

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
BOARD OF TRUSTEES FOR  
COMMUNITY-TECHNICAL COLLEGES  
NAUGATUCK VALLEY COMMUNITY COLLEGE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

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

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October 27, 2004

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NAUGATUCK VALLEY COMMUNITY COLLEGE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

We have examined the financial records of Naugatuck Valley Community College (College) for the fiscal years ended June 30, 2002 and 2003.

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:**

Naugatuck Valley Community College, located in Waterbury, Connecticut, is a two-year institution of higher education 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 of Community-Technical Colleges and its System Office, located in Hartford, Connecticut, administer the 12 institutions.

The College was accorded continued accreditation from the New England Association of Schools and Colleges, Inc. on March 7, 2003.

Dr. Richard L. Sanders served as President of the College during the audited period.

**Recent Legislation:**

The following notable legislation took effect during or near the audited period:

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 became effective July 1, 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 Connecticut resident who died as a result of the terrorist attacks against the United States on September 11, 2001, or the anthrax attacks from September 11, 2001 through December 31, 2002. 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 became effective July 1, 2002.

Public Act 03-33 – Section 1 of this Act requires the Board of Trustees of Community-Technical Colleges to allow its students to reenroll, at no charge, in courses not completed because of a call to active duty in the armed forces. This benefit applies to student members of the armed forces for a period of four years after being released from duty and only applies to courses for which tuition had previously been paid and was not fully refunded. This Section became effective May 12, 2003.

Public Act 03-69 – This Act provides that General Fund appropriations shall be transferred from the State Comptroller and deposited into the Regional Community-Technical Colleges’ Operating Fund. Also, upon request of the Board of Trustees of Community-Technical Colleges, appropriations for fringe benefits and workers’ compensation shall be transferred from the State Comptroller and deposited into the Regional Community-Technical Colleges’ Operating Fund. The State Treasurer and the Secretary of the Office of Policy and Management must approve

such transfers. The Act further requires that the Board establish an equitable policy for allocating such fringe benefit appropriations. This Act became effective July 1, 2003.

**Enrollment Statistics:**

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

	<u>Fall 2001</u>	<u>Spring 2002</u>	<u>Fall 2002</u>	<u>Spring 2003</u>
Full-time students	1,774	1,532	1,904	1,588
Part-time students	<u>3,448</u>	<u>3,164</u>	<u>3,408</u>	<u>3,344</u>
Total enrollment	<u>5,222</u>	<u>4,696</u>	<u>5,312</u>	<u>4,932</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.

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 fiduciary funds, namely their Student Activity Fund and Institutional General Welfare Fund accounts, into their respective Operating Fund accounts, effective during the 2001-2002 fiscal year. The Community Colleges set up separate accounts within their respective Operating Funds to account for the transactions of the former Student Activity Funds and Institutional General Welfare Funds. Accordingly, receipts and expenditures figures mentioned in the "Operating Fund" section of this report include the activity of student activity and institutional welfare accounts within the Operating Fund.

**General Fund:**

General Fund receipts totaled \$25,253 and \$15,529 for the 2001-2002 and 2002-2003 fiscal years, respectively, compared to \$10,689 for the 2000-2001 fiscal year. Receipts were mostly made up of sales tax collected by the College bookstore and refunds of expenditures of budgeted accounts.

During the audited period, General Fund expenditures consisted entirely of personal services costs. Expenditures totaled \$15,986,896 and \$15,927,978 for the 2001-2002 and 2002-2003 fiscal years, respectively, compared to \$14,990,648 for the 2000-2001 fiscal year. These figures represented an increase of \$996,248 (seven percent) and a slight decrease of \$58,918 (less than one percent), respectively, during the audited years.

The noteworthy increase in expenditures during the 2001-2002 fiscal year was driven by salary increases consistent with collective bargaining agreements, the hiring of additional employees, and the absorption of a number of employees previously charged to the Operating Fund. For the most part, the College uses the General Fund to bear the costs of its permanent full-time employees, while the Operating Fund is used to fund other types of employees including part-time lecturers and student workers. However, funding for any established position

is dependent upon the continued availability of resources, and periodic reallocation of position funding may be necessary in order to maximize the College's resources.

**State Capital Projects:**

Capital projects funds expenditures during the 2001-2002 and 2002-2003 fiscal years totaled \$3,714,718 and \$2,369,407, respectively compared to \$2,410,836 for the 2000-2001 fiscal year. During the audited period, these expenditures were made to cover the costs of various campus building and grounds maintenance and improvement projects, as well as associated equipment purchases.

Expenditures increased by \$1,303,882 (54 percent) during the 2001-2002 fiscal year, primarily due to an intensified level of continued reconstruction of the roof and walls of a campus building, additional acquisitions of equipment, and preliminary development of a technology facility. Expenditures decreased by \$1,345,311 (36 percent) during the 2002-2003 fiscal year, chiefly due to the completion of the reconstruction project noted above, the completion of various projects aimed at improving access throughout the campus for individuals with disabilities, and diminished equipment purchases. We also noted that such 2002-2003 fiscal year reductions were partially offset by stepped-up development of the technology facility noted above.

**Operating Fund:**

The College's operating revenues and expenditures (excluding 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 received, and also included income generated from sales of the College-run bookstore.

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

	<b>Fiscal Year</b> <b><u>2000-2001</u></b>	<b>Fiscal Year</b> <b><u>2001-2002</u></b>	<b>Fiscal Year</b> <b><u>2002-2003</u></b>
Total Receipts	<u>\$12,458,883</u>	<u>\$13,286,262</u>	<u>\$13,605,624</u>

Total reported Operating Fund receipts grew by \$827,379 (seven percent) and \$319,362 (two percent) during the 2001-2002 and 2002-2003 fiscal years, respectively. The noteworthy increase in receipts during the 2001-2002 fiscal year was consistent with increased student enrollment during this period.

Operating Fund receipts consisted in large part of student tuition payments received. Tuition charges are fixed by the Board of Trustees. The following summary shows annual tuition charges for full-time students during the audited fiscal years and the previous fiscal year.

	<u>In-State</u>	<u>Out-of-State</u>	<u>N.E. Regional Program</u>
2000-2001	\$ 1,680	\$ 5,232	\$ 2,520
2001-2002	\$ 1,680	\$ 5,232	\$ 2,520
2002-2003	\$ 1,818	\$ 5,454	\$ 2,727

As can be seen above, tuition rates remained unchanged during the 2001-2002 fiscal year. To meet rising costs, in December 2001, the Board of Trustees of Community-Technical Colleges approved an increase in tuition for all students during the 2002-2003 fiscal year.

In accordance with Section 10a-67 of the General Statutes, the Board of Trustees of Community-Technical Colleges sets tuition amounts for nonresident students enrolled in the Community College System through the New England Regional Student Program at an amount one and one-half that of in-State tuition.

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

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

	<u>Fiscal Year</u> <u>2000-2001</u>	<u>Fiscal Year</u> <u>2001-2002</u>	<u>Fiscal Year</u> <u>2002-2003</u>
Personal Services	\$5,049,761	\$4,807,398	\$4,828,709
Contractual Services	3,266,187	3,213,533	3,139,932
Commodities	2,253,536	2,294,130	2,409,976
Revenue Refunds	1,724,173	2,091,863	1,689,559
Sundry Charges	678,207	629,336	613,777
Equipment and other	<u>244,665</u>	<u>185,472</u>	<u>248,463</u>
Total Expenditures	<u>\$13,216,529</u>	<u>\$13,221,732</u>	<u>\$12,930,416</u>

Expenditures were made up of costs associated with personal services, student financial assistance (included in the Revenue Refunds and Sundry Charges categories) and other College operating costs. Recorded Operating Fund expenditures increased by \$5,203 (less than one percent) and decreased by \$291,316 (two percent) during the 2001-2002 and 2002-2003 fiscal years, respectively.

**Grants – Tax-Exempt Proceeds Fund:**

The College accounted for certain grants, other than Federal, in the Tax-Exempt Proceeds Fund. This Fund was used to record receipts and disbursements related to grant transfers financed by State of Connecticut tax-exempt bonds in accordance with Sections 3-24a through 3-24h of the General Statutes.

Fund receipts totaled \$50,000 during the 2001-2002 fiscal year, while there were no Fund receipts during the 2002-2003 fiscal year.

Fund expenditures totaled \$22,953 and \$69,166 during the 2001-2002 and 2002-2003 fiscal years, respectively. Expenditures primarily consisted of costs to maintain and improve campus facilities.

**Naugatuck Valley Community College Foundation, Inc.:**

Naugatuck Valley Community College Foundation, Inc. (the Foundation) is a private corporation established to secure contributions from private sources for the purposes of support, promotion and improvement of the educational activities of Naugatuck Valley Community College.

Sections 4-37e through 4-37k of the General Statutes set requirements for organizations such as the Foundation. The requirements include and deal with the annual filing of an updated list of board members with the State agency for which the foundation was set up, financial record keeping and reporting in accordance with generally accepted accounting principles, financial statement and audit report criteria, written agreements concerning use of facilities and resources, compensation of State officers or employees and the State agency's responsibilities with respect to foundations.

Audits of the books and accounts of the Foundation were performed by an independent certified public accounting firm for the 12-month periods ended December 31, 2001, and 2002, in accordance with Section 4-37f, subsection (8), of the General Statutes. Both audit reports expressed an unqualified opinion on the Foundation's financial statements and indicated compliance, in all material respects, with relevant sections of the General Statutes.

Reported Foundation net assets totaled \$437,913 and \$479,392 as of December 31, 2001 and 2002, respectively.

## CONDITION OF RECORDS

Our review of the financial records of Naugatuck Valley Community College revealed certain areas requiring attention, as discussed in this section of the report.

### **Property Control:**

*Criteria:* The State Comptroller's *Property Control Manual*, under authority of Section 4-36 of the General Statutes, sets forth criteria and policies over assets owned or leased by a State agency. Requirements include, among other things, that capital equipment and certain other controllable items be accurately recorded in property control records.

*Condition:* The College's master equipment inventory records (Banner Fixed Assets module) were not complete, were not adequately updated and, in some cases, included inaccurate equipment locations. The College had also failed to maintain an orderly process for tagging items primarily purchased during the audited period.

We tested 99 equipment items purchased during the audited period, each with a cost of \$1,000 or more, and found that all such items (100 percent), amounting to \$112,402, were insufficiently detailed in the Banner Fixed Assets module and/or not tagged at the time we conducted our test.

We tested an additional 40 equipment items irrespective of purchase date. We found that 14 items (35 percent) were not traceable to the Banner Fixed Asset module and that for another 10 items (25 percent) system records were not updated to account for disposal, location change, or possible loss. We further noted that an additional two items (five percent) were not tagged at the time that our test was conducted.

*Effect:* Internal control over equipment was weakened, increasing the chance that loss or theft of equipment will go undetected. Also, the College did not fully comply with the State Comptroller's *Property Control Manual*.

*Cause:* We were informed that the College experienced difficulties during its initial implementation of the Banner Fixed Assets module. We were also told that, at times, College equipment is moved without informing the employee in charge of inventory control records.

*Recommendation:* The College should improve controls over its property by following the property control requirements set forth by the State Comptroller.

*Agency Response:* “Much of the difficulty was the result of a misunderstanding about the policy and responsibility for personal computers. When the Community College System began using the Banner Fixed Assets module for inventory, there was a policy change which allowed the College to not capitalize personal computers because the purchase price was approximately \$1,000 (the threshold for the definition of equipment) and each personal computer came in three pieces. The College made the decision to not capitalize personal computers but was secure in the knowledge that our Information Technology Department tracked every item regardless of price.

Prices, however, increased so that capitalization of personal computers became necessary but staff was not sufficiently informed. This misunderstanding has been rectified and equipment inventory procedures to be followed (Purchasing, Accounting, and Inventory Control departments) have been confirmed.”

**Time and Effort Reporting:**

*Criteria:* The Federal 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. To accomplish this, institutional records must adequately document that payroll expenditures posted to an account were actually incurred in the course of carrying out the program accounted for in the account.

According to 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:* During the audited period, the College received and administered a Federal grant to which payroll expenditures were charged. However, the College did not have a time and effort reporting system, as required by the Office of Management and Budget Circular A-21. The Circular provides that where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents

qualify as records for this purpose, provided that they meet the requirements outlined in the Circular. The College's payroll documents did not provide a signed certification that the employee's payroll expenditures were charged to the activities/programs on which the employee actually worked.

*Effect:* The College did not fully comply with the Office of Management and Budget Circular A-21 requirements concerning the documentation of payroll distribution costs.

*Cause:* The College had not yet implemented its planned corrective action to address our prior audit recommendation.

*Recommendation:* The College should develop and implement a time and effort reporting system for documenting payroll costs associated with its Federal grant programs, as required by the Federal Office of Management and Budget Circular A-21.

*Agency Response:* "The College has since implemented a policy requiring the recording of time and effort of people being paid with funds from Federal grants and is now utilizing a timesheet created specifically for that purpose."

## RECOMMENDATIONS

*Status of Prior Audit Recommendations:*

- **Improve controls over property by following the property control requirements set forth by the State Comptroller.** Our current audit disclosed some continuing control deficiencies in this area. The recommendation, therefore, is being updated and repeated. (See Recommendation 1.)
- **Strengthen internal controls over the College-operated bookstore by improving segregation of bookstore duties. Accordingly, the College's Business Office should compare actual bookstore cash register records with corresponding bank deposit records.** Our current audit showed that the recommendation was effectively implemented. Therefore, the recommendation is not being repeated.
- **Develop and implement a time and effort reporting system for documenting payroll costs associated with Federal grant programs, as required by the Federal Office of Management and Budget Circular A-21.** Our current audit disclosed that the recommendation was not implemented during the audited period. Consequently, the recommendation is being repeated. (See Recommendation 2.)

*Current Audit Recommendations:*

- 1. The College should improve controls over its property by following the property control requirements set forth by the State Comptroller.**

Comment:

Our review of the College's property control revealed various areas in which improvement is still needed.

- 2. The College should develop and implement a time and effort reporting system for documenting payroll costs associated with its Federal grant programs, as required by the Federal Office of Management and Budget Circular A-21.**

Comment:

Our review disclosed that the College had not yet implemented a time and effort reporting system for documenting payroll costs associated with its Federal grant programs and, therefore, was not in compliance with the requirements of OMB Circular A-21.

## INDEPENDENT AUDITOR'S CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and - accounts of Naugatuck Valley Community College for the fiscal years ended June 30, 2002 and 2003. 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 established 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 Naugatuck Valley Community College for the fiscal years ended June 30, 2002 and 2003, 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 Naugatuck Valley 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 Naugatuck Valley Community College is the responsibility of the management of Naugatuck Valley Community College.

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, 2002 and 2003, 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 generally accepted government auditing standards. However, we noted certain immaterial or less than significant instances of noncompliance that we have disclosed in the "Condition of Records" and "Recommendations" sections of this report.

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

The management of Naugatuck Valley 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 Naugatuck Valley 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 finding represents a reportable condition: the lack of control over equipment inventory.

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, we believe the reportable condition described above, the lack of control over equipment inventory, to be a material or significant weakness.

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 Naugatuck Valley Community College during the course of our examination.

Marc Amutice  
Associate Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts