our Office.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of Manchester Community College for the fiscal years ended June 30, 2001 and 2002. This audit was primarily limited to performing tests of the College's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the College's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the College are complied with, (2) the financial transactions of the College are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the College are safeguarded against loss or unauthorized use. The financial statement audits of Manchester Community College for the fiscal years ended June 30, 2001 and 2002, 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 generally accepted auditing standards and the standards applicable to financial-related 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 Manchester Community College 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 Manchester Community College is the responsibility of Manchester Community College's management.

As part of obtaining reasonable assurance about whether the College 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 College's financial operations for the fiscal years ended June 30, 2001 and 2002, 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 herein 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 Manchester Community College 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 College. In planning and performing our audit, we considered the College's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the College's financial operations in order to determine our auditing procedures for the purpose of evaluating Manchester Community College's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the College's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the College's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the College's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: lack of independence between the Payroll and Human Resources Departments, and weaknesses in internal controls related to purchase requisitions.

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 the requirements to safeguard assets that would be material in relation to the College's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the College being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the College's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable conditions to be material or significant weaknesses: lack of independence between the Payroll and Human Resources Departments, and weaknesses in internal controls related to purchase requisitions.

We also noted other matters involving internal control over the College's financial operations and over 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 courtesies and cooperation extended to our representatives by the personnel of Manchester Community College during the course of our examination.

Timothy M. LePore
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts