

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD FOR STATE ACADEMIC AWARDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

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

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July 1, 2005

**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

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, 2003 and 2004.

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 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, 2004, were as follows:

Chandler J. Howard, Chairperson
Joseph P. Halloran
Astrid T. Hanzalek
Donna Markie (elected by students)
John Padillia
Michael Smegielski, Jr.
Vincent A. Socci
Joan Lamm-Tennant
John H. Titley

Mary Heffernan and Carl P. 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 02-107, effective July 1, 2002, amended various sections of the General Statutes to eliminate the terms activity fund and welfare fund and to designate such funds as trustee accounts.

Public Act 03-33, Section 2, codified as Section 10a-99, subsection (h), of the General Statutes allows students called to active duty in the armed forces during any semester to reenroll in any course for which they paid tuition but did not complete because of their active duty status. Students have four years from the date of release from active duty to reenroll. This Section of the Act is effective from its passage, May 12, 2003.

Enrollment Statistics:

Enrollment statistics compiled by Charter Oak State College showed the enrollment totaled 1,628 and 1,457 as of June 30, 2003 and 2004, respectively. Degrees awarded during the fiscal years ended on the aforementioned dates totaled 422 and 507, respectively, and included 144 associate degrees and 785 bachelor degrees.

RÉSUMÉ OF OPERATIONS:

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.

During the 2003-2004 fiscal year however, Operating Fund Account activity was no longer

recorded in the General Fund. Rather, as a result of the implementation of a new State accounting system, Operating Fund Account activity was recorded in a newly established Special Revenue Fund entitled "Federal and Other Restricted Accounts". Further comments on this Fund are presented on the next page of this report.

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 \$2,323,987 for the fiscal year ended June 30, 2003, compared with \$3,728,095 for the fiscal year ended June 30, 2002.

General Fund receipts totaled \$7,179,552 and \$36 for the fiscal years ended June 30, 2003 and 2004, respectively, compared with \$6,710,299 for the fiscal year ended June 30, 2002. The decrease of \$7,179,516 from the fiscal year ended June 30, 2003, to the fiscal year ended June 30, 2004, was due to a change in accounting procedures resulting from the implementation of a new State accounting system, as explained above.

Expenditures of the General Fund, as recorded by the State Comptroller during the audited period, totaled \$9,470,805 and \$1,907,040, respectively. A summary of expenditures for these years, together with those of the preceding year, is presented below:

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
Personal services	\$2,606,892	\$3,000,215	\$0
Contractual services	1,451,584	1,745,295	3,000
Commodities	51,329	59,431	0
Revenue refunds	16,989	12,831	0
Sundry charges	5,732,636	4,470,934	1,904,040
Equipment	110,406	174,972	0
Building and improvements	<u>0</u>	<u>7,127</u>	<u>0</u>
Total Expenditures	<u>\$9,969,836</u>	<u>\$9,470,805</u>	<u>\$1,907,040</u>

As shown above, total General Fund expenditures for the fiscal years ended June 30, 2003, 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.

General Fund expenditures for the fiscal year ended June 30, 2004, consisted primarily of sundry charges. These sundry charges were comprised primarily of the internal Fund transfers of appropriations as discussed above.

Total General Fund expenditures decreased by \$7,563,765 from the fiscal year ended June 30, 2003, to the fiscal year ended June 30, 2004. This decrease was due to a change in accounting procedures resulting from the implementation of a new State accounting system, as explained above.

Special Revenue Fund – Federal and Other Restricted Accounts:

As previously explained, beginning with the 2003-2004 fiscal year Operating Fund Account activity was recorded by the Comptroller in a newly established Special Revenue Fund. Operating Fund Account receipts, as recorded by the State Comptroller for the fiscal year ended June 30, 2004, totaled \$7,761,889. The Operating Fund Account is primarily funded by internal Fund transfers of appropriations, coupled with fees collected by the college.

Expenditures of this Account, as recorded by the State Comptroller for the fiscal year ended June 30, 2004, totaled \$7,289,679. A summary of Account expenditures is presented below:

	<u>2003-2004</u>
Personal services	\$3,151,217
Contractual services	2,598,230
Commodities	167,776
Sundry charges	1,359,396
Equipment	<u>13,060</u>
Total Expenditures	<u>\$7,289,679</u>

As shown above, total Operating Fund Account expenditures for the fiscal year ended June 30, 2004, consisted primarily of personal services, contractual services and sundry charges. Contractual services were comprised primarily of fees for faculty and electronic data processing software licenses. Sundry charges were comprised primarily of financial aid disbursements.

Special Revenue Fund – Capital Equipment Purchase Fund:

Capital Equipment Purchase Fund expenditures during the fiscal years ended June 30, 2003 and 2004, totaled \$209,722 and \$190,249, respectively. The majority of these expenditures were for the purchase of electronic data processing hardware.

Student Trustee Account:

Effective July 1, 2002, there was new legislation that eliminated the term “activity fund” and designated all such funds as “trustee accounts”. (For further details on this legislation, see the subheading titled “Public Act 02-107” in the “Recent Legislation” section of this report.)

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

Receipts as presented in financial statements prepared by the College for this account totaled \$8,294 and \$13,073 for the fiscal years ended June 30, 2003 and 2004, 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 account totaled \$9,720 and \$12,168 for the fiscal years ended June 30, 2003 and 2004, 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, 2003, 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, 2004, 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.

Procurement:

Criteria: Sound internal control procedures require that personal service agreements be signed by all the appropriate officials prior to the contract term. In addition, good business practices and internal control dictate that all expenditures be properly supported.

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

Three personal service agreements were not signed by the necessary parties prior to the contract term. In two of the instances all of the necessary parties signed late and in the other instance a representative of the Attorney General's Office signed late.

One instance was noted where documentation supporting an expenditure could not be located.

Effect: The conditions described above weaken internal control over procurement.

Cause: It appears that the individual requesting the services did not allow enough time to obtain the required approvals prior to the start of the contact term. In regard to the missing documentation noted above, we were informed that the documentation was misfiled.

Recommendation: The Board should continue to take steps to improve internal controls over the procurement process. (See Recommendation 1.)

Agency Response: "The Board for State Academic Awards agrees with this finding. Internal control over procurement was weakened by the conditions described above. However, it should be noted that in the instances where all the necessary parties signed late or a representative of the Attorney General's Office signed late, no payments were made until after all appropriate signatures were obtained, services were performed and invoices were received and approved. In the instance of the missing documentation, this was a clerical error. The agency will continue to take steps to improve internal control over procurement and will start with the review and, if necessary, the revision of the current policies and procedures."

Employee Medical Certificates:

Criteria: Regulation 5-247-11 of the *State Personnel Act and Regulations of the Personnel Policy Board* provides that an acceptable medical certificate, which must be on the form prescribed by the Commissioner of the Department of Administrative Services, will be required of an employee to substantiate a request for sick leave for any period of absence consisting of more than five consecutive working days. In addition, the applicable employee's bargaining unit has adopted this requirement in the contract.

Condition: We noted that in one of the four instances tested, the Board did not have an acceptable medical certificate on file supporting the employee's use of more than five consecutive sick leave days.

Effect: The Board was not in compliance with established policies and procedures.

Cause: The Board did not follow established policies and procedures regarding the retention of an acceptable medical certificate.

Recommendation: The Board should take steps to ensure that acceptable medical certificates are on file for employees who use more than five consecutive sick days, as required by regulation 5-247-11 of the *State Personnel Act and Regulations of the Personnel Policy Board* and the employee's bargaining unit contract. (See Recommendation 2.)

Agency Response: "The Board for State Academic Awards agrees with this finding. Our policy requires an acceptable medical certificate to substantiate a request for sick leave of any period of absence consisting of more than five consecutive working days. In the case in question, the employee was told that the "Excuse Slip" she brought in from her doctor was not acceptable. The employee did not follow-up with an acceptable medical certificate and the agency's personnel unit did not pursue the matter. This was an isolated case that slipped through the cracks. To help prevent this from happening again, the Dean of Finance and Administration and the personnel unit have discussed the appropriate procedures to follow if an acceptable medical certificate is not received as required, including follow-up within two days of an employee's return to work. Additionally, we will annually send an e-mail to all employees to remind them of this policy."

Reporting:

Criteria: The submission of accurate Generally Accepted Accounting Principles (GAAP) information is instrumental in producing a fairly stated State Comprehensive Annual Financial Report. The Office of the State Comptroller provides instructions on the proper completion of the year end GAAP reports.

Condition: The GAAP reports submitted by the Board contained inaccurate information. Our review revealed the following:

- GAAP Reporting Form No. 1 – Cash in Bank - The book balance of the Charter Oak State College’s Student Activity Fund was incorrectly reported for the fiscal year ended June 30, 2003.
- GAAP Reporting Form No. 7 – Compensated Absences - The Board incorrectly calculated the average hourly salary for the fiscal year ended June 30, 2003 and 2004. In addition, we found one instance where an employee’s vacation balance was incorrectly reported for the fiscal year ended June 30, 2004.
- The Board incorrectly reported certain figures on the annual Fixed Assets/Property Inventory Report (CO-59) for the fiscal years ended June 30, 2003 and 2004. Several capital building and lease improvements were included as capitalized equipment.

Effect: The GAAP reports submitted by the Board contained incorrect information.

Cause: The State Comptroller’s instructions were not followed.

Recommendation: The Board should ensure that financial information submitted as a component of its GAAP reporting to the State Comptroller contains accurate information. (See Recommendation 3.)

Agency Response: “The Board for State Academic Awards agrees with this finding. The incorrect information on the GAAP reports were clerical errors made when transferring data from agency records to the GAAP forms or when inserting the formula in the Excel document used to calculate the average hourly rate.

The costs of the capital building improvements to the Charter Oak State College administration building and the capital lease improvements to the Connecticut Distance Learning Consortium leased space have been removed from the capital equipment category on the annual inventory report and added to the building and lease improvements categories.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Board should improve controls over expenditures by following established policies and procedures. There was some improvement noted in this area; therefore the recommendation is being repeated with modification. (See Recommendation 1.)
- Control over the Board's equipment inventory should be improved. Improvement was noted in this area; therefore the recommendation is not being repeated.
- The Board should promptly request the cancellation of a cardholder's purchasing card upon termination of employment. Improvement was noted in this area; therefore the recommendation is not being repeated.

Current Audit Recommendations:

- 1. The Board should continue to take steps to improve internal controls over the procurement process.**

Comment:

We noted several instances in which personal service agreements were not signed by one of the necessary parties prior to the contract term. In addition, one instance was noted where documentation supporting an expenditure could not be located.

- 2. The Board should take steps to ensure that acceptable medical certificates are on file for employees who use more than five consecutive sick days, as required by regulation 5-247-11 of the *State Personnel Act and Regulations of the Personnel Policy Board* and the employee's bargaining unit contract.**

Comment:

We noted one instance where the Board did not have an acceptable medical certificate on file to support the employee's use of more than five consecutive sick leave days.

- 3. The Board should ensure that financial information submitted as a component of its GAAP reporting to the State Comptroller contains accurate information.**

Comment:

Our examination of the GAAP reports submitted by the Board revealed a number of inaccuracies.

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, 2003 and 2004. 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, 2003 and 2004, 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 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, 2003 and 2004, 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; inaccuracies in GAAP reporting records.

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.

David S. Paradie
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts