

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD FOR STATE ACADEMIC AWARDS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS
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April 18, 2001

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We have made an examination of the financial records of the Board for State Academic Awards (the Board) for the fiscal years ended June 30, 1999 and 2000.

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 Board's compliance with certain provisions of financial related laws, regulations, contracts, and grants, and evaluating the Board's internal control structure policies and procedures established to ensure such compliance.

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

COMMENTS

FOREWORD:

The Board for State Academic Awards, a constituent unit of the State system of public higher education, operates under the provisions of Chapter 185b, Part IV, of the Connecticut General Statutes. In accordance with Section 10a-143 of the General Statutes, the Board grants college credits and degrees by examination and promotes the development of alternative methods of education outside of the traditional classroom setting. It awards associate and bachelor degrees in the Charter Oak State College program.

The Board appoints the Agency's Executive Director. Dr. Merle W. Harris served as Executive Director during the audited period.

Auditors of Public Accounts

In accordance with the provisions of Sections 10a-143 and 4-9a of the General Statutes, the Board shall consist of nine persons. Eight members, who shall reflect the State's geographical, racial and ethnic diversity, are appointed by the Governor, and the ninth member is elected by the students enrolled in Charter Oak State College. Members of the Board as of June 30, 2000, were as follows:

Chandler J. Howard, Chairperson
Joseph R. Halloran
Astrid T. Hanzalek
Pat Hickox (elected by students)
Carl Johnson
Thomas W. Johnson
Michael Smegielski, Jr.
Vincent A. Socci
John Titley

Christopher T. Hughes, Sharon Levinsky and Richard A. Lickwar also served on the Board during the audited period.

Recent Legislation:

The following notable legislative change took effect during the audited period:

Public Act 98-252, Section 30, codified as Section 10a-143a of the General Statutes, allows the endowment fund for Charter Oak State College to be administered by a nonprofit entity, preferably independent of the State and the College, to allow interest on the state bonds used to set up the fund to be federal tax-free. This section was effective July 1, 1998.

Public Act 99-285, Section 11 of this act, gives public higher education constituent unit and institution heads more flexibility when they purchase equipment, supplies, and contractual services, allowing them to use competitive negotiations and raising the minimum cost thresholds over which competitive bidding or competitive negotiations are required. This act was effective on July 1, 1999.

RÉSUMÉ OF OPERATIONS:

Enrollees in the Charter Oak State College program totaled 1,471 and 1,558 as of June 30, 1999 and 2000, respectively. Degrees awarded during the fiscal years ended on the aforementioned dates totaled 356 and 358, respectively, and included 96 associate degrees and 618 bachelor degrees.

Section 10a-143 of the Connecticut General Statutes, established the Operating Fund Account as a restricted account within the General Fund. It accounts for most of the receipts and expenditures of the Board.

General Fund

Within the General Fund, there is a separate Operating Fund Account. The Operating Fund Account is primarily funded by internal Fund transfers of appropriations within the General Fund, coupled with fees collected by the College. When the Board transfers a General Fund appropriation to the Operating Fund Account, the amount of the transfer is recorded both as a General Fund receipt and expenditure. In so doing, the expenditure figures per the Comptroller's records are overstated by the amount of the internal transfer. An internal transfer is recoded in the sundry charges category as a transfer of grants – State agencies. The subsequent expenditure from the Operating Fund Account is recorded when the actual expenditure is incurred and recorded in the appropriate category.

Internal transfers, recorded as receipts and expenditures on the books of the State Comptroller as explained above, totaled \$1,190,223 and \$1,743,243 during the respective audited years.

General Fund receipts totaled \$2,161,489 and \$3,187,659 for the fiscal years ended June 30, 1999 and 2000, respectively, compared with \$1,790,651 for the fiscal year ended June 30, 1998. The large increase of \$1,026,170 in the 1999-2000 fiscal year was primarily due to increased General Fund support. In addition, Charter Oak State College's enrollment increased, which correlated to augmented fee receipts.

Expenditures of the General Fund, as recorded by the State Comptroller during the audited period, totaled \$3,367,247 and \$4,815,176, respectively. A summary of expenditures for these years, together with those of the preceding year, is presented below:

	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Personal services	\$1,190,649	\$1,432,446	\$1,825,455
Contractual services	348,358	491,933	765,191
Commodities	26,471	24,272	56,438
Revenue refunds	6,332	4,449	6,465
Sundry charges	1,007,382	1,402,212	2,075,228
Equipment	<u>-</u>	<u>11,935</u>	<u>86,399</u>
Total Expenditures	<u>\$2,579,192</u>	<u>\$3,367,247</u>	<u>\$4,815,176</u>

As shown above, total General Fund expenditures for the fiscal years ended June 30, 1999 and 2000, respectively, consisted primarily of personal services, contractual services and sundry charges. Contractual services were comprised primarily of fees for faculty. Sundry charges were comprised primarily of the internal Fund transfers of appropriations as discussed above.

Total General Fund expenditures increased by \$2,235,984 from the fiscal year ended June 30, 1998, to the fiscal year ended June 30, 2000. The increase in personal services was largely the result of the creation of new positions and salary increases attributed to collective bargaining increases. The increase in sundry charges can be attributed primarily to an increase in General Fund support as discussed above.

Grants Fund

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

Receipts of the fund totaled \$60,000 during the fiscal year ended June 30, 1999 and consisted of a transfer of funds from the Department of Public Works. Grant expenditures totaled \$33,633 and \$26,367 during the respective audited years. The major portion of expenditures during the audited period was for computer and other related office equipment.

Capital Equipment Purchase Fund

Capital Equipment Purchase Fund expenditures during the fiscal years ended June 30, 1999 and 2000, totaled \$233,303 and \$44,172, respectively. These expenditures were for the purchase of computer equipment to implement the College's Information Technology Plan.

Student Activity Fund

Established and operated under the provisions of Sections 4-52 to 4-55 of the General Statutes, the Student Activity Fund is used for the benefit of the student body. Management of the fund has been vested in the College's Student Council to the extent of overseeing expenditures. However, accountability of the fund is the ultimate responsibility of the College administration.

Receipts as presented in financial statements prepared by the College for this fund totaled \$8,330 and \$3,965 for the fiscal years ended June 30, 1999 and 2000, respectively. Major sources of receipts were student activity fees and funds raised from various functions and activities.

Disbursements as presented in financial statements prepared by the College for this fund totaled \$3,119 and \$5,817 for the fiscal years ended June 30, 1999 and 2000, respectively. These disbursements were comprised primarily of expenditures related to student activities and scholarships.

Charter Oak State College Foundation, Inc.

The Charter Oak State College Foundation, Inc., (the Foundation) is a private nonstock corporation established to secure contributions from private sources for the purposes of promoting interest in and support of open learning and credentialing in higher education. The Foundation supports activities of the Board for State Academic Awards and furnishes assistance to enrollees in the external degree program.

Sections 4-37e through 4-37j 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 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.

An audit of the Foundation was performed by our Office for the fiscal year ended June 30, 1999, in accordance with Section 4-37f, subsection (8), of the General Statutes. Our report showed no material inadequacies in Foundation records and indicated compliance, in all material respects, with Sections 4-37e through 4-37i of the General Statutes. The next audit required is for the fiscal year ended June 30, 2000, and will also be performed by our Office.

CONDITION OF RECORDS

Our review of the financial records of the Board for State Academic Awards revealed certain areas requiring attention, as discussed in this section of the report.

Personal Service Agreements:

- Background:* Our examination of expenditures included testing of contractual payments made pursuant to personal service agreements. Our testing disclosed the following.
- Criteria:* Sound internal control procedures require personal service agreements to be signed by all necessary parties prior to the contract term.
- Condition:* We tested 14 personal service agreements during the audited period and found that eight were approved by necessary parties after corresponding services had begun. In another case, we were unable to determine if the contract was approved, because the vendor and Agency official did not sign and date the contract.
- Effect:* Internal controls over personal services were weakened. Specifically, assurance was lessened that the terms of personal service agreements met the approval of the Agency's administration prior to the commencement of such contracts.
- Cause:* Controls in place did not effectively ensure the obtaining of timely personal service agreement approvals.
- Recommendation:* The Board should improve internal controls over personal service agreements by taking steps to ensure that appropriate officials document approval of these contracts in a timely manner. (See Recommendation 1.)
- Agency Response:* "The Board for State Academic Awards agrees with the findings made by the Auditors of Public Accounts. Sound internal control procedures require personal services agreements to be signed by all necessary parties prior to the contract terms. To prevent this from happening again, we plan on reviewing our procedures and, by way of a memo and at a meeting, re-educating staff whose responsibilities include contracts."

Internal Control over Expenditures:

- Background:* Our examination of expenditures included the review of prepayments.

- Criteria:* The State of Connecticut’s Accounting Manual sets forth specific policies regarding expenditures. Those policies require that a prepayment voucher (Form CO-17PRE) must be completed whenever expenditures require prepayment. This form is used to document the authorization and certification of completion of the prepayment.
- Condition:* In four out of five cases, the agency did not submit Form CO-17PRE with its expenditure documents to the State Comptroller. In the fifth case the form was submitted. However, the form did not contain the necessary signature indicating the verification of the claim that services had been performed.
- Effect:* Internal controls over expenditures are weakened. Furthermore, it lessens the assurance that such services were provided.
- Cause:* The Agency did not follow established policies and procedures.
- Recommendation:* The Board should improve controls over expenditures by following established policies and procedures. (See Recommendation 2.)
- Agency Response:* “The Board agrees with the findings made by the Auditors. As per State policy, prepayments must be done on a prepayment voucher (Form CO-17PRE) and later verified, by signature and date, that the services have been performed. To ensure that this does not occur again, we plan on re-educating Business Office staff at their next monthly meeting and document it in the minutes of the meeting.”

Internal Control over Equipment Inventory:

- Criteria:* Accurate inventory records are an integral part of internal control. The State of Connecticut’s Property Control Manual provides guidance in this area.
- Conditions:* Our current audit examination of the Board’s property control system revealed the following:
- From a sample of eight equipment items purchased during the audited period, we found two of the items in locations differing from what inventory records stated. In addition, the costs of six items were recorded incorrectly on the inventory records.
- From a sample of twenty-five equipment items selected from the inventory records, we found four instances where incorrect equipment locations were listed on the inventory record. In two instances, equipment items were not tagged.

From a sample of nine equipment items identified by a random inspection of the premises, we found five instances where incorrect equipment locations were listed on the inventory records. In another instance, an equipment item was not recorded on the inventory record.

The Agency did not follow its own established policy over surplus equipment during the audited period.

The annual physical inventory during the audited period did not contain all the necessary data elements that would substantiate such a review.

The controllable asset policy established by the Board was not followed.

Effect: The conditions above weaken internal control over equipment.

Cause: Internal control policies were not being followed.

Recommendation: Control over the Board's equipment inventory should be improved. (See Recommendation 3.)

Agency Response: "The Board agrees with the findings made by the Auditors and will improve our control over equipment inventory. The corrective actions to inventory records have already been completed. Two equipment items were retagged, one item was added, the location of 11 items moved were changed, and the warranty costs were removed from six items incorrectly recorded. Additionally, the Equipment Inventory Manager will ensure that all documentation of future annual physical inventories will be signed and dated, and the established policy over surplus equipment is followed. The Board's controllable asset policy will be updated to include the audit suggestions. We are confident that these procedures will ensure that the agency's property is managed in the best interest of the State and its citizens."

RECOMMENDATIONS

Status of Prior Audit Recommendation:

- The Board should comply with its own established purchasing and travel procedures. Significant improvement was noted, and the recommendation is not being repeated.

Current Audit Recommendations:

- 1. The Board should improve internal controls over personal service agreements by taking steps to ensure that appropriate officials document approval of these contracts in a timely manner.**

Comment:

We tested 14 personal service agreements during the audited period and found that eight were approved by necessary parties after corresponding services had begun. In another case, we were unable to determine if the contract was approved, because the vendor and Agency official did not sign and date the contract.

- 2. The Board should improve controls over expenditures by following established policies and procedures.**

Comment:

In four out of five cases, the Agency did not submit Form CO-17PRE with its expenditure documents to the State Comptroller. In the fifth case the form was submitted. However, the form did not contain the necessary signature indicating the verification of the claim that services had been performed.

- 3. Control over the Board's equipment inventory should be improved.**

Comment:

We noted a significant number of inaccuracies in equipment inventory control records, including incorrect equipment locations. The costs of six items were recorded incorrectly on the inventory records. In two instances, equipment items were not tagged. In another instance, an equipment item was not recorded on the inventory record. The Board did not follow its own established policies over surplus equipment and controllable assets.

Furthermore, the annual physical inventory did not contain all the necessary data elements that would substantiate such a review.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Board for State Academic Awards for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Board's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding, and evaluating the effectiveness of, the Board's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Board are complied with, (2) the financial transactions of the Board are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Board are safeguarded against loss or unauthorized use established to ensure such compliance. The financial statement audits of the Board for State Academic Awards for the fiscal years ended June 30, 1999 and 2000, 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 the Board for State Academic Awards complied in all material or significant respects with the provisions of the 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 the Board for State Academic Awards is the responsibility of the Board for State Academic Awards' management.

As part of obtaining reasonable assurance about whether the Board 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 Board's financial operations for the fiscal years ended June 30, 1999 and 2000, 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 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 the Board for State Academic Awards 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 Board. In planning and performing our audit, we considered the Board's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect of the Board's financial operations in order to determine our auditing procedures for the purpose of evaluating the Board for State Academic Awards' 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 objectives.

However, we noted certain matters involving the internal control over the Board'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 Board's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Board'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: weakness in internal controls over personal service agreements; weakness in internal controls over expenditures; and the lack of adequate controls 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 Board's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency 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 Board'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 conditions described above are not material or significant weaknesses.

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 the Board for State Academic Awards during the course of our examination.

Walter J. Felgate
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts