

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
BOARD OF TRUSTEES FOR  
COMMUNITY-TECHNICAL COLLEGES  
QUINEBAUG 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 5, 2004

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QUINEBAUG VALLEY COMMUNITY COLLEGE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 and 2003**

We have examined the financial records of Quinebaug Valley Community College (the College) for the fiscal years ended June 30, 2002 and 2003. This report on our examination consists of the following Comments, Condition of Records, Recommendations and Certification.

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.

**COMMENTS**

**FOREWORD:**

Quinebaug Valley Community College is a two-year institution of higher education that operates under the provisions contained in Sections 10a-71 through 10a-80 of the General Statutes. Its main campus and administrative offices are located in Danielson, Connecticut. The College also operates a satellite campus in Willimantic, Connecticut.

The College is accredited by the New England Association of Schools and Colleges, Inc. until the fall of 2006.

Dianne E. Williams was appointed President effective December 1, 1992, and continues to serve in that position.

**Recent Legislation:**

The following notable legislation took effect during the audited period:

Public Act 01-141 – Effective July 1, 2001, 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.

Public Act 02-107 – Effective July 1, 2002, 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.

Public Act 02-126 – Effective June 7, 2002, Section 6 of this Act provides that the Board of Trustees of Community-Technical Colleges shall waive the payment of tuition of 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.

Public Act 02-140 – Effective July 1, 2002, 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.

Public Act 03-33 – Effective May 12, 2003, 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.

Public Act 03-69 – Effective July 1, 2003, this Act provides that upon request of the Board of Trustees of Community-Technical Colleges, General Fund appropriations for fringe benefits and workers’ compensation shall be transferred from the 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.

**Enrollment Statistics:**

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

	Fiscal Year			
	<u>2001-2002</u>		<u>2002-2003</u>	
	<u>Fall</u>	<u>Spring</u>	<u>Fall</u>	<u>Spring</u>
Full-time	467	421	487	434
Part-time	<u>1034</u>	<u>968</u>	<u>1014</u>	<u>992</u>
Total	<u>1501</u>	<u>1389</u>	<u>1501</u>	<u>1426</u>

**RÉSUMÉ OF OPERATIONS:**

During the audited period, operations 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 the 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 general welfare accounts.

**General Fund:**

General Fund receipts totaled \$1,484 and \$1,225 for the fiscal years ended June 30, 2002 and 2003, respectively, compared to \$1,786 for the fiscal year ended June 30, 2001. These receipts consisted primarily of sales tax collected in the College's bookstore.

An analysis of General Fund expenditures, which are used exclusively for personal services, for the fiscal years under review, along with the prior fiscal year for comparative purposes, is presented below:

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Budgeted Accounts:			
Personal services	\$ <u>4,082,224</u>	\$ <u>4,559,239</u>	\$ <u>4,604,353</u>

General Fund expenditures from budgeted appropriations during the fiscal years ended June 30, 2002 and 2003, increased \$477,015 and \$45,114, respectively. The increase in expenditures for the fiscal year ended June 30, 2002, was primarily the result of salary increases attributable to collective bargaining and the shift in wages for part-time lecturers paid from the Operating Fund to the General Fund. To the limit of the available allocation, the College's General Fund is primarily used to fund permanent employees and secondarily for other employees. The Operating Fund is used primarily for those other employees (i.e. part-time lecturers, student workers and grant funded employees.) Transfers between the funds are made to maximize the College's resources and are subject to the availability of resources in the respective funds.

**Capital Projects Funds:**

Expenditures from Capital Projects Funds totaled \$300,419 and \$294,873 during the fiscal years ended June 30, 2002 and 2003, respectively. These expenditures consisted primarily of office equipment and electronic data processing hardware.

**Tax-Exempt Proceeds Fund:**

Tax-Exempt Proceeds Fund expenditures totaled \$208,001 and \$115,083 for the fiscal years ended June 30, 2002 and 2003, respectively. These expenditures consisted primarily of general repairs, educational costs and fees for non-professional services.

**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 and Federal financial assistance.

Operating Fund receipts recorded by the State Comptroller during the audited period and the preceding fiscal year follows:

	<u>2000-2001</u>	<u>Fiscal Year</u> <u>2001-2002</u>	<u>2002-2003</u>
Operating Fund Receipts:	\$ <u>3,060,984</u>	\$ <u>3,286,689</u>	\$ <u>3,626,264</u>

Total Operating Fund receipts during the fiscal years ended June 30, 2002 and 2003, increased \$225,705 and \$339,575 respectively. The increases were primarily the result of increases in student enrollment, tuition fees and Federal student financial aid.

The Board of Trustees fixes tuition charges. The following summary shows the annual tuition charges for full-time students during the audited period as compared with those charges authorized in the prior fiscal year:

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

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

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

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Operating Fund:	\$	\$	\$
Personal Services	1,104,625	1,113,352	1,262,732
Contractual Services	868,863	993,589	823,126
Commodities	588,661	554,901	634,402
Revenue Refunds	394,293	497,387	467,157
Sundry Charges	141,399	90,718	163,232
Capital Outlay	<u>155,953</u>	<u>62,393</u>	<u>65,108</u>
Total Fund Expenditures	<u>\$ 3,253,794</u>	<u>\$ 3,312,340</u>	<u>\$ 3,415,757</u>

Personal services expenditures from the Operating Fund consisted primarily of salaries and wages paid to grant funded instructors, part-time instructors and for student labor. The increase in personal services expenditures was primarily caused by the fact that Operating Fund transfers to the General Fund in 2001-2002 exceeded those made in 2002-2003. Significant contractual service expenditures include rent for the College's Willimantic campus, utilities and fees for instructors providing continuing education. A major part of expenditures for commodities involves the purchase of books for resale at the College's bookstore.

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

The Quinebaug Valley Community College Foundation, Inc. was established to support, promote and solicit funds and contributions for the educational needs of the College. An independent Board of Directors governs the Foundation.

Sections 4-37e through 4-37k of the General Statutes deal directly with the requirements of 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 statement and audit report requirements, written agreements concerning use of facilities and resources, the agency's responsibilities, and compensation of State officers or employees.

*Auditors of Public Accounts*

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Independent auditor's reports on the Foundation were issued separately for the fiscal years ended June 30, 2002 and 2003. Those reports stated that the Foundation was in full compliance with the statutes noted above.

The Foundation's financial statements indicated revenues of \$248,368 and \$468,391 for the fiscal years ended June 30, 2002 and 2003. Expenditures totaled \$195,873 and \$237,481 during the same years, respectively. The significant increase in revenues for the 2002-03 fiscal year was attributable to contributions to the Foundation's capital campaign in support of the College's facilities expansion.

## CONDITION OF RECORDS

Our review of the financial records of Quinebaug Valley Community College revealed some areas of concern. Those areas are discussed in this section of the report.

### **Time and Effort Reporting:**

*Criteria:* The 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:* During the audited period, the College received and administered two Federal grants to which payroll expenditures for two employees were charged. However, the College does not have a time and effort reporting system as required by Circular A-21. The College's payroll documents for the employees who are paid from those Federal grants do not provide a signed certification that the employees' payroll expenditures were charged to the activities/programs on which the employees actually worked.

*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:* Quinebaug Valley Community College will develop and implement a time and effort reporting system for documenting payroll costs charged to Federal grant programs.

**Noncompliance with Section 1-84 of the General Statutes:**

*Criteria:* Section 1-84, subsection (i), of the Connecticut General Statutes states, “No public official or state employee or member of his immediate family or a business with which he is associated shall enter into any contract with the state, valued at one hundred dollars or more, other than a contract of employment as a state employee pursuant to a court appointment, unless the contract has been awarded through an open and public process, including prior public offer and subsequent public disclosure of all proposals considered and the contract awarded.” Further, the State Ethics Commission reviewed the application of the Code of Ethics to contracts between state employees and the community colleges. In Advisory Opinion No. 2002-8, the Ethics Commission ruled that “any personal service agreement valued at \$100 or more and entered into between any state agency, including a community college, and any public official or state employee, member of his immediate family or a business with which he is associated, must comply with the open and public process requirements of Section 1-84(i).”

*Condition:* We performed a review of personal service agreements and noted five violations of Section 1-84, subsection (i), of the General Statutes. During the period under review, the College contracted with three employees for \$2,500 each to develop on-line courses. Two employees received contracts to provide a series of art exhibits at the college for \$2,500 and \$1,250, respectively. These agreements were made without submitting proposals for public bid.

*Effect:* The College was not in compliance with Section 1-84, subsection (i), of the Connecticut General Statutes.

*Cause:* College officials were not familiar with this requirement.

*Recommendation:* In order to comply with the provisions of Section 1-84, subsection (i), of the Connecticut General Statutes, the College should establish procedures to ensure that no contracts valued at one hundred dollars or greater are made to a public official, State employee or his or her immediate family unless the contract has been awarded through an open and public process. (See Recommendation 2.)

*Agency Response:* Quinebaug Valley Community College will comply with Section I-84, subsection (i), of the Connecticut General Statutes.

**Bookstore Operations:**

*Background:* The College runs its own bookstore, which sells textbooks and other merchandise to the College community.

*Criteria:* Sound business practices would include:

- Procedures to monitor cost of goods sold, fluctuations in gross profit percentages, inventory turnover and other relevant operating analysis and ratios.
- Procedures for the signed acknowledgement of receipt of the daily deposit turned over to the Business Office. (The State Accounting Manual describes typical controls for the processing of receipts. In general, the receiving party should provide the party transferring the funds with a signed receipt for the amounts transferred.)
- Controls over Petty Cash Fund disbursements for book buy backs to ensure that checks are made out to definite payees.
- Supervision of the annual Bookstore inventory by someone independent of the Bookstore. (The State Property Control Manual provides guidance on how inventories should be conducted. Those procedures discuss the need for supervision.)

*Condition:* The College had not implemented methods and procedures to determine and track the Bookstore's cost of goods sold, fluctuations in gross profit percentages and such other operating statistics as inventory turnover.

The Business Office did not provide the Bookstore with a receipt for the amounts transferred.

Six Petty Cash Fund disbursement checks for book buy backs were made out to cash rather than a definite payee.

The annual inventory of the Bookstore was not monitored and test counted by someone independent from the operations of the Bookstore.

*Effect:* In the absence of statistical data and physical observations, management has a reduced ability to prevent and detect deficiencies in the operation of the Bookstore.

The Bookstore was not isolated from errors that may occur after its deposit is turned over to the Business Office.

Disbursement checks made out to cash increase the financial risk of loss of the funds.

*Cause:* With the exception of the checks made out to cash, management was not aware of the conditions described above.

The College was considering discontinuing the practice of making petty cash checks out to cash for book buy backs at the time of our review.

*Conclusion:* Prior to the completion of our review, the College took steps to address the conditions noted above.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- The College should close its credit card and petty cash bookstore checking accounts. The College does not have the authority or ability to replace the credit card clearing account as it is a procedure of the Connecticut Community College System. Therefore, this part of the recommendation will not be repeated as part of this report but will be reconsidered as part of our audit of the Central Office of the Connecticut Community College System. The College complied with the second part of the recommendation by closing the petty cash bookstore checking account during the audited period.
- The College should sufficiently document amounts reported on its Annual Inventory Reports in accordance with the State Property Control Manual. A firm hired by the Central Office of the Connecticut Community College System performed the annual physical inventories during the audit period. Our review found no exceptions with respect to the College's personal property. Real property valuations were determined at the Central Office level. This recommendation will not be repeated.
- The Agency should improve its accountability and documentation over Student Activity events and transactions. This recommendation has been substantially resolved.
- The College should ensure that credit memos on bookstore purchases are appropriately applied. The condition noted in the prior audit was addressed during the period under review. Therefore, the recommendation will not be 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 for two Federal grants to which payroll expenditures for two employees were charged without a time and effort reporting system in place as required by Circular A-21.

- 2. In order to comply with the provisions of Section 1-84, subsection (i), of the Connecticut General Statutes, the College should establish procedures to ensure that no contracts valued at one hundred dollars or greater are made to a public official, State employee or his or her immediate family unless the contract has been awarded through an open and public process.**

Comment:

Our review of personal service agreements found five College employees who also had entered into contracts with the State, valued at one hundred dollars or more, which were not awarded through an open and public process.

## **INDEPENDENT AUDITORS' CERTIFICATION**

As required by Section 2-90 of the General Statutes we have audited the books and accounts of Quinebaug 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 audit of Quinebaug 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether Quinebaug 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 Quinebaug Valley Community College is the responsibility of the management of Quinebaug 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 Quinebaug 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 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 Quinebaug 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: A lack of controls over time and effort reporting.

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 (i.e. the College's lack of controls over time and effort reporting) to be a material or significant weakness.

This report is intended for 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 Quinebaug Valley Community College during the course of our examination.

Michael R. Adelson  
Principal Auditor

Approved:

Robert G. Jaekle  
Auditor of Public Accounts

Kevin P. Johnston  
Auditor of Public Accounts