

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD OF TRUSTEES FOR
COMMUNITY-TECHNICAL COLLEGES
THREE RIVERS COMMUNITY COLLEGE
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

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

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September 24, 2004

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FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

We have examined the financial records of Three Rivers Community College (College) for the fiscal years ended June 30, 2002 and 2003.

Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the College's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the College's internal control structure policies and procedures established to ensure such compliance.

This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

Three Rivers Community College is a two-year institution that operates primarily under the provisions contained in Sections 10a-71 through 10a-80 of the General Statutes. Its main campus and administrative offices are located on Mahan Drive in Norwich, Connecticut. The College also operates a campus on New London Turnpike in Norwich, as well as a satellite campus at the Electric Boat facility in Groton, Connecticut. The College is one of 12 two-year institutions of higher education which collectively form the Connecticut Community College System. The Board of Trustees for Community-Technical Colleges administers the 12 institutions.

The College is accredited by the New England Association of Schools and Colleges, Inc. until Spring 2012.

Dr. Booker T. DeVaughn served as Interim President until August 5, 2001. Dr. Grace S. Jones was appointed President on August 6, 2001.

Recent Legislation:

The following notable legislation took effect during or near the audited period:

Public Act 01-141 – Section 1 of this Act extends by five years the period the Department of Higher Education shall deposit into the endowment fund for the Community-Technical College System grants to match a portion of endowment fund eligible gifts received. The Act sets the new period as the fiscal years ended June 30, 2000, to June 30, 2014.

Section 2 of this Act increased the annual limits of such grants for the fiscal years ended June 30, 2004 and 2005, from \$4,000,000 to \$5,000,000 and from \$4,500,000 to \$5,000,000, respectively. It also set the annual matching grant limit at \$5,000,000 for the fiscal years ended June 30, 2006, to June 30, 2014.

These Sections of the Act took effect July 1, 2001.

Public Act 02-107 – Section 1 of this Act changes from “activity fund” to “trustee account” the designation for funds used by State educational institutions (or welfare or medical agencies) for the benefit of employees, students, or clients of such institutions or agencies. Section 5 of the Act changes from “general welfare fund” to “account” the designation for accounts used for gifts, donations, or bequests made to the students or clients of any State educational, medical or welfare agency as a group, and for any corresponding unclaimed funds, and the interest on such funds.

This Act became effective July 1, 2002.

Public Act 02-126 – Section 6 of this Act provides that the Board of Trustees of Community-Technical Colleges shall waive the payment of tuition at any of the community-technical colleges for any State resident who is a dependent child or surviving spouse of a Connecticut resident who died as a result of the terrorist attacks against the United States on September 11, 2001, or the anthrax attacks from September 11, 2001, through December 31, 2002. This Section became effective June 7, 2002.

Public Act 02-140 – Section 2 of this Act allows constituent units of higher education, in the purchasing process, to accept electronic bids, proposals, or competitive quotations within a safe and secure electronic environment. The Act also bars such constituent units from refusing to consider bids, proposals, or quotations because they were not submitted electronically. This Section of the Act became effective July 1, 2002.

Public Act 03-33 – Effective May 12, 2003, Section 1 of this Act requires the Board of Trustees of Community-Technical Colleges to allow its students to re-enroll, at no charge, in courses not completed because of a call to active duty in the armed forces. This benefit applies to

student members of the armed forces for a period of four years after being released from duty and only applies to courses for which tuition had previously been paid and was fully refunded.

Public Act 03-69 – Effective July 1, 2003, this Act provides that upon request of the Board of Trustees of Community-Technical Colleges, General Fund appropriations for personal services and appropriations for fringe benefits and workers’ compensation shall be transferred from the Comptroller and deposited into the Regional Community-Technical Colleges’ Operating Fund. The State Treasurer and the Secretary of the Office of Policy and Management must approve such transfers. The Act further requires that the Board establish an equitable policy for allocating such fringe benefit appropriations.

Enrollment Statistics:

Enrollment statistics compiled by the College showed the following enrollment of full-time and part-time students during the two audited years:

	Fall <u>2001</u>	Spring <u>2002</u>	Fall <u>2002</u>	Spring <u>2003</u>
Full-time students	627	560	742	645
Part-time students	<u>2,745</u>	<u>2,674</u>	<u>2,787</u>	<u>2,712</u>
Total Enrollment	<u>3,372</u>	<u>3,234</u>	<u>3,529</u>	<u>3,357</u>

RÉSUMÉ OF OPERATIONS:

During the audited period, operations of the College were primarily supported by appropriations from the State’s General Fund and by tuition and fees credited to the Regional Community-Technical Colleges’ Operating Fund.

After approval from the Office of the State Comptroller, the Board of Trustees of Community-Technical Colleges directed all of the 12 Connecticut Community Colleges to incorporate their fiduciary funds, namely their Student Activity Fund and Institutional General Welfare Fund accounts, into their respective Operating Fund accounts, effective during the 2001-2002 fiscal year. The Community Colleges set up separate accounts within their respective Operating Funds to account for the transactions of the former Student Activity Funds and Institutional General Welfare Funds. Accordingly, receipts and expenditures figures mentioned in the “Operating Fund” section of this report include the activity of Student Activity Fund and the Institutional General Welfare Fund accounts within the Operating Fund.

General Fund:

General Fund receipts totaled \$3,763 for the fiscal year ended June 30, 2003, and consisted of refunds of expenditures of budgeted accounts. There were no General Fund receipts in the fiscal year ended June 30, 2002.

General Fund expenditures totaled \$10,452,819 and \$10,490,199 during the fiscal years

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ended June 30, 2002 and 2003, respectively, and consisted primarily of personal services expenditures. These totals represent increases of \$585,914 (5.9 percent) and \$37,380 (.4 percent), respectively, during the audited fiscal years. The increase in the fiscal year ended June 30, 2002, can be attributed primarily to salary increases in accordance with collective bargaining agreements. The relatively minor increase in the fiscal year ended June 30, 2003, can be attributed to a decrease in the number of employees paid from the General Fund along with salary increases.

Operating Fund:

The College's operating revenues and expenditures (excluding certain personal services expenditures charged to the General Fund) are accounted for within the Operating Fund. Receipts of the Operating Fund consisted primarily of student tuition and fees.

Receipts recorded by the State Comptroller during the audited period and the preceding fiscal year are shown below:

	Fiscal Year		
	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Total Receipts	<u>\$6,479,743</u>	<u>\$7,062,894</u>	<u>\$7,561,624</u>

Total Operating Fund receipts increased nine percent during the 2001-2002 fiscal year. The primary reason for this increase was the closeout of the aforementioned Student Activity Fund and Institutional General Welfare Fund checking accounts and subsequent transfer of the balances into the Operating Fund. Receipts increased seven percent during the 2002-2003 fiscal year due primarily to an increase in funds drawn down from the US Department of Education and an increase in tuition rates.

Tuition charges are fixed by the Board of Trustees. The following summary shows tuition charges for full-time students during the audited period as compared with those charges authorized in the previous fiscal year:

	<u>In-State</u>	<u>Out-of-State</u>	<u>New England Regional Program</u>
2000-2001	\$1,680	\$5,232	\$2,520
2001-2002	\$1,680	\$5,232	\$2,520
Fall 2002	\$882	\$2,646	\$1,323
Spring 2003	\$936	\$2,808	\$1,404

In December 2001, the Board of Trustees approved an increase in tuition for all students during the 2002-2003 academic year. In December 2002, facing a budget deficit for the 2002-2003 fiscal year, the Board approved an additional increase for the Spring 2003 semester.

Tuition for part-time students is charged on a prorated basis according to the number of credit hours a student registers for.

Operating Fund expenditures recorded by the State Comptroller during the audited period and the preceding fiscal year are shown below:

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Expenditures by agency funds	\$	\$ 3,936	\$ 984
Personal services	1,980,136	2,262,912	2,213,413
Contractual services	1,685,706	1,677,722	1,508,401
Commodities	824,828	754,730	658,030
Revenue refunds	1,233,055	1,545,045	1,673,917
Sundry charges	236,172	264,129	266,509
Equipment	379,936	239,584	3,201
Building improvements	<u>4,226</u>	<u></u>	<u></u>
Total Expenditures	<u>\$ 6,344,059</u>	<u>\$ 6,748,058</u>	<u>\$ 6,324,455</u>

Personal services expenditures consisted primarily of salaries and wages paid to instructors. The major component of contractual services was fees for outside professional services.

Expenditures increased \$403,999 (six percent) during the 2001-2002 fiscal year. This increase was due primarily to an increase in the amount of financial aid returned to students for non-College aid charges such as living expenses and travel costs, and, also, to payments to the College bookstore on the behalf of aid recipients.

Expenditures decreased \$423,602 (six percent) during the 2002-2003 fiscal year. The main reason for this decrease was lower charges for equipment.

Capital Projects Funds:

Capital projects funds expenditures totaled \$398,547 and \$873,159 during the fiscal years ended June 30, 2002 and June 30, 2003, respectively. These expenditures consisted primarily of equipment purchases.

Inter-agency/Intra-agency Grants Fund:

The College accounted for certain grants, other than Federal grants, in the Inter-agency/Intra-agency Grants – Tax-Exempt Proceeds Fund. This fund was used to record receipts and disbursements related to grant transfers financed by State of Connecticut tax-exempt bonds in accordance with Sections 3-24a through 3-24h of the General Statutes.

Fund receipts totaled \$150,000 during the fiscal year ended June 30, 2002, while there were no receipts in the fiscal year ended June 30, 2003.

Fund expenditures totaled \$195,780 and \$320,123 during the fiscal years ended June 30, 2002 and June 30, 2003, respectively. Expenditures primarily consisted of costs to maintain campus facilities.

Three Rivers College Foundation, Inc:

Three Rivers College Foundation, Inc. was established to support, promote and solicit funds and contributions for the educational activities of the College.

Sections 4-37e through 4-37j of the General Statutes set requirements for private foundations affiliated with State agencies. The requirements include the annual filing of board members with the State agency, financial recordkeeping and reporting in accordance with generally accepted accounting principles, financial statements and audit reports criteria, written agreements concerning the use of facilities and resources, and compensation of State officers or employees.

Financial statements of the Foundation were included in the review prepared by a certified public accountant for the fiscal year ended June 30, 2002. Financial statements were included in the audit report prepared by the same certified public accountant for the fiscal year ended June 30, 2003. These statements reported revenues of \$155,231 and \$215,747 during the same years. Expenses totaled \$52,546 and \$71,548 during the same periods.

CONDITION OF RECORDS

Our review of the financial records at Three Rivers Community College revealed some areas of concern. Those areas are described in this section of the report.

Procurement:

Criteria:

- The *Community-Technical Colleges Agency Purchasing Policies*, effective September 22, 1999, require the President to designate those individuals with “requisition authority” or “commitment authority” for various divisions or departments at each college. The President’s designation is made using the *Purchasing Authorization Form*.

The Policies also require all authorizations to be maintained in the College’s purchasing files and updated in a timely manner following a change in job duties that changes the employee’s requisition or commitment authority.

- Proper internal controls related to purchasing require that receiving reports be signed to acknowledge receipt of goods and/or services.

Condition:

- We noted two instances in the fiscal year ended June 30, 2002, and one instance in the fiscal year ended June 30, 2003, in which the individual approving a purchase requisition did not have the proper authority to make the approval.

We also noted three instances in the fiscal year ended June 30, 2002, and three instances in the fiscal year ended June 30, 2003, in which the purchase requisition was not properly approved.

- We noted an instance in the fiscal year ended June 30, 2002, in which there was no signature on a receiving report.

Effect: The College was not in compliance with these control requirements.

Cause: Controls in place at the College were not sufficient to prevent these conditions from occurring.

Recommendation: The College should improve controls related to the procurement process. (See Recommendation 1.)

Agency Response: “We concur with this finding. We have reviewed the college purchasing authority structure and will insure that the appropriate Purchasing Authorization forms are issued for all individuals that have been designated to make decisions relevant to requisitions and commitments. We will also strive to insure that all purchasing and receiving documents

are properly signed by the individuals authorized these responsibilities.”

Cafeteria Contract:

Criteria: Prudent business practice dictates that contracts for services provided to the College should be periodically reviewed and rebid.

Condition: The College’s main cafeteria is at the Mohegan campus, where food is prepared and sold. A smaller cafeteria operation is in place at the Thames Valley campus. Food is prepared at the Mohegan campus and transported by College employees to the Thames Valley campus. Food is also available at both campuses from vending machines.

Goods and services available at the cafeteria and from the vending machines are all provided from one vendor. The contract between this vendor and the College was entered into in July 1996; it has not been reviewed since then.

Effect: The College has neither rebid nor reviewed the contract with the provider of its cafeteria and vending machines operations.

Cause: The College has not implemented a procedure for the periodic review of this contract.

Recommendation: The College should periodically review and rebid the contract with the provider of its cafeteria and vending machines operations. (See Recommendation 2.)

Agency Response: “We concur with this finding in general, but would like to make the distinction that this contract represents only the service portion of the cafeteria operations. Individual purchase orders for the goods used in the cafeteria operations are placed with other vendors and are reviewed and negotiated or bid on an annual basis. In the future, the College plans to periodically review and re-bid or renegotiate its cafeteria service contract.”

Three Rivers College Foundation, Inc:

Criteria: Section 4-37f, subsection 8, of the Connecticut General Statutes, requires an audit of the Foundation to include a management letter and an opinion which addresses the conformance of the Foundation’s operating procedures with the provisions of Sections 4-37e through 4-37i, inclusive.

Condition: Our review of the Foundation audit reports for each of the fiscal years ended June 30, 2002, and June 30, 2003, noted that neither report addressed these requirements.

Effect: The Foundation did not meet the requirements set forth in the General Statutes.

Cause: The College was not aware of these requirements.

Recommendation: Procedures should be developed to ensure compliance with the requirements relating to private foundations affiliated with State agencies. (See Recommendation 3.)

Agency Response: “We concur with this finding. Three Rivers Community College will work closely with the Three Rivers Foundation to ensure that all future audits and management letters are in full compliance with governing statutes.”

Student Activities Trustee Accounts Disbursements:

Criteria: Proper internal controls related to purchasing require that a transaction be authorized prior to delivery of goods or services.

Condition: We noted that purchase requisitions for two disbursements tested from the fiscal year ended June 30, 2002, and three disbursements tested from the fiscal year ended June 30, 2003, were approved between two weeks and two-and-a-half months after delivery of the goods or services.

Effect: There were inadequate controls over the disbursements process related to the Student Activities Trustee Accounts.

Cause: The College did not place sufficient priority on this compliance requirement.

Recommendation: Purchases for the Student Activities Trustee Accounts should be approved prior to delivery of goods or services. (See Recommendation 4.)

Agency Response: “We concur with this finding and have taken steps to improve the timeliness of the authorization process. Additionally, beginning in February of 2004, most of these purchases and payments can now be accomplished with a purchasing card that has been issued to the Director of Student Activities.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The College should improve both its controls and statutory compliance in connection with personal service agreements by ensuring that all such agreements are approved in a timely manner and by meeting the requirements of Section 1-84 of the General Statutes with respect to the awarding of contracts to State employees. We did not note the recurrence of either of these conditions, so the recommendation is not being repeated.
- The College should comply with the competitive bid process, as established by Section 10a-151b of the General Statutes. We noted improvement in this area. The recommendation is not being repeated.
- The College should place a higher priority on keeping the permanent time and attendance records up-to-date. We reviewed this area and noted that the time and attendance records are being maintained on a current basis. The recommendation is not being repeated.
- The College should require that its payroll supervisor position be a full-time position and should take steps to recover all payroll overpayments noted. Regarding the first part of this recommendation, a full-time payroll supervisor was hired during the audited period. Regarding the second part of this recommendation, the payroll overpayments noted in the prior audit were to three individuals who were employees at the time of the overpayments. The total of the overpayments was \$4,140. The College has set up receivables on these three individuals in its accounting system and is pursuing restitution. The recommendation is not being repeated.
- The College should change the payroll supervisor's status from automatic payment to timecard required. The supervisor's timecards should be reviewed and approved by a person having first hand knowledge of the supervisor's attendance. The College is in compliance with these conditions, so the recommendation is not being repeated.
- The College should comply with Office of Management and Budget Circular A-21 requirements for obtaining authorized signatures to document payroll costs associated with Federal grants. Improvement was noted in this area, so the recommendation is not being repeated.
- The College and Foundation should comply with the audit requirements applicable to foundations affiliated with State agencies. This recommendation is being restated and repeated. (See Recommendation 3.)

Current Audit Recommendations:

1. The College should improve controls related to the procurement process.

Comment:

We noted instances in which individuals approving purchase requisitions did not have the proper authority to make that approval.

2. The College should periodically review and rebid the contract with the provider of its cafeteria and vending machine operations.

Comment:

The contract between the College and the provider of its cafeteria and vending machine operations has not been reviewed since July 1996.

3. Procedures should be developed to ensure compliance with the requirements relating to private foundations affiliated with State agencies.

Comment:

The Connecticut General Statutes require an audit of the Foundation to include a management letter and an opinion which addresses the conformance of the Foundation's operating procedures with certain statutory provisions. We reviewed Foundation audit reports for each of the fiscal years ended June 30, 2002, and June 30, 2003, and noted that neither report contained these requirements.

4. Purchases for the Student Activities Trustee Accounts should be approved prior to delivery of goods or services.

Comment:

Our testing of purchase requisitions for disbursements from the fiscal years ended June 30, 2002, and June 30, 2003, noted several instances in which the requisition was approved after delivery of the goods or services.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of Three Rivers Community College for the fiscal years ended June 30, 2002 and 2003. This audit was primarily limited to performing tests of the College's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the College's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the College are complied with, (2) the financial transactions of the College are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the College are safeguarded against loss or unauthorized use. The financial statement audits of Three Rivers Community College for the fiscal years ended June 30, 2002 and 2003, 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 Three Rivers Community College complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to Three Rivers Community College is the responsibility of Three Rivers Community College's management.

As part of obtaining reasonable assurance about whether the College complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the College's financial operations for the fiscal years ended June 30, 2002 and 2003, we performed tests of its compliance with certain provisions of laws, regulations, contract and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of Three Rivers Community College is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the College. In planning and performing our audit, we considered the College's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the College's financial operations in order to determine our auditing procedures for the purpose of evaluating Three Rivers Community College's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the College's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the College's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the College's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following finding represents a reportable condition: weaknesses in internal controls related to the procurement process.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the College's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the College being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the College's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that the reportable condition describing the weaknesses in internal control related to the procurement process to be a material or significant weakness.

We also noted other matters involving internal control over the College's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Three Rivers Community College during the course of our examination.

Timothy M. LePore
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts