

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
STATE EDUCATION RESOURCE CENTER  
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2016*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

## Table Of Contents

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|   |    |
|---|----|
| INTRODUCTION .....  | 1  |
| COMMENTS .....  | 2  |
| FOREWORD .....  | 2  |
| Board of Directors .....  | 3  |
| SERC Foundation, Inc. ....  | 4  |
| Significant Legislation.....  | 4  |
| Other Audit Examinations .....  | 5  |
| RÉSUMÉ OF OPERATIONS.....   | 5  |
| Introduction .....  | 5  |
| Comparative Analysis of Receipts .....                                | 6  |
| Comparative Analysis of Expenditures .....                            | 7  |
| Audited Financial Statements from Public Accounting Firm .....        | 8  |
| Statement of Net Position .....                                       | 9  |
| Statement of Revenues, Expenses and Changes in Fund Net Position..... | 10 |
| Statement of Cash Flow .....  | 11 |
| STATE AUDITORS' FINDINGS AND RECOMMENDATIONS.....                     | 12 |
| Internal Control System and Governance Weaknesses .....               | 12 |
| Ineffective Purchasing Cards Internal Controls .....                  | 15 |
| Insufficient Documentation for Journal Vouchers .....                 | 17 |
| Obligations Incurred Without Proper Accounting Commitment .....       | 18 |
| RECOMMENDATIONS .....   | 20 |
| Acknowledgement .....   | 22 |
| CONCLUSION.....   | 23 |

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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July 18, 2018

### **INTRODUCTION AUDITORS' REPORT STATE EDUCATION RESOURCE CENTER FOR THE FISCAL YEARS ENDED JUNE 30, 2015 and 2016**

We have audited certain operations of the State Education Resource Center (SERC) in fulfillment of our duties under Sections 1-122, 2-90 and 10-357b (c) of the General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2015 and 2016.

The objectives of our audit were to:

1. Evaluate the center's internal controls over significant management and financial functions;
2. Evaluate the center's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether SERC has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants, and other financial assistance, as applicable; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could

occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the authority.

For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of SERC.

## COMMENTS

### FOREWORD

The state established the State Education Resource Center (SERC) in 1969 (formerly the Special Education Resource Center) to address requirements in the Education of the Handicapped Act. Subsequently, the General Assembly enacted Sections 10-4q and 10-76n of the General Statutes, placing requirements on the State Board of Education (SBE) and the State Department of Education (SDE) related to the operation of SERC and the activities it may perform. SDE contracted with Rensselaer Polytechnic Institute (RPI), from July 1, 2010 to June 30, 2015, to act as a fiduciary and to run the business operations. SERC operated without a defined status prior to July 1, 2014.

In February of 2013, our office issued an [Interim Report Regarding the State Education Resource Center](#). The purpose of our report was to inform the General Assembly of our concerns regarding the status of SERC and issues related to contracting and administrative costs. The report also made recommendations to institute better fiscal and programmatic oversight and ensure transparency. Public Act 14-212, effective July 1 2014, clarified the status of SERC within the

state and established it as a quasi-public entity as defined under Section 1-120 of the General Statutes.

SERC currently operates under the provisions of Chapter 179a, Sections 10-357a through 10-357g, of the General Statutes as a body politic and corporate, constituting a public instrumentality and political subdivision of the state of Connecticut established and created to be a public educational authority acting on behalf of the state. The duties of SERC are to assist the State Board of Education in the provision of programs and activities that will promote educational equity and excellence. The assistance is limited to: training, technical assistance and professional development for local and regional boards of education, school leaders, teachers, families, and community partners in the form of seminars, publications, site visits, on-line content and other appropriate means; maintaining a state education resource center library; publication of technical materials; research and evaluation; and writing, managing, administering, and coordinating grants. In addition, SERC may support programs and activities concerning early childhood education, in collaboration with the Office of Early Childhood, improving school and district academic performance, and closing achievement gaps between socioeconomic subgroups.

The SERC board of directors appointed Ingrid Canady as the interim executive director on December 2, 2014, who served in that capacity throughout the audited period. During an October 2016 special meeting, the board of directors approved her as the executive director.

### **Board of Directors**

Section 10-357a (a) of the General Statutes established SERC and creates a 13-member board of directors charged with overseeing SERC, which shall consist of the following members: 4 appointed by the Governor, 2 appointed by the SBE, and 1 each appointed by the president pro tempore of the Senate, majority leader of the Senate, minority leader of the Senate, speaker of the House of Representatives, majority leader of the House of Representatives, minority leader of the House of Representatives, and the Commissioner of Education. The Governor appoints the chairperson of the board from among the board members at the advice and consent of the General Assembly.

The SERC board of directors consisted of the following, as of June 30, 2016:

- George A. Coleman, Interim Chairperson, Vice Chairperson,
- Elizabeth Brown
- Jeffrey Leake
- Richard J. Porth, Jr.
- Dr. Agnes Quinones
- Charlene Russell-Tucker
- Thomas R. Swan
- Jennifer Tooker
- Diane Ullman, PhD,
- Dr. Salvatore Menzo

The board has 3 vacancies, including the chairman of the board appointee.

At the first board of directors meeting held on December 2, 2014, Mark D. Benigni was sworn in as chairperson of the board. However, he resigned in February 2016. As of March 2017, the Governor had not appointed a new chairperson, and the duties were carried out by Vice Chairperson George A. Coleman. During the audited period, Susan Weisselberg, Stephen McKeever, and Eileen Ziegler also served on the board.

### **SERC Foundation, Inc.**

The SERC Foundation was established as a 501 (c) (3) organization under the United States Internal Revenue Service tax code, effective January 20, 2016. The SERC Foundation allows SERC to raise tax deductible donations as an alternative funding source. SERC and the foundation entered into a memorandum of understanding in December 2016 to clarify their relationship. The agreement appointed 2 SERC board members to the foundation's board and required the foundation to provide reports of its programmatic and financial activities to the SERC board of directors. SERC is the main source of funding in the memorandum and provides the financial resources to cover general foundation operations. On June 27, 2016, the SERC board of directors approved \$88,688 in salary expenses for the foundation from the SERC operational budget for fiscal year 2016-2017. During fiscal year 2015-2016, SERC expensed \$69,663 in salaries to establish the foundation as a charitable entity, create a foundation website, and hold a conference on dismantling systemic racism in education. The foundation does not currently maintain its own accounting system, and the SERC fiscal department is responsible for foundation accounting. The foundation expenses are accounted for by a foundation project code. As of June 30, 2016, the foundation had not received donations.

The SERC Foundation board consisted of the following members, as of June 30, 2016:

- Jeffrey Leak, Chairperson of Foundation Board and a SERC board member
- George A. Coleman, SERC Board of Directors Vice-Chairperson
- Marilyn Calderon
- Paul F. Flinter
- Jessica Sager
- Deborah Stanley
- Ex Officio Member Ingrid Canady, SERC Executive Director
- Ex Officio Member Wendy Waithe Simmons, Director of SERC Foundation and SERC Director of Development, Community Affairs and Equity

Due to the interrelationship of the boards and the fact that the director of the foundation also holds a director position at SERC, SERC has the ability to exercise significant influence over the foundation.

### **Significant Legislation**

Public Act 14-212, effective July 1, 2014, established SERC as a quasi-public agency under Section 1-120 of the General Statutes. The act established the board of directors; the selection process for members; and defined the duties, powers, and restrictions of SERC. The act required the adoption of written procedures as defined in Section 1-121 of the General Statutes; required

annual fiscal and budget reporting; and allowed allocation of state and federal funding from SDE to SERC.

Public Act 13-286, effective July 12, 2013, established SERC as a state contracting agency subject to competitive bidding requirements under Section 4a-57 of the General Statutes. In addition, SERC shall be considered a public agency, as defined in Section 1-200 of the General Statutes, for purposes of chapter 14, Freedom of Information Act, and a state agency for purposes of chapter 55a, Consultants and Personal Service Agreements. The act also increased transparency between the State Department of Education and SERC by requiring SDE to submit an annual report to the General Assembly on SERC. The annual report is to include all contracts awarded to SERC, sources and amounts of funding, and payroll expenditures for any department or consultant incurred by SDE or SERC.

### **Other Audit Examinations**

During fiscal year 2014-2015, SERC business operations were administered by a fiscal agent through a contract with SDE. The fiscal agent was Rensselaer Hartford Graduate Center, Inc., a subsidiary of RPI. RPI was audited by an independent certified public accounting (CPA) firm for fiscal year 2014-2015 for single audit and a consolidated financial statement audit. The firm issued an unmodified opinion on the financial statements and single audit and reported no material weaknesses in internal controls.

In fiscal year 2015-2016, SERC began administrating its own business operations, no longer requiring a fiscal agent to act as its fiduciary. SERC contracted with an independent CPA firm to audit its books and accounts. The firm issued an unmodified opinion on the financial statements and single audit and reported no material weaknesses in internal controls. The single audit resulted in an audit finding related to cash management, citing that excess monies were drawn from SDE for the Special Education Cluster. However, the audit finding did not result in any questioned costs.

## **RÉSUMÉ OF OPERATIONS**

### **Introduction**

The State Department of Education is the primary funding source of SERC, representing over 86% of the funding through federal and state grants. The Individuals with Disabilities Education Improvement Act (IDEA) federal grant, which provides funding for education resources for children with disabilities, is the largest grant awarded to SERC by SDE, accounting for 67% of SERC revenues. IDEA is used to fund numerous education initiatives at SERC, including the educational library, which is a major SERC initiative available to the general public. The library is a comprehensive library and resource center that contains current collections of research, reference, and instructional material on education and social services. It is free, and is a public lending library.

In addition to the library, SERC has 3 other significant education initiatives:

- State Parent Trust Grant (SPTG) – A state funded initiative administered on behalf of SDE, to expand opportunities and the number of communities offering parent leadership training. Resources are also used to increase the awareness of the issues that matter to families and emphasize the important role they play as advocates. SPTG awards are provided to local education agencies and non-profits to provide training to achieve its objectives.
- Connecticut Positive Behavioral Interventions and Supports (PBIS) – A federally funded initiative administered on the behalf of SDE, to provide opportunities for all students to achieve social, behavioral, and learning success. SERC coordinates and distributes grant awards to local education agencies for the School Climate Transformation Grant (SCTG), which is used to develop and enhance the statewide systems of support, and provide technical assistance to local education agencies and schools implementing an evidence-based behavioral framework.
- State Personnel Development Grant (SPDG) – A federally funded initiative to improve the academic achievement of all students in participating schools. The initiative seeks the development of a coordinated statewide system of academic and continuum support and the implementation of research-based programs for positive behavior and literacy instruction to achieve its objective. SERC administers the program on behalf of SDE and provides grant awards to non-profits, local education agencies, and schools.

We performed a comparative analysis of SERC revenue and expenditures based on amounts presented in the audited financial statements for fiscal year 2015-2016, as compared to the SERC annual report for fiscal years 2013-2014 and 2014-2015. A comparative analysis of financial statements between fiscal years was not possible since prior to fiscal year 2015-2016, financial statements were audited as part of RPI, and therefore no information was available for comparison.

### **Comparative Analysis of Receipts**

A summary of SERC receipts by revenue category is presented below:

| <b>Revenue Category:</b> | <b>Fiscal Year Ended June 30,</b> |                     |                    |
|--------------------------|-----------------------------------|---------------------|--------------------|
|                          | <b>2014</b>                       | <b>2015</b>         | <b>2016</b>        |
| Intergovernmental        | \$10,386,443                      | \$11,145,633        | \$6,962,433        |
| Charges for services     | 1,422,557                         | 450,409             | 964,553            |
| Contributions            | 287,224                           | 275,426             | 191,827            |
| Other                    | -                                 | -                   | 825                |
| <b>Total Receipts</b>    | <b>\$12,096,224</b>               | <b>\$11,871,468</b> | <b>\$8,119,638</b> |

SERC operations are reliant on both federal and state grants, and any changes in such funding could significantly affect SERC operations. SDE is the largest revenue source comprising nearly 90% of revenue for each of the years presented. Intergovernmental funding available to SERC decreased by 38% from fiscal year 2014-2015 to fiscal year 2015-2016, resulting from a reduction

in both federal and state grant monies due to budgetary constraints. The charges for services decreased by 68% from fiscal year 2013-2014 to fiscal year 2014-2015 due to increased intergovernmental funding. From fiscal year 2014-2015 to fiscal year 2015-2016, the charges for services increased by 114% due to increased efforts to compensate for reductions of intergovernmental funding.

**Comparative Analysis of Expenditures**

SERC expenditures are primarily made pursuant to federal, state, and private restrictions on grant revenue. Revenue generated from charges for services is only subject to restrictions placed by the SERC board of directors. The majority of expenditures are charged to federal grants. A summary of expenditures by expenditure category is presented below:

| <b>Expenditure Category:</b>               | <b>Fiscal Year Ended June 30,</b> |                     |                    |
|--|-----------------------------------|---------------------|--------------------|
|  | <b>2014</b>                       | <b>2015</b>         | <b>2016</b>        |
| Salaries                                   | \$7,267,254                       | \$6,106,882         | \$4,339,083        |
| Employee Benefits                          | 2,008,596                         | 1,911,123           | 1,281,563          |
| External Contracts                         | 0                                 | 0                   | 971,583            |
| In Service/Staff Professional Learning     | 664,118                           | 737,971             | 651,614            |
| Equipment (Computer Hardware and Software) | 83,984                            | 95,738              | 171,876            |
| Occupancy                                  | 185,583                           | 187,106             | 158,090            |
| Other Purchased Services                   | 560,056                           | 642,716             | 112,615            |
| Library                                    | 71,525                            | 70,130              | 80,183             |
| Foundation                                 | 0                                 | 0                   | 69,663             |
| Other Professional Technical Services      | 460,613                           | 651,116             | 40,743             |
| Communication                              | 67,326                            | 43,266              | 30,985             |
| Insurance                                  | 0                                 | 0                   | 26,943             |
| Travel                                     | 24,023                            | 13,605              | 16,998             |
| Other Supplies                             | 1,342                             | 1,957               | 5,103              |
| Other                                      | 62,538                            | 48,795              | 68,699             |
| Depreciation                               | 0                                 | 0                   | 32,824             |
| Audit                                      | 20,000                            | 20,000              | 0                  |
| <b>Total Expenditures</b>                  | <b>\$11,476,958</b>               | <b>\$10,530,405</b> | <b>\$8,058,565</b> |

Total expenditures decreased by 30% from fiscal year 2013-2014 to fiscal year 2015-2016 due primarily to a significant decrease in salaries and employee benefits, resulting from SERC reducing its workforce by 44%. Salaries decreased by 40% since fiscal year 2013-2014, corresponding to the reduction in intergovernmental revenues for the same period. Accordingly, employee benefit expenditures also decreased by 36% from fiscal year 2013-2014. SERC employed 97, 68, and 54 staff members as of June 30, 2014, 2015, and 2016, respectively.

SERC changed how it categorized expenditures for goods and services in fiscal year 2015-2016 due to a new accounting system and expenditure classifications that differed from their prior fiduciary. The largest variance was within the new external contracts category, the costs of which

were previously reported as other professional technical services and other purchased services. The \$20,000 in audit category for fiscal years 2013-2014 and 2014-2015 consisted of audit fees paid to RPI, which are no longer necessary. In fiscal year 2015-2016, these audit costs were included in external contracts. Insurance and depreciation expenses were not previously reported in annual reports but are required to be reported in financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The new accounting system required additional equipment purchases for servers and licensing of software, resulting in increased equipment expenditures for fiscal year 2015-2016.

### **Audited Financial Statements from Public Accounting Firm**

Prior to the 2015-2016 fiscal year, an independent CPA firm audited SERC books and records as part of the audit of RPI. For fiscal year 2015-2016, SERC contracted with an independent CPA to prepare its separate financial statements. The audited financial statements prepared for fiscal year 2015-2016 did not contain financial information for comparative analysis with previous fiscal years.

SERC had a change in net position of (\$284,694), as of June 30, 2016. SERC restated the net positions for fiscal year 2014-2015 by (\$2,207,911) this was due to implementing GASB 68 Accounting and Financial Reporting for Pensions as a component unit for the State of Connecticut. The (\$2,207,911) liability represents the center's proportional share of net pension liability for employees in the Teachers' Retirement System (TRS) administered by the state. The liability was offset by an initial contribution from SDE of \$1,859,989 in cash and assets during fiscal year 2015-2016. SERC had revenues that exceeded operating expenditures, resulting in operating income of \$61,073. The audited financial statements from the independent CPA firm are presented below:

**Statement of Net Position**  
**Year Ended June 30, 2016**

| <b><u>Assets</u></b>                              |                  |
|---|------------------|
| <b>Current Assets:</b>                            |                  |
| Cash  | \$3,565,589      |
| Receivables:                                      |                  |
| Intergovernmental                                 | 16,988           |
| Other   | 129,574          |
| Prepaid Expenses                                  | 36,315           |
| <b>Total Current Assets</b>                       | <b>3,748,466</b> |
| <b>Noncurrent Assets:</b>                         |                  |
| Capital Assets (Net of Accumulated Depreciation)  |                  |
| Equipment   | 327,291          |
| Furniture   | 74,273           |
| <b>Total Capital Assets (Net of Accum. Depr.)</b> | <b>401,564</b>   |
| <b>Total Assets</b>                               |                  |
| <b>4,150,030</b>                                  |                  |
| <b>Deferred Outflows of Resources</b>             |                  |
| Deferred Outflows – Pension Related               | 15,870           |
| <b><u>Liabilities</u></b>                         |                  |
| <b>Current Liabilities:</b>                       |                  |
| Accounts Payable                                  | 237,281          |
| Accrued Compensation and Related Liabilities      | 207,103          |
| Accrued Expenses                                  | 35,883           |
| Unearned Revenue                                  | 1,704,015        |
| Compensated Absences                              | 44,258           |
| <b>Total Current Liabilities</b>                  | <b>2,228,540</b> |
| <b>Noncurrent Liabilities:</b>                    |                  |
| Compensated Absences                              | 14,753           |
| Net Pension Liability                             | 2,207,301        |
| <b>Total Long-Term Liabilities</b>                | <b>2,222,054</b> |
| <b>Total Liabilities</b>                          |                  |
| <b>4,450,594</b>                                  |                  |
| <b><u>Net Position</u></b>                        |                  |
| Net Investment in Capital Assets                  | 401,564          |
| Unrestricted                                      | (686,258)        |
| <b>Total Net Position</b>                         |                  |
| <b>\$(284,694)</b>                                |                  |

**Statement of Revenues, Expenses and Changes in Fund Net Position**

**Year Ended June 30, 2016**

|  |                     |
|--|---------------------|
| <b>Operating Revenues:</b>                 |                     |
| Intergovernmental                          | \$6,692,433         |
| Charges for Services                       | 964,553             |
| Contributions                              | 191,827             |
| Other                                      | 825                 |
| Total Operating Revenues                   | 8,119,638           |
| <b>Operating Expenses:</b>                 |                     |
| Salaries                                   | 4,339,083           |
| Employee benefits                          | 1,281,563           |
| External Contract Services                 | 971,583             |
| In Services/Staff Professional Learning    | 651,614             |
| Computer Hardware and Software             | 171,876             |
| Occupancy                                  | 158,090             |
| Other Purchased Services                   | 112,615             |
| Library                                    | 80,183              |
| Foundation                                 | 69,663              |
| Other Professional Technical Services      | 40,743              |
| Communication                              | 30,985              |
| Insurance                                  | 26,943              |
| Travel                                     | 16,998              |
| Office supplies                            | 5,103               |
| Other                                      | 68,699              |
| Depreciation                               | 32,824              |
| Total Operating Expenses                   | 8,058,565           |
| Operating Income (Loss)                    | 61,073              |
| Non-Operating Revenues (Expenses):         |                     |
| Interest Income                            | 2,155               |
| Income Before Operating Contributions      | 63,228              |
| Initial Organization Start-Up Contribution | 1,859,989           |
| Change in Net Position                     | 1,923,217           |
| Net Position – July 1, 2015 (As Restated)  | (2,207,911)         |
| <b>Net Position – June 30, 2016</b>        | <b>\$ (284,694)</b> |

**Statement of Cash Flow**  
**Year Ended June 30, 2016**

|  |                    |
|--|--------------------|
| <b>Operating Activities:</b>   |                    |
| Cash Receipts from Intergovernmental Revenues  | \$8,649,460        |
| Cash Receipts from Charges for Services and Other  | 835,804            |
| Cash Received from Contributions   | 191,827            |
| Payments to Employees for Salaries and Benefits  | (5,371,012)        |
| Payments for External Contracted Services  | (971,583)          |
| Payments for In-Service/Staff Professional Learning  | (651,614)          |
| Payments to Suppliers  | (545,049)          |
| <b>Net Cash provided by (used in) operating activities</b>   | <b>2,137,833</b>   |
| <b>Capital and Related Financing Activities:</b>   |                    |
| Acquisition of capital assets  | (71,234)           |
| <b>Noncapital Financing Activities:</b>  |                    |
| Initial Organization Start-up Contribution   | 1,496,835          |
| <b>Investing Activities:</b>   |                    |
| Interest and Dividends on Investments  | 2,155              |
| <b>Net Increase (Decrease) in Cash and Cash Equiv.</b>   | <b>3,565,589</b>   |
| Cash - July 1, 2015  | 0                  |
| <b>Cash - June 30, 2016</b>  | <b>\$3,565,589</b> |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:</b> |                    |
| Operating Income   | \$ 61,073          |
| Adjustments to Reconcile Income (Loss) to Net Cash provided by (Used In) Operating Activities:           |                    |
| Depreciation   | 32,824             |
| (Increase) Decrease in:  |                    |
| Intergovernmental Receivable   | (16,988)           |
| Other Receivable   | (129,574)          |
| Prepaid Expense  | (36,315)           |
| Deferred Outflows – Pension Related  | (15,870)           |
| Increase (Decrease) in:  |                    |
| Accounts Payable   | 237,281            |
| Accrued Compensation and Related Liabilities   | 207,103            |
| Accrued Expenses   | 35,883             |
| Unearned Revenue   | 1,704,015          |
| Compensated Absences   | 59,011             |
| Net Pension Liability  | 167,043            |
| Deferred Inflows – Pension Related   | (167,653)          |
| Total Adjustments  | 2,076,760          |
| <b>Net Cash Provided by (Used In) Operating Activities</b>   | <b>\$2,137,833</b> |
| <b>Noncash Capital and Related Financing Activities:</b>   |                    |
| Initial Start-up Contribution of Capital Assets  | \$ 363,154         |

## STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the State Education Resource Center (SERC) disclosed certain matters of concern requiring disclosure and agency attention.

### Internal Control System and Governance Weaknesses

*Criteria:* Standards for Internal Control in the Federal Government, issued by the United States Government Accountability Office, defines an internal control system as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Documentation of internal controls is required for the effective design and implementation.

Section 10-357c of the General Statutes requires the members of the board of directors of the State Education Resource Center (SERC) to establish written procedures as defined by Section 1-121. The written procedures should include adopting an annual budget, contracting for professional services, acquiring real and personal property, developing an affirmative action policy, and obtaining board approval to create or fill a vacant position. Written procedures should also be established for hiring, promoting, dismissing, and compensating employees.

Section 1-121 of the General Statutes requires a quasi-public agency, before adopting a proposed procedure, to give at least 30 days' notice by publication in the Connecticut Law Journal of its intended action. A quasi-public agency may only adopt a proposed procedure by a two-thirds vote of the full membership of the board of directors of the quasi-public agency.

Section 1-123 (a) of the General Statutes requires the board of directors of each quasi-public agency to annually submit a report to the Governor and the Auditors of Public Accounts, which must include the following: (1) a list of all bond issues for the preceding fiscal year, including, for each such issue, the financial advisor and underwriters, whether the issue was competitive, negotiated, or privately placed, and the issue's face value and net proceeds; (2) a list of all projects other than those pertaining to owner-occupied housing or student loans receiving financial assistance during the preceding fiscal year, including each project's purpose, location, and the amount of funds provided by the agency; (3) a list of all outside individuals and firms receiving in excess of \$5,000 in the form of loans, grants, or payments for services, except for individuals receiving loans for owner-occupied housing and education; (4) a balance sheet showing

all revenue and expenditures; (5) the cumulative value of all bonds, the value of outstanding bonds, and the amount of the state's contingent liability; (6) the affirmative action policy statement, a description of the composition of the agency's work force by race, sex, and occupation, and a description of the agency's affirmative action efforts; and (7) a description of planned activities for the current fiscal year.

Section 1-123 (b) of the General Statutes requires that, for the quarter commencing July 1, 2010, and for each quarter thereafter, the board of directors shall submit a report to the Office of Fiscal Analysis, which must include, for each fund and account of the agency: (1) the beginning fiscal year balance; (2) all funds expended and all revenue collected by the end of the quarter; and (3) total expenditures and revenues estimated at the end of the fiscal year.

Section 1-123 (c) of the General Statutes requires, for the quarter commencing July 1, 2010, and for each quarter thereafter, the board of directors to submit a report to the Office of Fiscal Analysis, which must include: (1) the total number of employees by the end of the quarter; (2) the positions vacated and the positions filled by the end of the quarter; and (3) the positions estimated to be vacant and the positions estimated to be filled at the end of the fiscal year.

Section 1-126 of the General Statutes requires any quasi-public agency, as defined in Section 1-120, to require any application, agreement, financial statement, certificate, or other writing submitted to such quasi-public agency with respect to any loan, mortgage, guarantee, investment, grant, lease, tax relief, bond financing, or other extension of the credit or financial assistance made or provided by such quasi-public agency that provides information on which the decision of such quasi-public agency was based to be signed under penalty of false statement as provided in Section of 53a-157b of the General Statutes.

Generally Accepted Principles and Practices for Securing Information Technology Systems Special Publication 800-14 issued by National Institute of Standards and Technology (NIST), provides guidance on information technology security internal controls for user accounts, which includes security rules such as separation of duties and least privilege. Separation of duties divides roles and responsibilities so that a single individual cannot subvert a critical process. The concept of least privilege refers to granting users only the access they need to perform their official duties.

*Condition:* Our review of the internal control systems and governance at SERC during the audited period focused on the adequacy of implementation

for the newly formed SERC as well as compliance with the applicable General Statutes. We noted the following:

- Our review of 16 policies and procedures disclosed that 11 informal or draft policies lacked proper approval by the SERC board of directors. Two policies were required procedures under Section 10-357c of the General Statutes for compensation and annual budgets, whereas the other 9 instances were for other internal control objectives for SERC operations. Our review also revealed 3 instances in which statutorily required policies and procedures were not approved by the board of directors until more than 12 months after SERC received quasi-public status and 1 instance in which a policy and procedure for receiving goods or services was never developed.
- Our review of 4 policies and procedures approved by the board of directors disclosed that the procedures were not submitted to the Connecticut Law Journal as required by Section 1-121 of the General Statutes.
- Our review of the accounting information system that SERC implemented in fiscal year 2015-2016 disclosed that for all 5 user accounts, SERC did not have proper separation of duties and did not apply the concept of least privilege. All users have the ability to write and modify account payables and accounts receivables, and write checks. SERC also disclosed that the users had the ability to modify their own access rights in the accounting system during fiscal year 2015-2016. However, SERC corrected this in fiscal year 2016-2017. SERC personnel stated they have a limited number of fiscal staff members, resulting in duplicate user access rights so that alternate employees could process transactions. SERC has not developed a user access security matrix to identify individuals with primary responsibility and those who have been deemed alternates in order to minimize access rights.
- Our review of 1 lease agreement and 2 grant agreements disclosed that SERC contracts did not contain the necessary contractual language requiring the signing of the contract under the penalty for false statements.
- Our review of the SERC annual reports for fiscal years 2014-2015 and 2015-2016 disclosed that the annual report for fiscal year 2014-2015 did not contain the required affirmative action information and payments for services exceeding \$5,000. Furthermore, our review noted that SERC has not completed an annual report for fiscal year 2015-2016.

- Our review of 16 quarterly reports for financial and personnel matters disclosed that SERC did not complete 14 reports for fiscal years 2014-2015 and 2015-2016.

*Effect:* Ineffective internal controls increase risk to assets, making them susceptible to fraud, waste, and abuse. Lack of compliance with statutory reporting limits the monitoring function the state has over the quasi-public entity.

*Cause:* SERC became a quasi-public entity in July 2014 and previously relied upon a fiduciary to administer its financial operations. The reliance on the fiduciary resulted in a lack of necessary financial and compliance expertise for SERC to establish an effective internal control system.

*Recommendation:* The State Education Resource Center should develop a comprehensive internal control system that is appropriately documented and approved by the board of directors. The internal control system should comply with the General Statutes and operational objectives of the agency. Internal controls should also limit access rights within information systems to those employees who need the privileges and should define responsibilities of user account holders to those granted primary and alternate access rights. (See Recommendation 1).

*Agency Response:* “The State Education Resource Center agrees with the finding and corresponding recommendation. SERC is in the process of implementing several solutions to limit user access to align with the concept of least privilege; revising policies for the Board of Director’s approval, updating contract language to include penalty for false statements and developing procedures to ensure timely submission of annual and quarterly reports in accordance with Section 1-123 subsection (b) and subsection (c) of the General Statutes. It is notable that in SERC’s brief history as a quasi-public the agency is making significant improvements regarding internal controls and the development of policies and procedures. The compliance work is ongoing.”

### **Ineffective Purchasing Cards Internal Controls**

*Criteria:* The Department of Administrative Services (DAS) established best practices for the administration of purchasing cards under the Agency Purchasing Card Coordination Manual. DAS requires monthly tracking of purchases on a purchasing card log. The cardholder and immediate supervisor must review and approve the monthly logs.

The State Education Resource Center established a procedure requiring prior approval of transactions made on purchasing cards using the Credit Card Purchasing Request Form. This form requires the purchaser and supervisor to approve transactions on purchasing cards at the individual transaction level. The center implemented a complementary control as the executive director approved payments to the monthly purchasing card statements.

*Condition:* A review of 12 purchases made with purchasing cards for fiscal years 2014-2015 and 2015-2016 disclosed the following issues:

- There were 6 instances in which no Credit Card Purchasing Request Form was used. Although SERC staff stated that the Program Services Division was not subject to the purchasing card request procedure, the exemption was not documented in any policy or procedures, or approved by the board of directors.
- In 1 instance, a monthly purchasing card statement was not documented as reviewed and approved for payment by the executive director or designee.
- There were 5 instances in which the monthly purchasing card statement was paid without monthly monitoring of the statements. In December 2015, SERC modified the purchasing card statements from individual statements to 1 entity-wide statement with multiple card holders. In the process of implementing the new statement model, SERC set up automatic payments that are processed by the fiscal department without review and approval by the executive director. This removed a complementary control and subsequently removed monthly monitoring from the purchasing card process.

*Effect:* Ineffective internal controls and the lack of monitoring on purchase cards increases the risk of fraud, waste, and abuse.

*Cause:* SERC created a policy for purchasing card use, but did not apply it to all divisions due to a lack of understanding of proper internal controls. SERC changed the method for payments of purchasing card statements, and in the process, removed a complementary monitoring control built into the approval process.

*Recommendation:* The State Education Resource Center should improve internal controls over purchasing cards by consistently applying internal controls to all divisions. The center should implement a monthly purchasing card log to adequately track and monitor card usage as required by the Department of Administrative Services Agency Purchasing Card Coordination Manual. (See Recommendation 2).

*Agency Response:* “The State Education Resource Center agrees with the finding and corresponding recommendation. Following notification of the audit condition, the fiscal department developed a cover sheet to ensure all vendor credit card acquisitions/purchase requests were followed according to the draft policy. The Executive Director now signs off on the monthly credit card statements and reviews all supports, which allows for congruent internal control and strengthens the overall internal control process. Further policy development is in progress.”

### **Insufficient Documentation for Journal Vouchers**

*Criteria:* Standards for Internal Control in the Federal Government, issued by the United States Government Accountability Office, designate a key component of internal control as control activities. A principle of control activity is the appropriate documentation of transactions and internal controls. Management should clearly document internal controls and all other transactions and significant events in a manner that allows the documentation to be readily available for examination.

*Condition:* A review of 6 journal voucher entries for reclassification of costs, allocation of costs, and corrections of errors totaling \$131,562 disclosed 5 instances in which no supporting documentation existed to support the journal voucher entries. In 2 instances, the accounting system calculated the journal voucher amounts, but SERC could not provide information on the formula used by the system. Furthermore, in 3 instances, journal vouchers had no supporting documentation for the transactions.

*Effect:* The lack of documentation on journal vouchers has a net effect of \$65,687 in expenditures coded in the accounting system, which cannot be verified for accuracy, thereby increasing the risk that errors in state and federal financial reporting go undetected.

*Cause:* SERC does not have a policy and procedure in place requiring supporting documentation for journal vouchers.

*Recommendation:* The State Education Resource Center should improve internal controls by requiring that all journal vouchers be supported with underlying documentation and that any calculation be properly maintained to ensure accuracy. (See Recommendation 3).

*Agency Response:* “The State Education Resource Center agrees with the finding and corresponding recommendation. Following notification of the audit condition, the fiscal department developed a journal voucher cover sheet, which now includes supporting documentation to verify

accuracy of expenditures and adjustments. The policy development is in progress.”

### **Obligations Incurred Without Proper Accounting Commitment**

*Criteria:* Standards for Internal Control in the Federal Government, issued by the United States Government Accountability Office, designate a key component of internal control as control activities. A principle of control activity is the design of control activities implemented by management. Management should clearly document internal controls and all other transactions and significant events in a manner that allows the documentation to be readily available for examination.

The State Education Resource Center (SERC) board of directors assigned the executive director the authority to sign all contracts, agreements, official documents, and negotiable instruments relating to SERC.

The State Accounting Manual requires that purchase orders must be created for all purchases of commodities, services, and equipment. The purchase order is required to be created, approved, and posted prior to ordering any goods or services.

*Condition:* A review of 20 expenditure transactions for proper commitment authorizations noted the following:

- For 2 invoices, totaling \$1,462, there were no commitment authorizations prior to the purchases.
- For 2 invoices, totaling \$22,709, purchase orders were not executed to commit funds related to the expenditures. The contracts referred to within the invoices were used as the purchase orders. These contracts contained estimates and not the final amounts paid. In both instances, the invoices exceeded the contractual estimates.
- The director of program services approved a lease on a copier. The lease term was 63 months at \$287.55 per month, for a total lease amount of \$18,115.65. The board of directors did not authorize the director of program services to sign lease agreements.

*Effect:* A lack of appropriate commitment authorization limits the ability of SERC to monitor expenditures for budgetary compliance and increases the risk of fraud, waste, and abuse of funds.

*Cause:* SERC does not have documented procedures regarding purchase order processing and lease approvals.

*Recommendation:* The State Education Resource Center should improve internal controls by establishing procedures for commitment authorizations and requiring that purchase orders and leases be properly approved and monitored for commitment amounts. (See Recommendation 4).

*Agency Response:* “The State Education Resource Center agrees with the finding and corresponding recommendation. Unless so delegated by the Board of Directors, the Executive Director will remain the only signatory for commitment authorizations. The fiscal department, SERC’s General Counsel, and the contracts manager will work together to develop formally documented policies and procedures on lease approvals and other commitment authorizations, such as purchase orders.”

## RECOMMENDATIONS

No prior audit was conducted for SERC as it was established as a quasi-public entity effective July 1, 2014. As a result of our current examination, we present 4 recommendations.

*Current Audit Recommendations:*

- 1. The State Education Resource Center should develop a comprehensive internal control system that is appropriately documented and approved by the board of directors. The internal control system should comply with the General Statutes and operational objectives of the agency. Internal controls should also limit access rights within information systems to those employees who need the privileges and should define responsibilities of user account holders to those granted primary and alternate access rights.**

Comment:

During fiscal year 2014-2015 and 2015-2016, SERC did not have an effectively designed and implemented internal control system. This resulted in noncompliance with the General Statutes and monitoring weaknesses.

- 2. The State Education Resource Center should improve internal controls over purchasing cards by consistently applying internal controls to all divisions. The center should implement a monthly purchasing card log to adequately track and monitor card usage as required by the Department of Administrative Services Agency Purchasing Card Coordination Manual.**

Comment:

SERC instituted a purchasing card request form on a transaction level, but did not apply the policy to all divisions due to the lack of a properly designed internal control system. In order to streamline payments of purchasing cards, SERC established an auto-pay on the statements without realizing that it effectively eliminated a monthly monitoring process considered best practice.

- 3. The State Education Resource Center should improve internal controls by requiring that all journal vouchers be supported with underlying documentation and that any calculation be properly maintained to ensure accuracy.**

Comment:

SERC relied on the fiscal and financial officer to process and post journal vouchers in the accounting system without a policy in place for documenting the posting of transactions. This resulted in net expenditures of \$65,687 being coded to allocations that cannot be verified as accurate.

- 4. The State Education Resource Center should improve internal controls by establishing procedures for commitment authorizations and requiring that purchase orders and leases be properly approved and monitored for commitment amounts.**

Comment:

SERC established a draft policy for purchasing and processing of invoices, but does not have a detailed procedure on requirements for commitment authorizations such as purchase orders and lease agreements. This resulted in purchase orders that were not prepared when necessary and an instance in which an individual without board authorization approved a lease agreement.

**ACKNOWLEDGEMENT**

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Brian M. Grabel  
Nikolaos Perdikakis

**CONCLUSION**

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the State Education Resource Center during the course of this examination.



Brian Michael Patrick Grabel  
Staff Auditor

Approved:



John C. Geragosian  
State Auditor



Robert J. Kane  
State Auditor