

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD FOR STATE ACADEMIC AWARDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

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

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January 15, 2003

**AUDITORS' REPORT
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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, 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 Board's compliance with certain provisions of financial related laws, regulations, and contracts, 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 higher education, operates under the provisions of Chapter 185b, Part IV, of the Connecticut General Statutes. The mission of the Board, which oversees Charter Oak State College and the Connecticut Distance Learning Consortium, is to provide diverse and alternative opportunities for adults to obtain an education. In accordance with Section 10a-143 of the General Statutes, the Board grants college credits and 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.

In accordance with the provisions of Sections 10a-143 and 4-9a of the General Statutes, the

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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, 2002, were as follows:

Chandler J. Howard, Chairperson
Joseph R. Halloran
Astrid T. Hanzalek
Mary Heffernan (elected by students)
Carl P. Johnson
Michael Smegielski, Jr.
Vincent A. Socci
Joan Lamm-Tennant
John H. Titley

Pat Hickox and Thomas W. Johnson also served on the Board during the audited period.

Recent Legislation:

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

Public Act 00-187, Section 40, codified as Section 10a-143b of the General Statutes, requires the Board to establish, within available appropriations, innovative on-line teacher and higher education faculty training programs on the integration of technology into the public school curriculum and courses at public institutions of higher education to improve student learning. Starting July 1, 2001, the program for public school teachers must conform to teacher competency standards that the Commission for Educational Technology was required to adopt. This section was effective on July 1, 2000.

Public Act 01-141, Section 13, revamps the distribution of the State endowment fund matching grant for Charter Oak State College. It reduces the overall State matching grant limits from \$1,000,000 to \$900,000 and extends the maximum annual limits of \$100,000 for an additional five years, from fiscal year 2008-2009 through fiscal year 2013-2014. This act was effective on July 1, 2001.

Public Act 01-165, Section 2, subsection (a), requires that the constituent units of the State system of higher education, including Charter Oak State College, develop a plan to ensure that there is unification among their nursing programs to assist nurses in advancing their education and nursing credentials. Subsection (b), requires such boards of trustees to implement the plan not later than July 1, 2004. This act was effective on July 6, 2001.

RÉSUMÉ OF OPERATIONS:

Enrollment statistics compiled by Charter Oak State College showed the enrollment totaled 1,647 and 1,720 as of June 30, 2001 and 2002, respectively. Degrees awarded during the fiscal years ended on the aforementioned dates totaled 386 and 375, respectively, and included 130 associate degrees and 631 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 \$3,743,773 and \$3,728,095 during the respective audited years, compared with \$1,743,243 for the fiscal year ended June 30, 2000.

General Fund receipts totaled \$5,621,067 and \$6,710,299 for the fiscal years ended June 30, 2001 and 2002, respectively, compared with \$3,187,659 for the fiscal year ended June 30, 2000. The large increase of \$2,433,408 in the 2000-2001 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. The increase of \$1,089,232 in the 2001-2002 fiscal year was primarily due to a significant increase in Charter Oak State College's fee structure for new enrollment and annual maintenance fees. In addition, the enrollment increased by approximately 4.5 percent from June 30, 2001 to June 30, 2002.

Expenditures of the General Fund, as recorded by the State Comptroller during the audited period, totaled \$9,011,427 and \$9,969,836, respectively. A summary of expenditures for these years, together with those of the preceding year, is presented below:

	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Personal services	\$1,825,455	\$2,212,019	\$2,606,892
Contractual services	765,191	1,161,496	1,451,584
Commodities	56,438	41,434	51,329
Revenue refunds	6,465	13,888	16,989
Sundry charges	2,075,228	5,437,950	5,732,636
Equipment	<u>86,399</u>	<u>144,640</u>	<u>110,406</u>
Total Expenditures	<u>\$4,815,176</u>	<u>\$9,011,427</u>	<u>\$9,969,836</u>

As shown above, total General Fund expenditures for the fiscal years ended June 30, 2001 and 2002, 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 \$5,154,660 from the fiscal year ended June 30, 2000, to the fiscal year ended June 30, 2002. 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.

Capital Equipment Purchase Fund

Capital Equipment Purchase Fund expenditures during the fiscal years ended June 30, 2001 and 2002, totaled \$70,559 and \$77,499, respectively. The majority of these expenditures were for the purchase of electronic data processing hardware.

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 \$5,501 and \$12,008 for the fiscal years ended June 30, 2001 and 2002, 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 \$4,687 and \$9,477 for the fiscal years ended June 30, 2001 and 2002, 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, 2001, in accordance with Section 4-37f, subsection (8), of the General Statutes. Our audit found 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, 2002, 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.

Internal Control over Procurement:

Criteria: The State of Connecticut's Accounting Manual sets forth specific policies regarding expenditures. Those policies require that a valid commitment document, such as a purchase order or personal service agreement, be completed prior to the receipt of goods or services. A commitment document is not valid, until it contains all the necessary signatures attesting to its approval. All expenditure documents must be coded properly to disclose the nature of the expenditure or actual items being purchased.

Conditions: Our testing of expenditures during the audit period revealed the following:

There were three purchase orders that were approved after the purchase process had been initiated.

There were four personal service agreements that were approved by one of the necessary parties after corresponding services had begun.

There were two instances where payments were processed using the incorrect expenditure coding.

Effect: The Agency did not maintain adequate controls over the procurement process.

Cause: With respect to the cases cited, established control procedures in the area of procurement were not adequately carried out.

Recommendation: The Board should improve controls over expenditures by following established policies and procedures. (See Recommendation 1.)

Agency Response: "The Board for State Academic Awards agrees with the findings. The following actions have been taken:

1. The Dean of Finance and Administration sent an e-mail to all staff with purchasing authority and all Business Office staff reaffirming the necessity to follow the agency's established policies and procedures in the procurement process.
2. The Business Office staff met on October 31 to review and discuss the recommendation.

3. The Director of Finance and Administration will review and, if necessary, update the agency's procurement policies and procedures, and reissue them to appropriate employees."

Internal Control over Equipment Inventory:

Criteria: Accurate inventory records are an integral part of internal control. Reconciliation of the amount expended for equipment to the change in the inventory record balance is an important facet of the control structure. 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 13 equipment items purchased during the audited period, we found the costs of six items were recorded incorrectly on the inventory records. In addition, one item was found without a tag number.

From a sample of nine equipment items identified by a random inspection of the premises, we found one instance where an equipment item was not tagged. At the time of the random inspection, the Agency representative tagged the equipment item.

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

The Board did not document the reconciliation of the amount expended for equipment to the change in the inventory record balances for the fiscal year ended June 30, 2001.

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 2.)

Agency Response: "The Board for State Academic Awards agrees with the findings. The Board's new Director of Finance and Administration, who also serves as the Equipment Manager, will work with the Dean of Finance and Administration and the Information Technology Unit to strengthen policies and procedures for control over the Board's equipment inventory, including improved control over the coding and tagging of equipment and recording of costs."

Purchasing Card Program:

Criteria: In order to properly safeguard and control access to the purchasing card program, the Agency's program coordinator should immediately request the cancellation of an individual's purchasing card upon termination of employment.

Condition: Our review of the controls associated with the purchasing card program at the Board disclosed the following internal control weakness. We noted that the purchasing card issued to a former employee was not cancelled in a timely manner. The employee terminated her employment at the Board on November 29, 2001, and the request to cancel the card was made on April 1, 2002.

Effect: Internal control over the Board's purchasing card system was weakened.

Cause: Internal control policies were not being followed.

Recommendation: The Board should promptly request the cancellation of a cardholder's purchasing card upon termination of employment. (See Recommendation 3.)

Agency Response: "The Board agrees with the findings. To ensure that this does not happen again, the Associate Manager of Personnel and Business Services is developing a checklist to be used when an employee leaves employment with the Board. The checklist will include the date the purchasing card was returned, the date that the P-Card Coordinator was asked to cancel the card and the date the card was canceled."

RECOMMENDATIONS

Status of Prior Audit 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. There was some improvement noted in this area; therefore the recommendation is being repeated with modification. (See Recommendation 1.)
- The Board should improve controls over expenditures by following established policies and procedures. This recommendation was made specifically on inadequate controls associated with expenditures that require prepayment. Improvement was noted in this area; therefore the recommendation is not being repeated.
- Control over the Board's equipment inventory should be improved. The recommendation is being repeated. (See Recommendation 2.)

Current Audit Recommendations:

1. The Board should improve controls over expenditures by following established policies and procedures.

Comment:

We noted several instances in which commitment documents were completed after the purchase process had been initiated. In addition, we noted other instances where established procurement policies and procedures were not followed.

2. Control over the Board's equipment inventory should be improved.

Comment:

Our examination of the Board's property control system revealed a significant number of inaccuracies and other control weaknesses.

3. The Board should promptly request the cancellation of a cardholder's purchasing card upon termination of employment.

Comment:

We noted that the purchasing card issued to a former employee was not cancelled in a timely manner.

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, 2001 and 2002. This audit was primarily limited to performing tests of the Board's compliance with certain provisions of laws, regulations, and contracts, 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, and contracts 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, 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 the Board for State Academic Awards complied in all material or significant respects with the provisions of the certain laws, regulations, and contracts, 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, and contracts 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, 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, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations, and contracts. 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, and contracts 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, and contracts, 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, and contracts. We believe the following findings represent reportable conditions: weakness in internal controls over expenditures; the lack of adequate controls over equipment inventory; and the weakness in internal controls over the purchasing card system.

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, and contracts 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