

STATE OF CONNECTICUT



***AUDITORS' REPORT
BOARD FOR STATE ACADEMIC AWARDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2006***

AUDITORS OF PUBLIC ACCOUNTS
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December 21, 2007

**AUDITORS' REPORT
BOARD FOR STATE ACADEMIC AWARDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2006**

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, 2005 and 2006.

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 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 means for adults to obtain higher education. Accordingly, the Board offers college credit via examinations, assessment of experiential and extra collegiate learning, and electronically administered courses, among other things. In accordance with Section 10a-143 of the General Statutes, the Board grants college credits and awards associate's and bachelor's 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; the ninth member is elected by the students enrolled in Charter Oak State College. Members of the Board as of June 30, 2006, were as follows:

Chandler J. Howard, Chairperson
Elizabeth Alquist
Astrid T. Hanzalek
Timothy Kulig (elected by students)
John Padilla
Michael Smegielski, Jr.
Vincent A. Socci
John H. Titley

There was one vacancy on the Board as of June 30, 2006. Joseph P. Halloran and Joan Lamm-Tennant also served on the Board during the audited period.

Recent Legislation:

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

Public Act 05-3, June Special Session – Effective July 1, 2005, Section 66 of this Act limited the time period of the State's 50 percent match to endowment fund eligible gifts received under the State's higher education endowment fund matching program to the calendar year preceding the start of the fiscal year ended June 30, 2006, rather than the calendar year preceding the start of the fiscal year ending June 30, 2014, as was previously the case. It also reduced the State match to 25 percent of endowment fund eligible gifts received under the State's higher education endowment fund matching program during the calendar years preceding the start of each of the fiscal years ending June 30, 2007, through June 30, 2014. Further, it stipulated that commitments by donors to make endowment fund eligible gifts for two or more years that were made for the period prior to December 31, 2004, but scheduled to end before December 31, 2012, shall continue to be matched at the fifty percent rate.

Effective June 30, 2005, Section 68 of P.A. 05-3: (1) prohibits the appropriation of funds to the Department of Higher Education for grants to sponsor the State's higher education endowment fund matching program until the State's Budget Reserve Fund equals ten percent of the net General Fund appropriations for the current fiscal year; (2) reduces the amount of the grants proportionately if the amount available is less than the amount required for the grants; and (3) limits the amount of funds available to be appropriated for such grants during the year to a maximum of \$25,000,000.

Enrollment Statistics:

Enrollment statistics compiled by Charter Oak State College indicated that average quarterly student enrollment totaled 1,648 and 1,832 for the fiscal years ended June 30, 2005 and 2006, respectively. Degrees awarded during the above fiscal years totaled 519 and 698, respectively, of

which 1,080 were bachelor's degrees and 137 were associate's degrees.

RÉSUMÉ OF OPERATIONS:

Section 10a-143 of the General Statutes established the Board's 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 titled "Federal and Other Restricted Accounts." Further comments on this Fund are presented below in the section of this report titled "Special Revenue Fund – Federal and Other Restricted Accounts."

General Fund:

General Fund receipts totaled \$30 and \$6,471 for the fiscal years ended June 30, 2005 and 2006, respectively, compared with \$36 for the fiscal year ended June 30, 2004. Receipts increased \$6,441 during the fiscal year ended June 30, 2006, compared to the previous fiscal year. This was mostly the result of the receipt of recoveries of expenditures during the year ended June 30, 2006.

Expenditures of the General Fund for the fiscal years ended June 30, 2005 and 2006, totaled \$2,119,396 and \$2,243,843, respectively. These amounts consisted entirely of transfers of General Fund appropriations to the Board's Federal and Other Restricted Accounts Fund. The subsequent expenditure of these appropriations was charged to the Federal and Other Restricted Accounts Fund.

Special Revenue Fund – Federal and Other Restricted Accounts:

As previously explained, during the audited years, Operating Fund Account activity was recorded by the Comptroller in a Special Revenue Fund titled "Federal and Other Restricted Accounts." The Operating Fund Account is primarily funded by internal Fund transfers of appropriations, coupled with fees collected by Charter Oak State College and the Connecticut Distance Learning Consortium. Operating Fund Account receipts, as recorded by the State Comptroller, totaled \$12,874,444 and \$12,861,078 for the fiscal years ended June 30, 2005 and 2006, respectively, compared with \$7,761,889 for the fiscal year ended June 30, 2004. Included in these amounts were transfers of General Fund appropriations, internal transfers between Charter Oak State College and the Connecticut Distance Learning Consortium, internal transfers of student financial aid funds received, among other things, all of which had the effect of greatly overstating actual Operating Fund receipts.

(In contrast, the Board's financial statements reported receipts, excluding General Fund appropriations and certain internal transfers, totaling \$5,741,695 and \$6,803,994 for the fiscal years ended June 30, 2005 and 2006, respectively.) There was a \$5,112,555 increase in receipts recorded in the fiscal year ended June 30, 2005, compared to the previous year. This was, in large part, due to an increase in the amount of Federal grants received as well as an increase in internal transfers recorded and recognized as receipts during the 2004-2005 fiscal year.

Auditors of Public Accounts

Expenditures charged to this Fund totaled \$12,626,541 and \$11,922,833, according to the Board's accounting records during the fiscal years ended June 30, 2005 and 2006, respectively. These totals included transfers between accounts and disbursements of student financial aid funds received, both of which had the effect of overstating actual expenditures. (In contrast, the Board's financial statements reported expenditures totaling \$7,806,821 and \$8,105,033 for the fiscal years ended June 30, 2005 and 2006, respectively.) A summary of Account expenditures is presented below:

	<u>2004-2005</u>	<u>2005-2006</u>
Personal services	\$3,746,692	\$4,341,298
Contractual services	2,594,679	2,491,331
Commodities	78,358	84,984
Sundry charges	5,924,010	4,955,649
Equipment and other	<u>282,802</u>	<u>49,572</u>
Total Expenditures	<u>\$12,626,541</u>	<u>\$11,922,834</u>

As presented above, Operating Fund Account expenditures totaled \$12,626,541 and \$11,922,834 for the fiscal years ended June 30, 2005 and 2006, respectively. Expenditures consisted primarily of costs for personal services, contractual services, and sundry charges. Contractual services were comprised primarily of fees for educational services and electronic data processing costs. Sundry charges were comprised primarily of student financial aid disbursements. Personal services expenditures rose \$594,606, or nearly 16 percent, during the fiscal year ended June 30, 2006, compared to the previous fiscal year. Growth in the number of full-time Board employees coupled with an increase in salaries consistent with the employee collective bargaining agreement contributed to this increase.

Special Revenue Fund – Capital Equipment Purchase Fund:

Capital Equipment Purchase Fund expenditures totaled \$202,723 and \$110,557 during the fiscal years ended June 30, 2005 and 2006, respectively. These expenditures were made for the purchase of electronic data processing hardware.

Student Trustee Account:

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 Charter Oak State 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, totaled \$11,497 and \$11,704 for the fiscal years ended June 30, 2005 and 2006, respectively. Major sources of receipts were student activity fees and funds raised from various student functions and activities.

Disbursements, according to financial statements prepared by the College, totaled \$10,970 and \$8,405 for the fiscal years ended June 30, 2005 and 2006, respectively. These expenditures consisted mostly of payments for 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, consistent with requirements of Section 4-37f, subsection (8), of the General Statutes, was performed by our Office for the fiscal year ended June 30, 2005. Our audit found that the Foundation complied in all material respects with Sections 4-37e through 4-37i of the General Statutes except for the following. We noted that the Foundation did not fully comply with Section 4-37f, subsection (7), of the General Statutes, which requires that such foundations use generally accepted accounting principles in their financial record-keeping and reporting. The Foundation did not report the value of unconditional promises to give in its financial statements for the fiscal year ended June 30, 2005. This matter is further discussed in the "Management Letter" section of our separate report on the Charter Oak State College Foundation, Inc. for the fiscal year ended June 30, 2005.

PROGRAM EVALUATION:

In accordance with Section 2-90 of the General Statutes, audits conducted by the Auditors of Public Accounts may include an examination of performance to determine an agency's effectiveness in achieving legislative purposes. We have conducted such a review at the Board. We found that Charter Oak State College, in its Distance Learning Course Schedule, directs its distance learning students to purchase textbooks from an online bookstore, MBS Direct, Inc., which is on contract with the Board. The contract between the Board and MBS Direct, Inc. runs from November 1, 2005 through October 31, 2008. Under the terms of the contract, the bookstore contractor would provide bookstore services to Charter Oak State College on an exclusive basis, while the College would receive a five percent commission based on net sales of textbooks sold to Charter Oak students and students would receive a five percent discount on books purchased.

Special Act No. 04-3, effective July 1, 2004, requires the Commissioner of Higher Education, in concert with certain of the State's higher education institutions, to examine ways to ensure that textbooks are sold at reasonable prices to students enrolled in higher education institutions. Accordingly, we have conducted an examination to determine whether or not the Board's bookstore

contractor is, in fact, selling textbooks to Charter Oak State College students at reasonable prices compared to other online bookstores.

We chose a cross-section of 14 textbooks required for a random sample of 14 Charter Oak State College Distance Learning courses offered during the Fall 2006 term. We then compared the prices of each new textbook in our sample (taking into account shipping and handling costs and discounts offered), as advertised by five online booksellers on August 31, 2006, including the following: MBS Direct, Inc. (the Board's bookstore on contract), another online bookstore that bid on the Board's bookstore contract, and three other online booksellers.

Our comparison of the aggregate prices of the sample of 14 textbooks sold by the five online bookstores disclosed that the Board's bookstore on contract, MBS Direct, Inc., ranked fifth. That is, the four other online bookstores in our sample sold the textbooks at lower prices in aggregate. The total prices for the 14 textbooks as advertised by our sample of five online bookstores amounted to \$960, \$1,031, \$1,036, \$1,102, and \$1,143 (the Board's bookstore net of commissions earned), respectively.

While the Board's bookstore contractor did not sell textbooks at the lowest prices compared to a sample of other online bookstores, the price differences among the bookstores in our sample were not very large. The aggregate difference in price between the lowest cost bookseller and the highest cost bookseller amounted to \$183 for our entire sample of 14 new textbooks. The median aggregate price for the sample of textbooks was \$1,036, compared to \$1,143 for the Board's contractor. We did, however, note that the Board's bookstore contractor ranked second in the availability of used textbooks, which if purchased by students, would contribute to reducing textbook costs. Seven of the 14 books in our sample were available in used book versions according to the MBS Direct bookstore Web site. Further, we noted that textbook pricing was one of the major criteria used in the Board's request for proposals during the bookstore selection process. In addition, the Board used the 5 percent commission earned on MBS Direct book sales to provide financial aid grants to students, further reducing student educational costs. We also noted that when the Board solicited proposals for its bookstore contract, four bidders responded, only two of which met the Board's standards; the Board selected the bidder who received good references with respect to student customer service. Therefore, considering all of the above, we concluded that the Board made a good faith effort to contract with a bookstore that sold textbooks at reasonable prices and to reduce students' educational costs in general. We would, however, suggest that in the future, the Board should quantify the factors that it considers when it decides to contract with a bookstore that does not provide the lowest cost of books. More specifically, the net effect of offering more used books and providing additional financial aid should be determined, applied to the price differences, and documented.

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.

Payroll Payment for Unused Vacation Leave:

- Criteria:* Article 17, Section 2, of the collective bargaining agreement between the Board for State Academic Awards, Charter Oak State College and Connecticut Distance Learning Consortium, and Charter Oak State College Professional Bargaining Unit (AFSCME, Local 1303-282 of Connecticut Council 4, AFL-CIO) provides that “an employee who has completed six (6) calendar months of continuous full-time service and who leaves State service shall receive a lump sum payment for accrued vacation.”
- Condition:* We found that, in May 2005, the Board underpaid one of its employees for the lump sum vacation leave payment at the employee’s retirement.
- Effect:* An employee was underpaid \$245 in gross pay for accrued vacation leave at retirement.
- Cause:* It appears that the Board used an incorrect vacation leave balance to calculate the vacation leave payment due. The Board used 175.275 hours but should have used 183.275 hours as the employee’s vacation leave balance.
- Recommendation:* The Board should take steps to ensure that payments to employees for accrued vacation leave are calculated correctly and should compensate any employees who were found to have been underpaid for such vacation leave. (See Recommendation 1.)
- Agency Response:* “The agency agrees with the condition outlined. Arrangements have been made to compensate the former employee the \$245.”

Longevity Payroll Payments:

- Criteria:* Article 14, Section 2, of the collective bargaining agreement between the Board for State Academic Awards, Charter Oak State College and Connecticut Distance Learning Consortium, and Charter Oak State College Professional Bargaining Unit (AFSCME, Local 1303-282 of Connecticut Council 4, AFL-CIO) states that “each employee who has completed not less than ten (10) years of State service shall receive semiannual lump-sum payments based on [years of] service completed as of April 1 and October 1 of each year.”

Condition: We noted that during the audited period, the Board used an incorrect formula to calculate longevity payroll payments for four employees who reached twenty years of State service. This resulted in underpayments to these employees ranging from approximately three to four dollars in gross pay each for each semiannual longevity period.

After we brought this matter to the Board's attention, we were informed that the Board made appropriate adjustments to the affected employees' longevity payments.

Effect: The Board did not pay longevity payments to certain employees in accordance with the applicable collective bargaining agreement. As result, some employees were underpaid.

Cause: It appears that this was an oversight on the Board's part.

Recommendation: The Board should review longevity payments made to employees at the twenty years of service rate to ensure that such payments agree with provisions of the applicable employee collective bargaining unit agreement. Further, the Board should compensate employees for any underpayments in longevity pay noted. (See Recommendation 2.)

Agency Response: "The agency agrees with the condition outlined. Calculations have been revised and employees have been compensated for all underpayments."

Dual Employment:

Criteria: Section 5-208a of the General Statutes requires, in cases where a State employee holds multiple job assignments at different State agencies or within the same State agency, certification that the duties performed and hours worked are not in conflict with the employee's primary responsibilities to the agency and certification that there is no conflict of interest between or among the positions.

Condition: Our audit disclosed two instances involving two employees where the Board approved dual employment situations after the dual employment period began. The delays ranged from seven days to more than one month.

Effect: Assurance was lessened that employees holding multiple State positions had no conflicting duties or schedules among or between the positions.

Cause: Procedures in place were not sufficient to ensure compliance with dual employment requirements.

Recommendation: The Board should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by properly documenting, through signed certifications, that no conflicts exist in instances where an employee holds multiple State positions.
(See Recommendation 3.)

Agency Response: “The agency agrees with the conditions outlined. Additional efforts will be made to notify employees that work for other State agencies to have the forms completed in a timely manner. It is difficult to control the timeliness of response of the dual State agency.”

Telecommuting:

Criteria: To better ensure that employee telecommuting agreements are consistent with the best interests of the agency, it is a good business practice for management to review and approve such agreements before the telecommuting period begins. Further, it is a good business practice for agency telecommuting policies to address the monitoring of suitability of work spaces for long distance telecommuters.

Condition: We noted four instances involving three employees in which management approved written telecommuting agreements after the telecommuting period began. The delays in approval ranged from four days to more than five months.

In addition, we found that a Board telecommuting employee resided in Georgia, a particularly remote location from the Board’s central office in New Britain, Connecticut and the employee’s supervisor’s office in Newington, Connecticut. Among the requirements included in the Board’s telecommuting policy is that, “The telecommuter shall maintain his/her in-home work station in a safe condition, free from hazards and other dangers to the employee and equipment.” However, Board policy does not require the monitoring of such instances. Further, it would appear to be impractical for the Board to monitor whether or not such employees maintain suitable work spaces.

Effect: After the fact approval of these agreements increases the risk that telecommuting could occur that might not be in the best interests of the agency.

Without adequate monitoring of the work spaces of long distance telecommuters, such employees may be using work spaces that are unsuitable in terms of employee safety, confidentiality of records, etc.

Cause: It appears that adequate controls were not in place to prevent the above

condition from occurring.

Recommendation: The Board should improve the timeliness of management review and approval of employee telecommuting agreements and should consider revising its telecommuting policy to require monitoring of the suitability of telecommuter workspaces. (See Recommendation 4.)

Agency Response: “In the future no telecommuting agreement will commence or be renewed until all the appropriate signatures are obtained. In addition, to assure that there is appropriate oversight for the Board’s telecommuting policy requiring that “the employee maintain his/her workstation in a safe condition, free from hazards and other dangers to the employee and equipment” employees will be required to submit a photo of the workstation each time a new telecommuting agreement is signed. The employee’s supervisor and the Chief Financial and Administrative Officer will review the photo for adequate workspace, a phone connection within or adjacent to the workspace, possible hazardous conditions, and surge protection for BSAA equipment.”

Federal Time and Effort Reporting:

Criteria: The Federal Office of Management and Budget Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements between the Federal government and educational institutions. Under this Circular, the method of distributing payroll charges must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. To accomplish this, institutional records must adequately document that payroll expenditures posted to an account were actually incurred in the course of carrying out the program accounted for in the account.

According to Circular A-21, to confirm that charges to a program represent a reasonable estimate of the work performed by the employee for the benefit of the program during the period, an acceptable method of documentation includes the use of statements signed by the employee, principal investigator, or responsible official(s), using suitable means of verification that the work was performed. Using this method, 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, there were several Board employees whose payroll costs were, at least in part, charged to a Federal program. However, we were told that the Board had no time and effort reporting system in place to properly document these Federal payroll charges. Circular A-21 provides that where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for

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

Effect: The Board did not fully comply with the Office of Management and Budget Circular A-21 requirements concerning the documentation of payroll distribution costs. This decreases assurance that payroll costs charged to Federal programs actually applied to those programs.

Cause: During the audited period, the Board had not yet implemented a Federal time and effort reporting system.

Recommendation: The Board should comply with the requirements of Federal Office of Management and Budget Circular A-21 by implementing a time and effort reporting system to better support its payroll charges to Federal programs. (See Recommendation 5.)

Agency Response: "The agency agrees with the conditions outlined. Future Federal grants will implement a time and effort reporting system to document payroll distribution costs."

Personal Services Contracts:

Criteria: Section 10a-151b of the General Statutes requires constituent units of the State's system of higher education to solicit competitive bids or proposals for purchases exceeding \$50,000. Such bids or proposals must be inserted at least once in two or more publications, including one major daily newspaper published in the State, and posted on the Internet, at least five calendar days before the final date of submitting bids or proposals.

Section 1-84, subsection (i), of the General Statutes provides that, "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 or 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."

Condition In March 2006, the Board awarded a contract to a vendor for the purchase of a new student information system. The contract amounted to \$560,688. While we were told that the Board advertised for bids via the Internet, and we reviewed documentation of bids received, the Board did

not advertise for bids in two or more publications, including one major daily newspaper published in the State, as required by Section 10a-151b of the General Statutes.

In addition, in March 2006, the Board entered into an agreement with one of its employees to provide educational workshop services for Charter Oak State College students. In return, the Board would pay the employee, through its student activity account, \$500 for these services. We were told that the Board selected the contractor, a State employee, without putting the contract out to bid, as required by Section 1-84 of the General Statutes.

Effect: In regards to the Board's agreement with the student information system contractor, the Board did not fully comply with the bidding requirements provided by Section 10a-151b of the General Statutes.

With respect to the Board's contract with one of its own employees, the Board did not fully comply with the requirements of Section 1-84, subsection (i), of the General Statutes. That is, the Board awarded a contract totaling \$100 or more to a State employee without using an open and public award process. This creates at least the appearance of a conflict of interest.

Cause: The lack of advertising for student information system bids in two or more major State publications appears to have been an oversight on the Board's part.

We were told that the employee who was awarded the contract to perform an academic workshop for students was the logical choice because of her experience and because she had led other successful work shops for the Board.

Recommendation: The Board should ensure that it advertises for bids in two or more major State publications before making purchases exceeding \$50,000 in amount, as required by Section 10a-151b of the General Statutes. Further, when awarding contracts to State employees, the Board should take steps to ensure that such contracts are awarded in an open and competitive manner, when required by Section 1-84 of the General Statutes. (See Recommendation 6.)

Agency Response: "The agency agrees with the conditions outlined. Purchases of over \$50,000 will be advertised in two or more publications, including one major daily newspaper published by the State. Personal service agreements of over \$100 will not be given to employees unless the contract is put out to bid."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Board should continue to take steps to improve internal controls over the procurement process.** There was some improvement noted in the timeliness of personal services agreement approvals; however, some additional weaknesses were noted in other aspects of personal services purchasing. Therefore, the recommendation is being repeated with modification. (See Recommendation 6.)
- **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.** Improvement was noted in this area; the recommendation is not being repeated.
- **The Board should ensure that financial information submitted as a component of its GAAP reporting to the State Comptroller contains accurate information.** Our current audit disclosed improvement in the accuracy in GAAP reporting. The recommendation is not being repeated.

Current Audit Recommendations:

1. **The Board should take steps to ensure that payments to employees for accrued vacation leave are calculated correctly and should compensate any employees who were found to have been underpaid for such vacation leave.**

Comment:

An employee who retired during the audited period was underpaid for her accumulated vacation leave at retirement.

2. **The Board should review longevity payments made to employees at the twenty years of service rate to ensure that such payments agree with provisions of the applicable employee collective bargaining unit agreement. Further, the Board should compensate employees for any underpayments in longevity pay noted.**

Comment:

Our testing disclosed that the Board used an incorrect formula to calculate longevity payroll payments for employees who reached twenty years of State service. This resulted in small underpayments to the affected employees.

3. **The Board should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by properly documenting, through signed**

certifications, that no conflicts exist in instances where an employee holds multiple State positions.

Comment:

At times, the Board provided certified approval of dual employment situations after the dual employment periods had already begun.

- 4. The Board should improve the timeliness of management review and approval of employee telecommuting agreements** and should consider revising its telecommuting policy to require monitoring of the suitability of telecommuter workspaces.

Comment:

In some instances, management provided written approval of written employee telecommuting agreements after the telecommuting period had already begun. Also, the Board's telecommuting policy did not address, and the Board did not perform, monitoring of telecommuter work spaces for suitability.

- 5. The Board should comply with the requirements of Federal Office of Management and Budget Circular A-21 by implementing a time and effort reporting system to better support its payroll charges to Federal programs.**

Comment:

Though some employee payroll costs during the audited period were charged to a Federal program, the Board had not implemented a time and effort reporting system to document such charges, as required by Office of Management and Budget Circular A-21.

- 6. The Board should ensure that it advertises for bids in two or more major State publications before making purchases exceeding \$50,000 in amount, as required by Section 10a-151b of the General Statutes. Further, when awarding contracts to State employees, the Board should take steps to ensure that such contracts are awarded in an open and competitive manner, when required by Section 1-84 of the General Statutes.**

Comment:

In March 2006, the Board awarded a contract to a vendor for the purchase of a new student information system amounting to \$560,688. While we were told that the Board solicited bids via the Internet for this purchase, the Board did not advertise for bids in State publications as required by Section 10a-151b of the General Statutes. In addition, in March 2006, the Board contracted with one of its employees to provide educational workshop services for Charter Oak State College students amounting to \$500. However, we were told that the Board selected the contractor, a State employee, without using an open and competitive process, as required by Section 1-84 of the General Statutes.

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, 2005 and 2006. 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. The financial statement audits of the Board for State Academic Awards for the fiscal years ended June 30, 2005 and 2006, 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 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, 2005 and 2006, 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 controls 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 controls over those control objectives.

Our consideration of the internal controls over the Board's financial operations and over compliance would not necessarily disclose all matters in the internal controls that might be material or significant weaknesses. 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 failure 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 by the entity being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal controls that we consider to be material or significant weaknesses.

However, we noted certain other matters involving the internal controls over the Board's financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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.

Daniel F. Puklin
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts