

STATE OF CONNECTICUT



*AUDITORS' REPORT
BOARD FOR STATE ACADEMIC AWARDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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We have examined the financial records of the Board for State Academic Awards for the fiscal years ended June 30, 2009 and 2010.

Financial statement presentation and auditing are performed 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 (Charter Oak) and the Connecticut Distance Learning Consortium, is to provide diverse and alternative means for adults to pursue 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 undergraduate and graduate credits and degrees through Charter Oak State College.

The board appoints the agency's executive director. Edward Klonoski 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 shall be appointed by the Governor and shall reflect the state's geographic, racial and ethnic diversity, one of whom shall be an alumnus of Charter Oak State College. The ninth member is to be elected by the students enrolled in Charter Oak State College. Members of the board as of June 30, 2010, were as follows:

Lenny Winkler, Chairperson
Jerry Long, Vice Chairperson
John Padilla, Secretary
Eric Janney, Esq.
Michael Nicaastro
Kathleen Richards
John Whitcomb
Nancy Whitehead (alumni member)
Lisa Wildman (student member)

John Titley, Esq., Elizabeth Alquist, Esq., and Astrid Hanzalek also served on the board during the audited period.

Recent Legislation:

The following notable legislative changes affecting the board took effect during the audited period, and thereafter:

- Public Act No. 09-2, September Special Session – Effective September 25, 2009, Section 27 of this act states that up to \$2,500,000 in state bond sale proceeds may be used by Charter Oak State College for the planning, design, and construction of a new facility.
- Public Act No. 09-7, September Special Session – Effective October 5, 2009, Section 43 of this act requires the Board of Trustees of Charter Oak State College and the Commissioner of Correction, within available appropriations, to enter into a memorandum of understanding for the purpose of implementing an online learning program for inmates, which shall focus on the completion of high school credit requirements, preparation for the General Educational Development test, and Adult High School Credit Diploma Program courses. On or before January 1, 2010, and quarterly thereafter until June 30, 2011, the board of trustees and the Commissioner of Correction shall submit progress and statistical reports on the program to the joint standing committees of the General Assembly.
- Public Act No. 09-159 – Effective July 1, 2009, Sections 1 and 2 of this act modifies Section 10a-141 of the General Statutes, explicitly authorizing the Board for State Academic Awards to award undergraduate and graduate credits and degrees through courses offered by Charter Oak State College, and allows consulting examiners to recommend the award of undergraduate and graduate credits and degrees.

Enrollment Statistics:

Enrollment statistics compiled by Charter Oak State College indicated that average annual student enrollment totaled 2,600 and 3,262 for the fiscal years ended June 30, 2009 and 2010, respectively. Degrees awarded during the above fiscal years totaled 484 and 469, respectively, of which 834 were bachelor's degrees and 119 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. It accounts for most of the receipts and expenditures of the board.

During the audited period, Operating Fund Account activity was recorded in a 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 expenditures during the fiscal years ended June 30, 2009 and 2010, totaled \$2,712,793 and \$2,847,633, respectively, compared to \$2,842,368 during the fiscal year ended June 30, 2008. 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 in the state's accounting records, totaled \$13,117,265 and \$15,171,103 for the fiscal years ended June 30, 2009 and 2010, respectively, compared to \$13,730,064 for the fiscal year ended June 30, 2008. 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 inflating actual operating fund receipts. In contrast, the board's unaudited financial statements reported receipts, excluding General Fund appropriations and certain internal transfers, totaling \$8,523,484 and \$9,607,907 for the fiscal years ended June 30, 2009 and 2010, respectively. These totals represented a decrease of \$612,799, or roughly four and a half percent, and an increase of \$2,053,838, or slightly more than 15 and a half percent, during the respective audited years.

The decrease in receipts during the fiscal year ended June 30, 2009, can, in large part, be attributed to the decrease in internal transfers recorded and recognized as receipts. Additionally,

there was a decline in the amount of Early Childhood Environmental Rating Scale (ECERS) grant funding received by the board, as the program was in its final year. The increase in receipts during the fiscal year ended June 30, 2010, can be primarily attributed to the increase in federal student financial assistance received by the board. This increase was fueled by significant growth in the number of enrolled students during the fiscal year.

Expenditures charged to this fund totaled \$13,955,646 and \$14,831,163, during the fiscal years ended June 30, 2009 and 2010, respectively, according to the state's accounting records. 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 unaudited financial statements, which excluded such transfers, reported expenditures totaling \$9,326,349 and \$9,178,080 for the fiscal years ended June 30, 2009 and 2010, respectively. A summary of account expenditures for the fiscal years examined and the prior fiscal year is presented below:

	<u>2007 - 2008</u>	<u>2008 - 2009</u>	<u>2009 - 2010</u>
Personal Services	\$ 5,533,081	\$ 5,621,850	\$ 5,656,336
Contractual Services	4,441,301	3,961,702	4,019,408
Commodities	109,091	125,623	128,820
Sundry Charges	2,857,133	3,937,981	4,941,529
Equipment and Other	<u>46,027</u>	<u>308,490</u>	<u>85,070</u>
Total Expenditures	<u>\$ 12,986,633</u>	<u>\$ 13,955,646</u>	<u>\$ 14,831,163</u>

As presented above, Operating Fund Account expenditures totaled \$13,955,646 and \$14,831,163 for the fiscal years ended June 30, 2009 and 2010, respectively, compared to \$12,986,633 during the fiscal year ended June 30, 2008. These totals represent an increase of \$969,013, or nearly seven and a half percent, and an increase of \$875,517, or roughly six and one quarter percent, respectively, during the audited years. 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.

The increase in expenditures during the fiscal year ended June 30, 2009, was caused, for the most part, by a rise in federal student financial assistance disbursed by the board, which correlates with the growth in enrolled students. Additionally, an increase in pass-through grant funding contributed to the rise in board expenditures during the 2009 fiscal year. An increase in federal student financial assistance disbursed by the board, which was driven by significant growth in the number of enrolled students, contributed, in large part, to the increase in board expenditures during the fiscal year ended June 30, 2010.

Special Revenue Fund – Capital Equipment Purchase Fund:

Capital Equipment Purchase Fund expenditures totaled \$55,016 and \$419,848 during the fiscal years ended June 30, 2009 and 2010, respectively. These expenditures were made primarily for the purchase of electronic data processing hardware and software.

Student Trustee Account:

Established and operated under the provisions of Sections 4-52 through 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 Charter Oak administration.

Receipts, as presented in financial records prepared by Charter Oak, totaled \$9,410 and \$10,734 for the fiscal years ended June 30, 2009 and 2010, respectively. Major sources of receipts included student activity fees and funds raised from various student functions and activities.

Disbursements, according to financial records prepared by Charter Oak, totaled \$7,920 and \$7,770 for the fiscal years ended June 30, 2009 and 2010, respectively. These expenditures consisted primarily of payments for student activities and scholarships.

Charter Oak State College Foundation, Inc.:

The Charter Oak State College Foundation, Inc., 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 4-37k of the General Statutes define and set requirements for such state organizations. The requirements address 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 audit report criteria, written agreements concerning the use of facilities and resources, compensation of state officers or employees, and the state agency's responsibilities with respect to affiliated 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 years ended June 30, 2009 and 2010. Our audit concluded that the foundation complied in all material respects with Sections 4-37e through 4-37i of the General Statutes. However, the audit disclosed several other, immaterial exceptions that are discussed in the Management Letter section of our separate reports on the Charter Oak State College Foundation, Inc. for the fiscal years ended June 30, 2009 and 2010.

CONDITION OF RECORDS

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

Personal Service Agreements and Other Procurement:

Criteria: It is good business practice to ensure that a written personal service agreement is in place and signed by all relevant parties before related services are provided.

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. The 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.

Condition: Our audit of 30 purchases made during the audited period disclosed three instances in which written personal service agreement contracts totaling \$87,950 were not executed in a timely manner. In two cases, personal service agreements totaling \$38,750 were signed by the Attorney General's office five and six business days after the start of the contract period. In the third case, a personal service agreement totaling \$49,200 was signed by the board five business days after the start of the contract period.

We also noted one instance in which the board awarded a contract whose value was not to exceed \$195,201 without advertising for bids in at least two major publications in the state. Section 10a-151b of the General Statutes requires such advertising when contracts are expected to exceed \$50,000. The board did, however, solicit bids through the Internet via the Department of Administrative Services' state Contracting Portal.

Effect: In some instances, internal controls over personal service agreements were weakened. Specifically, the instance in which a personal service agreement was approved by the board after the contract period had begun lessened assurance that the terms of the personal service agreement met the approval of the board's administration prior to the performance of the contract.

With respect to the case in which the board did not fully comply with the statutory advertised bid requirements for purchases expected to exceed \$50,000, the likelihood that the board purchased these services at the best price was reduced.

Cause: It appears that internal controls in place were not sufficient to prevent the above conditions from occurring.

Regarding the instance in which the board was not in full compliance with the bidding requirements of Section 10a-151b, we were informed that the board was under the impression that Public Act No. 09-7 modified the bidding requirements so that advertising in two or more publications was no longer necessary. However, Public Act No. 09-7 only affected Section 4a-57 of the General Statutes with respect to bidding requirements. Therefore, the board was still required to advertise in at least two publications per Section 10a-151b of the General Statutes.

Recommendation: The Board for State Academic Awards should ensure that written personal service agreements are signed by all relevant parties prior to the commencement of corresponding services. In addition, the board should advertise for bids in the publications specified by Section 10a-151b of the General Statutes before making purchases exceeding \$50,000 in amount. (See Recommendation 1)

Agency Response: “Charter Oak College applied Public Act No. 09-7 to the advertising requirements for bids. The public act no longer required advertisements in newspapers. The College now recognizes that the agency still falls under the higher education bidding requirements of 10a-151b and not under general state agency requirements.

The agency will more closely monitor the start of work performed under a personal services agreement until all signatures are applied to the agreement.

These issues have been resolved.”

Property Control:

Criteria: The State Property Control Manual, under authority of Section 4-36 of the General Statutes, sets forth criteria and policies over assets owned or leased by a state agency. Requirements include, among other things, that capital equipment with a cost of \$1,000 or more and certain other controllable items, be recorded in property control records and tagged with state identification numbers.

Proper internal controls over property control dictate that deletions and additions of capital/controllable equipment items be promptly entered into property control records to ensure that they are kept up-to-date.

Condition: Our review of property control records disclosed 125 instances in which the board donated capital/controllable equipment, with a historical cost totaling \$490,830, and the items were either indicated as disposed of prior to their donation or remained on the board's property control records for a period of time after the items were donated. It should be noted that the market value of the items donated was less than their historical cost. In 120 of these instances, as of February 28, 2011, equipment totaling \$478,430 had been donated by the board between July 2010 and December 2010, and remained active on its property control records. We also noted that seven of the donated equipment items had no values listed. Furthermore, eight of the equipment items, totaling \$15,848, were donated in March 2010 but were still included in the board's Fixed Asset/Property Inventory Report (CO-59) for fiscal year 2010, which, in effect, overstated total assets by \$15,848.

In one of these instances, a piece of capital equipment, with a historical value of \$3,780, was recorded in the board's property control records as donated during the 2009 fiscal year. However, the item was actually picked up for donation in fiscal year 2008 and, as such, should have been recorded as disposed in the board's property control records at that time. In effect, the beginning balance on the board's CO-59 for fiscal year 2009 was overstated by \$3,780.

In four instances, capital/controllable equipment, with a total historical value of \$8,620, was recorded in the board's inventory control records as donated by the board during the 2009 fiscal year. However, the recipient did not pick up this equipment until fiscal year 2010. Two of these items, valued at \$2,800 in aggregate, were recorded as donated in April 2009 but were not picked up until March 2010, roughly 11 months later. The other two items, totaling \$5,820, were listed as donated in June 2009 but were not picked up until December 2010, nearly one and a half years later. In effect, the ending balance of the board's CO-59 for the 2009 fiscal year and the beginning balance of its CO-59 for the 2010 fiscal year were understated by \$8,620. Further, the ending balance of the board's CO-59 for the 2010 fiscal year was understated by \$5,820.

Also, we located six capital/controllable equipment items in locations different than those indicated in the board's property control records. These six items consisted of IT equipment with a historical cost totaling \$237,894.

In addition, our audit disclosed eight instances in which capital/controllable equipment was recorded in the board's property control records at the incorrect value. These eight items consisted of computers, printers, and digital cameras and, in each case, were listed

with a value of \$1.

Further, our audit of ten equipment disposals disclosed ten instances in which supporting documentation of the approval to donate the equipment tested, with a historical cost of \$20,962 in aggregate, could not be provided to us. The board informed us that approval to donate these items was granted; however, without supporting documentation, we could not determine with certainty that approval was obtained.

Effect: The board did not fully comply with the property control requirements set by the State Comptroller. This subjected the board's equipment to increased risk of loss or theft. Further, the board reported incorrect amounts on its CO-59 with respect to capital equipment it owned during the fiscal years ended June 30, 2009 and 2010.

Cause: Regarding the issues with the equipment disposals, we were informed that the majority of the issues were the result of role changes in Core-CT. After Asset Management and Inventory Directive #2a was issued, the employee who had previously been assigned the role of entering equipment disposals had his access removed in accordance with the directive. Further, this access was not assigned to another employee for roughly four-months. During that time, donations and disposals of equipment were not recorded into Core-CT. In addition, we were told that, in a few of the instances noted, the employee entering the disposal information into Core-CT overlooked the items.

We were informed that the equipment found in a different location than indicated in the board's property control records was most likely caused by a miscommunication between the department moving the equipment and the employee entering the location of the equipment into Core-CT.

Regarding the eight equipment items with a recorded cost of \$1, we were told that the board had not previously considered these items controllable, and did not track them in its property control records. However, it recently decided to start tracking these items, but because they had been purchased a few years back with purchasing cards, the historical cost was not readily available, therefore, a default value of \$1 was used. We were also informed that the board was in the process of reviewing its purchasing card statements to identify the historical costs of these items so it can be entered into Core-CT.

With respect to the ten equipment items that were donated without documentation of approval, we were told that approval for donations and other equipment disposals was given orally in the past.

Recommendation: The Board for State Academic Awards should improve internal controls over equipment by following the policies and procedures established by the State Property Control Manual. Specifically, the board should ensure that its property control records are kept up-to-date with respect to the locations, values, and status of its assets. (See Recommendation 2)

Agency Response: “The agency agrees with the findings and recommendations. The organization has made many changes to assure that property control records and inventory value amounts are accurate. The internal roles outlined in Asset Management and Control Directive #2 have been clarified and this has resulted in appropriate additions and deletions of inventory items in Core-CT. Procedures regarding equipment donations have also been clarified and these changes now require written authorization of surplus equipment, the development of an accurate listing of donated equipment, a sign off by the donor of all equipment received, and timely and appropriate deletions of donated equipment from inventory records. A process was also instituted with the IT department to report the change of location of equipment to appropriately update property location records. Controllable equipment is now reported for inventory control after review of all P-Card purchases on a monthly basis.

These issues have been resolved.”

Information System Access Controls:

Background: Regarding information systems, the Board for State Academic Awards primarily uses Core-CT, the state’s information system, to maintain its accounting records. However, during the audited period, the board implemented a new information system, Jenzabar, to maintain student academic records and track receipts. This new system does not replace Core-CT, but instead supplements it by allowing the board to more easily track additional information for operational and planning purposes.

Criteria: Access to information systems should be limited to only appropriate employees who need access. Further, access should be limited by requiring documented approval from an authorized employee to grant access to the system.

A good internal control system requires a separation of duties among employees so that certain incompatible functions, such as authorizing, recording, and reviewing transactions, are not performed by the same employee. Payroll and human resources functions are included among the duties that should be separated. Such a separation reduces the risk of error or fraud.

Condition: Our audit of the board’s information technology systems disclosed three instances in which employees were granted Agency HR Specialist, Agency Payroll Specialist, and Agency Time and Labor Specialist roles in the state’s Core-CT information system. In other words, these employees had write access to both the Core-CT human resources and payroll modules, which enabled them to add employees to payroll and process payments to them. We also noted that one of these employees did not appear to require this access, nor did this access appear appropriate.

In addition, our testing disclosed one instance in which an employee separated from the board and the employee’s access to Core-CT was not terminated in a timely manner. The board terminated the employee’s access 79 business days after the employee left.

Further, we noted ten instances in which employees were granted access to the Jenzabar information system and the board was unable to provide us with supporting documentation that such access was approved by the appropriate personnel.

Effect: Unnecessary or inappropriate access to information systems could increase the risk of data system errors and fraud.

Cause: With respect to the three employees granted write access to the Core-CT human resources and payroll system, we were informed that when this access was initially assigned, the board felt that the access was necessary to provide adequate backup when employees are absent from work. We were also informed that the board is currently in the process of evaluating the roles assigned to these employees, and, most likely, will limit or remove some of the access assigned. Further, we were told that the board plans to develop and implement compensating controls in this area to lessen the risk of fraud or error.

Regarding the lack of documentation for approval of Jenzabar system access granted to employees, we were informed that the board approved access via email. However, the board did not retain these emails.

Recommendation: The Board for State Academic Awards should regularly review information system access privileges granted to employees to determine whether such access is appropriate. Further, the board should ensure that it documents approval granted for information system access, and should remove access privileges from those employees who have unnecessary access to these systems. (See Recommendation 3)

Agency Response: “The Core-CT issues were resolved during the audit visit by reassigning access rights to personnel that would not give employees overlapping

access to the HR Human Resources and Payroll modules of Core-CT.

Access to Core-CT is routinely removed when an employee leaves the agency.

The Jenzabar access issues have been resolved by a more formal process for access to Jenzabar modules.

These issues have been resolved.”

Federal Time and Effort Reporting:

Criteria: Title 2 in the Code of Federal Regulations, Part 220, establishes principles for determining costs applicable to grants, contracts, and other agreements between the federal government and educational institutions. Under this regulation, payroll charges to federal programs must be supported by a system of after-the-fact confirmation.

According to 2 CFR, Part 220, 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 must be in place. This 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.

Condition: During the audited period, there were several board employees whose payroll costs were, at least in part, charged to federal programs. However, while reviewing the time and effort reporting system implemented by the board to document payroll charges to these federal programs, we noted that it did not fully satisfy the requirements of Title 2 of the Code of Federal Regulations, Part 220. Specifically, the time and effort reporting system in place tracked employee hours charged to federal programs; however, it did not provide signed certification that the employee’s payroll expenditures were charged to the activities or programs on which the employee actually worked.

Effect: The board did not fully comply with 2 CFR, Part 220 requirements concerning the documentation of payroll costs. This decreases assurance that payroll costs charged to federal programs actually applied to those programs.

Cause: We were informed that the board felt the time and effort reporting system in place was sufficient to satisfy the reporting requirements of 2 CFR, Part 220.

Recommendation: The Board for State Academic Awards should continue its efforts to implement a federal time and effort reporting system that fully complies with the requirements of Title 2 of the Code of Federal Regulations, Part 220, with respect to supporting documentation for payroll charges to federal programs. (See Recommendation 4)

Agency Response: “Since the employee enters their hours into Core-CT through self-service and the supervisor then approves those hours through self-service, the agency concluded that the Title 2 of the Code of Federal Regulations, Part 220, was satisfied as “signature”. The agency believed that the federal time and reporting system related to 2 CFR, Part 220 were resolved prior to the end of the 2008-2009 audit cycle. When the signatures of the supervisor was mentioned as required specifically for the hours worked under federal funds, the agency changed their reporting process during the 2009-2010 audit cycle. Supervisors now sign off on the federal grant hours per payroll cycle for each employee assigned.

The issue has been resolved.”

Purchasing Cards:

Criteria: The State of Connecticut’s Purchasing Card Program Agency Purchasing Card Coordinator Manual states that each transaction is not to exceed \$1,000 for commodities.

The Board for State Academic Awards’ purchasing card procedures outline the goods and services that may and may not be purchased with a purchasing card. Included in the list of items that may not be purchased are capital/controllable inventory items. Additionally, these policies require that purchasing card log reconciliations be approved by a supervisor or reviewer.

Proper internal controls require that purchasing card reconciliations be reviewed to ensure that they are completed and accurate before the processing of a payment. This review should be documented with the signature of the reviewer.

Condition: Our audit of 105 individual cardholder statements disclosed 11 instances in which purchasing card log reconciliations containing purchases totaling \$8,328, were not completed, approved in an untimely manner, or not approved by a supervisor or reviewer. The issues noted regarding reconciliations are outlined as follows:

- Five instances in which log reconciliations containing purchases totaling \$4,086 were approved by a supervisor or reviewer between

13 and 109 business days after they had been completed, and between ten and 100 business days after payment was issued to the purchasing card vendor;

- Two instances in which log reconciliations containing purchases totaling \$2,821 were completed five and 17 business days and approved 17 business days after payment had been issued to the purchasing card vendor;
- Three instances in which log reconciliations containing purchases totaling \$792 were not signed as certification of approval by a supervisor/reviewer. It was also noted that the board issued payment to the purchasing card vendor without the approved reconciliations on file; and
- One instance in which an employee's log reconciliation for the period ended November 2009 containing purchases totaling \$629 was not on file. However, it should be noted that subsequent to our inquiry about this matter, a reconciliation was completed in May 2011 and provided to us with all supporting documentation.

Additionally, our testing disclosed one instance in which a purchase was split between two purchasing cards in order to circumvent the \$1,000 single purchase limit. In this instance, two employees split the purchase of \$1,533 worth of promotional items between their two purchasing cards.

Further, we noted four instances in which purchasing cards were used to make restricted purchases amounting to \$2,666 in total. In one instance, an employee used his purchasing card to purchase two laptop computers costing \$1,808 in total. In another instance, an employee used his purchasing card to purchase two netbook computers costing \$858 in total. The board considered such items controllable items; the board's purchasing card policy expressly prohibits the purchase of controllable items via purchasing cards.

Effect: In some cases, the board was not in full compliance with its own or the state's purchasing card policies.

With respect to the issues with purchasing card reconciliations, there was less assurance that the purchases made complied with the board's policies prior to the issuance of the payment for the purchases made.

Cause: It appears that the board, at times, might have overlooked the various policies set forth in its purchasing card procedures.

Recommendation: The Board for State Academic Awards should take steps to strengthen controls over purchasing card transactions by ensuring compliance with its own purchasing card procedures. (See Recommendation 5)

Agency Response: “The agency applied the state’s acceptable uses of a P-Card for purchasing that allowed for the purchase of controllable items in lieu of the more restrictive Board policy. Shortly after the issue was discussed during the audit cycle, the Board approved a revised policy that allows for the purchase of items consistent with state policies.

A P-Card workshop was also held that stressed the importance of the timely receipt of P-Card purchase documentation with appropriate signatures prior to the processing of payment to the credit card vendor and the acceptable uses of the card. Staff that was unable to complete this task was told that their P-Card privileges would be cancelled if compliance to the policy was not followed. Late reporters (past the due date of materials in the business office but before payment is required) are reported to the CFAO for follow-up.

These issues have been resolved.”

Telecommuting Agreements:

Criteria: To better ensure that written employee telecommuting agreements are consistent with the best interest of the agency, it is good business practice for management to review and approve such agreements before the telecommuting period begins.

Condition: Our audit of five telecommuting agreements disclosed two instances in which management did not approve the renewal of written telecommuting agreements in a timely manner. The approvals were obtained 75 business days and nearly 11 and a half months after the agreements in place expired. In both instances, the employees were allowed to continue telecommuting without renewed contracts in place.

Effect: After-the-fact approval to renew these agreements increases the risk that telecommuting could occur that might not be in the best interest of the board.

Cause: It appears that adequate controls were not in place to prevent the above conditions from occurring.

Recommendation: The Board for State Academic Awards should improve the timeliness of management review and approval of employee telecommuting agreements. (See Recommendation 6)

Agency Response: “After the audit cycle, the renewals of telecommuting agreements were tied to the annual appraisal process. Supervisors that were pleased with the results of the work performed with the agreement were granted approval for renewal by a written recommendation in the appraisal.

Signatures for new agreements are monitored more carefully to assure the appropriate signatory approvals are completed prior to the start of telecommuting.

These issues have been resolved.”

Payment for Unused Sick Leave at Retirement:

Criteria: Article 18, Section 4, paragraph (b), of the collective bargaining agreement between the Board for State Academic Awards, Charter Oak State College and Connecticut Distance Learning Consortium, and the Charter Oak State College Professional Bargaining Unit (AFSCME, Local 1303-282 of Connecticut Council 4, AFL-CIO) provides certain payments for unused sick leave. After completion of ten years of state service and upon retirement from the state, eligible employees in Charter Oak State College shall be paid one-fourth of the employees’ daily salary for each day of sick leave accrued, up to a maximum payment equivalent to 60 days’ pay.

Condition: Our audit of leave time payments due to four employees whose employment by the board ended during the audited period disclosed one instance in May 2010, in which the board overpaid one of its employees for accrued sick leave at retirement. The overpayment amounted to \$8,835 in gross pay.

Effect: In one instance, the board did not comply with the provisions of the collective bargaining agreement in place with respect to payments to employees for accrued sick leave at retirement. This lack of compliance resulted in the employee being overpaid \$8,835.

Cause: It appears that the board used this employee’s total accrued sick leave balance to calculate the retirement payment instead of limiting the employee’s balance to a maximum of 60 days (480 hours) as specified in the board’s collective bargaining agreement.

Resolution: Shortly after informing the board of this issue, it contacted the retired employee and requested the return of excess funds paid upon retirement. In July 2011, the board received a reimbursement check from the retired employee in the amount of the overpayment.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Board should ensure that written personal service agreements are signed by all relevant parties prior to the commencement of corresponding services. In addition, the Board should advertise for bids in the publications specified by Section 10a-151b of the General Statutes before making purchases exceeding \$50,000. 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. Also, the Board should retain documentation supporting that such contracts were awarded in an open and competitive manner.** Our current audit of this area disclosed three instances in which personal service agreements were not executed in a timely manner. Additionally, we noted instances of noncompliance with purchasing statutes. However, it appears that significant improvement was made with respect to compliance with the requirements of Section 1-84 of the General Statutes. Therefore, the recommendation is being repeated with modification to reflect our current audit findings.
- **The Board should improve internal controls over equipment by following the policies and procedures established by the State Property Control Manual. Specifically, the Board should ensure that all capital/controllable equipment is tagged with state identification numbers in visible locations and that lost, stolen, or damaged equipment items are immediately reported to the appropriate state agencies when the Board becomes aware of such instances.** During our current audit, we noted slight improvement in this area with respect to tagging capital/controllable equipment. However, we noted a number of other issues during our testing that we feel need improvement. Therefore, the recommendation is being repeated with modification to reflect our current audit findings.
- **The Board should comply with the requirements of Title 2 of the Code of Federal Regulations, part 220 by implementing a time and effort reporting system to better support its payroll charges to federal programs.** Our current audit disclosed that the board implemented a federal time and effort reporting system to track its payroll charged to federal programs. However, the system in place did not fully satisfy the requirements of Title 2, part 220, of the Code of Federal Regulations. Specifically, the system lacked the required employee and supervisor signatures certifying that the time charged to the specific federal program was actually worked by the employee. Therefore, we feel that further improvement is needed in this area. The recommendation is being repeated with modification to reflect our current audit findings.
- **The Board should improve the timeliness of management review and approval of employee telecommuting agreements.** Our current audit disclosed that sufficient improvement has not been made in this area. The recommendation is being repeated with modification to reflect our current audit findings.

Current Audit Recommendations:

1. **The Board for State Academic Awards should ensure that written personal service agreements are signed by all relevant parties prior to the commencement of corresponding services. In addition, the board should advertise for bids in the publications specified by Section 10a-151b of the General Statutes before making purchases exceeding \$50,000 in amount.**

Comment:

Our audit disclosed three instances in which personal service agreements were not executed in a timely manner. Additionally, we noted an instance in which the board did not fully comply with the bidding requirements of Section 10a-151b of the General Statutes.

2. **The Board for State Academic Awards should improve internal controls over equipment by following the policies and procedures established by the State Property Control Manual. Specifically, the board should ensure that its property control records are kept up-to-date with respect to the locations, values, and status of its assets.**

Comment:

In some instances, the locations or values of assets were entered incorrectly into the board's property control records. In addition, we noted various instances in which assets were identified as in service in the board's property control records when the assets had been donated. We also noted a number of instances in which items were identified as disposed in the board's property control records, but were not actually disposed by the board until a much later date.

3. **The Board for State Academic Awards should regularly review information system access privileges granted to employees to determine whether such access is appropriate. Further, the board should ensure that it documents approval granted for information system access, and should remove access privileges from those employees who have unnecessary access to these systems.**

Comment:

We noted that three employees had either incompatible (from an internal control standpoint) or unnecessary access to the Core-CT human resources management system during the audited period. We also noted various instances in which employees were granted access to the Jenzabar information system but no documentation was on file verifying that the access was approved.

- 4. The Board for State Academic Awards should continue its efforts to implement a federal time and effort reporting system that fully complies with the requirements of Title 2 of the Code of Federal Regulations, Part 220, with respect to supporting documentation for payroll charges to federal programs.**

Comment:

During the audited period, there were employees whose salaries were, at least in part, charged to federal programs. However, the time and effort reporting system implemented by the board did not fully satisfy the documentation requirements set forth in the Code of Federal Regulations.

- 5. The Board for State Academic Awards should take steps to strengthen controls over purchasing card transactions by ensuring compliance with its own purchasing card procedures.**

Comment:

We noted instances in which purchasing card reconciliations were either not completed, or approved by a supervisor or reviewer in an untimely manner. We also noted that purchasing card documentation was missing; a purchase split between two separate purchasing cards, circumventing the \$1,000 single purchase limit; and purchases made that were not allowed according to the board's purchasing card policies.

- 6. The Board for State Academic Awards should improve the timeliness of management review and approval of employee telecommuting agreements.**

Comment:

In some instances, management did not provide written approval of the renewal of employee telecommuting agreements in a timely manner. Additionally, in the instances noted, the employees continued to telecommute without an approved telecommuting agreement in place.

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, 2009 and 2010. This audit was primarily limited to performing tests of the board's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the board's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the board are complied with, (2) the financial transactions of the board are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2009 and 2010, 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 grant agreements, and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

Management of the Board for State Academic Awards is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Board for State Academic Awards' internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the board's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Board for State Academic Awards' internal control over those control objectives.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the board's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the board's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendation 1 – weaknesses in controls and lack of statutory compliance in the areas of personal service agreements and other contracting, Recommendation 2 – Insufficient controls over equipment, and Recommendation 3 – Insufficient controls over information system access. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Board for State Academic Awards complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to agency management in the accompanying Condition of Records and Recommendations sections of this report.

The Board for State Academic Awards' response to the findings identified in our audit is described in the accompanying Condition of Records section of this report. We did not audit the Board for State Academic Awards' responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of board's management, 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.



Michael J. Delaney
Auditor II

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts