

# STATE OF CONNECTICUT



**AUDITORS' REPORT  
BOARD OF REGENTS FOR HIGHER EDUCATION  
CHARTER OAK STATE COLLEGE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2012**

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

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# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

State Capitol  
210 Capitol Avenue  
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

April 28, 2014

## INTRODUCTION

### **AUDITORS' REPORT BOARD OF REGENTS FOR HIGHER EDUCATION CHARTER OAK STATE COLLEGE FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2012**

We have examined the financial records of Charter Oak State College, and the former Board for State Academic Awards, for the fiscal years ended June 30, 2011 and 2012.

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 college'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 college, a constituent unit of the state system of higher education, operates under the provisions of Chapter 185b, Part IV, of the Connecticut General Statutes. Part of the mission of the Board of Regents for Higher Education, which now oversees Charter Oak State College and the Connecticut Distance Learning Consortium, is to provide diverse and alternative means for adults to pursue higher education. Accordingly, the board, through the college and the consortium, 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 president of Charter Oak State College. Edward Klonoski served as president during the audited period.

## *Auditors of Public Accounts*

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In accordance with the provisions of Sections 10a-143 and 4-9a of the General Statutes, the former Board for State Academic Awards consisted of nine persons up through June 30, 2011. Members of the board as of June 30, 2011, were as follows:

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

Lisa Wildman (student member) also served on the board during the audited period.

The Board of Regents for Higher Education, which replaced the Board of State Academic Awards on July 1, 2011 (see Recent Legislation below), consisted of the following members as of June 30, 2012:

Ex-Officio:

Stefan Pryor, Commissioner of the Department of Education  
Catherine Smith, Commissioner of the Department of Economic and Community Development  
Glenn Marshall, Commissioner of the Department of Labor  
Dr. Jewel Mullen, Commissioner of the Department of Public Health

Appointed Members:

Lewis J. Robinson, Chairperson	Merle W. Harris
Yvette Melendez, Vice Chairperson	Gary F. Holloway
Richard J. Balducci	Craig Lappen
Naomi K. Cohen	Rene Lerer
Lawrence DeNardis	Michael E. Pollard
Nicholas M. Donofrio	Alex Tettey, Jr.
Matt Fleury	Zac Zeitlin
Michael Fraser	

### **Recent Legislation**

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

#### **Public Acts 11-48 and 11-61**

Sections 211 through 220 and 230 of Public Act 11-48, effective July 1, 2011, and sections 106, 111, 136, and 137 of Public Act 11-61, effective July 1, 2011, reorganize the state system of higher education by establishing a 19-member (including 15-voting members) Board of Regents for Higher Education to serve as the governing body for the Connecticut State University System

(CSUS), the community-technical college system (CTC), and Charter Oak State College. These acts allow the board to appoint and remove staff responsible for its own operation and that of these constituent units. The Board of Regents for Higher Education replaces the existing CSUS and CTC boards of trustees and the Board for State Academic Awards, which governs Charter Oak State College.

### **Enrollment Statistics**

Enrollment statistics compiled by Charter Oak State College indicated that average annual student enrollment totaled 3,235 and 3,688 for the fiscal years ended June 30, 2011 and 2012, respectively. Degrees awarded during the above fiscal years totaled 550 and 525, respectively, of which 948 were bachelor's degrees and 127 were associate's degrees.

### **RÉSUMÉ OF OPERATIONS**

Section 10a-143 of the General Statutes established the college's Operating Fund Account as a restricted account. It accounts for most of the receipts and expenditures of the college.

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**

There were no General Fund receipts during the fiscal years ended June 30, 2011 and 2012, which is consistent with the fiscal year ended June 30, 2010.

General Fund expenditures during the fiscal years ended June 30, 2011 and 2012, totaled \$2,883,267 and \$2,465,944, respectively, compared to \$2,847,633 during the fiscal year ended June 30, 2010. 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 and the Connecticut Distance Learning Consortium. Operating Fund Account receipts, as recorded in the state's accounting records, totaled \$18,680,757 and \$19,237,392 for the fiscal years ended June 30, 2011 and 2012, respectively, compared to \$15,171,103 for the fiscal year ended June 30, 2010. Included in these amounts were transfers of General Fund appropriations, internal transfers between Charter Oak 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 college's unaudited financial statements reported receipts, excluding General Fund appropriations and certain internal transfers, totaling \$11,007,833 and \$10,044,664 for the fiscal years ended June 30, 2011 and 2012, respectively. These totals represented an increase of \$3,509,654, or 23 percent, and an increase of \$556,635, or three percent during the respective audited years.

The increase in receipts during both fiscal years can be attributed primarily to an increase in federal student financial assistance during both years. Federal Direct Student Loans experienced the most significant increase in both fiscal years.

Expenditures charged to this fund totaled \$17,681,716 and \$20,716,887 during the fiscal years ended June 30, 2011 and 2012, 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 college's unaudited financial statements, which excluded such transfers, reported expenditures totaling \$10,194,372 and \$11,561,082, during the fiscal years ended June 30, 2011 and 2012, respectively. A summary of account expenditures for the fiscal years examined and the prior fiscal year is presented below:

	<u>2009 - 2010</u>	<u>2010 - 2011</u>	<u>2011 - 2012</u>
Personal Services	\$ 5,656,336	\$ 6,856,000	\$ 8,585,873
Contractual Services	4,019,408	3,713,958	2,435,068
Commodities	128,820	202,578	179,101
Sundry Charges	4,941,529	6,782,861	9,323,962
Equipment and Other	85,070	126,319	192,883
<b>Total Expenditures</b>	<b>\$ 14,831,163</b>	<b>\$ 17,681,716</b>	<b>\$ 20,716,887</b>

As presented above, Operating Fund Account expenditures totaled \$17,681,716 and \$20,716,887 for the fiscal years ended June 30, 2011 and 2012, respectively, compared to \$14,831,163 during the fiscal year ended June 30, 2010. These totals represent an increase of \$2,850,553, or 19 percent, and an increase of \$3,035,171, or 17 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 electronic data processing costs. Sundry charges were comprised primarily of student financial aid disbursements.

The increase in expenditures during both fiscal years was caused primarily by increases in federal student financial assistance. Federal student financial assistance expenditures increased by \$1,369,916 or 39 percent in the fiscal year ended June 30, 2011, and by \$2,030,278 or 41 percent in the fiscal year ended June 30, 2012. These increases can be attributed to the elimination of the Federal Family Education Loan Program (FFEL) by the U.S. Department of Education (USDOE), effective June 30, 2010. Subsequent to that date, most new loans to students are made through the Federal Direct Loan Program. The college receives funds from this program through the drawdown process from the USDOE. As part of the drawdown process, the loans are recorded as expenditures in Core-CT; the balance of the undrawn expenditures is

then drawn down from the USDOE. Under the FFEL Program, funds were received from private lenders, rather than through the USDOE and were not reflected as expenditures in Core-CT.

Increases in personal services expenditures were also noted during the audited period. Personal services expenditures increased by \$1,199,664 or 21 percent in the fiscal year ended June 30, 2011, and by \$1,729,873 or 25 percent in the fiscal year ended June 30, 2012. These increases were attributable to a change in the method for paying adjunct faculty of the college. These faculty members had previously been paid as contractors through accounts payable. Based on advice from the Internal Revenue Service, and beginning with the fiscal year ended June 30, 2011, the college started paying them as employees on January 1, 2011. This change resulted in personal services expenditures increases.

Decreases in contractual services expenditures were noted during the audited period. Contractual services expenditures decreased by \$305,450 or seven percent in the fiscal year ended June 30, 2011, and by \$1,278,890 or 34 percent in the fiscal year ended June 30, 2012. These decreases are also attributable to the change in paying adjunct faculty members.

### **Special Revenue Fund – Capital Equipment Purchase Fund**

Capital Equipment Purchase Fund expenditures totaled \$75,396 during the fiscal year ended June 30, 2011, and consisted primarily of electronic data processing hardware. There were no expenditures charged to the fund in the fiscal year ended June 30, 2012.

### **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 related to the oversight of 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 \$11,135 and \$11,284 for the fiscal years ended June 30, 2011 and 2012, 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 \$9,447 and \$11,686 for the fiscal years ended June 30, 2011 and 2012, 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 Charter Oak State College 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 year ended June 30, 2011. A similar audit was performed by a firm of independent public accountants for the fiscal year ended June 30, 2012. These audits concluded that the foundation complied in all material respects with Sections 4-37e through 4-37i of the General Statutes. However, both audits disclosed several immaterial exceptions that are discussed in the Management Letter section of those reports.

## CONDITION OF RECORDS

Our audit of the financial records of Charter Oak State College disclosed certain areas requiring attention, as discussed in this section of the report.

### **Foundation Employees' Salaries**

*Criteria:* Section 4-37f subsection (6) of the General Statutes states, "The salaries, benefits and expenses of officers and employees of the foundation shall be paid solely by the foundation."

*Condition:* In our review of payroll and other documentation at the college, we noted that a portion of the salaries of two employees of the Charter Oak State College Foundation, Inc. are paid by the college. The portion of the salaries that are attributable to the foundation totaled \$16,216 in the fiscal year ended June 30, 2011 and \$17,968 in the fiscal year ended June 30, 2012.

*Effect:* The college is making payments on salary expenses incurred by the foundation.

*Cause:* The college was unaware of this statutory requirement.

*Recommendation:* Charter Oak State College should ensure that all future expenses incurred by the foundation are paid by the foundation. In addition, the college should seek reimbursement for these expenditures that were incurred during the audited period and thereafter. (See Recommendation 1.)

*Agency Response:* "Since the notification from the auditors regarding the use of funds to support the foundation, steps were taken to immediately resolve the issue. Fundraising functions were divided appropriately between Institutional Development and the foundation and funding was appropriately applied to the separate functions.

The appropriate personnel expenses for the accountant were transferred to the foundation for payment and the foundation began paying the salary of the accountant for this function effective July 1, 2013. Other foundation functions that included check signing and review of foundation financial documents were also transferred to the foundation.

The Foundation was also advised on the dollars expended in FY 11 and FY 12 for staff personnel costs and a reimbursement request to the college for these past expenses were communicated to the foundation's Executive Committee. The other employee involved was assigned to the Institutional Development function. The issue is resolved."

**Timeliness of Bank Deposits**

- Criteria:* Section 4-32 of the Connecticut General Statutes requires that a state agency deposit funds of more than \$500 in a State Treasurer’s bank account within 24 hours of receipt.
- Condition:* We selected ten receipt batches for testing from the fiscal year ended June 30, 2011. From this sample, we noted one batch totaling \$11,811 that was deposited one day later than required.
- Effect:* The college was not in compliance with the timely deposit requirements of Section 4-32 of the Connecticut General Statutes.
- Cause:* The cause is unknown.
- Recommendation:* Charter Oak State College should take steps to ensure compliance with Section 4-32 of the General Statutes. (See Recommendation 2.)
- Agency Response:* “The college accepts the findings. However, the college believes that the problem arose because of a failure to manually change the date on the receipt stamp used, resulting in receipts on consecutive days being stamped with the same date. Office staff have been reminded of the statute requirements and the need to ensure that receipts are stamped with the correct date. The issue has been resolved.”

**Accounts Receivables Write-offs – Policies and Procedures**

- Criteria:* Section 3-7 subsection (a) of the General Statutes provides that any state agency may write off uncollectible accounts receivables in the amount of \$1,000 or less upon the authorization of the head of the agency.
- Subsection (b) of the statute requires that a state agency receive approval from the Office of Policy and Management (OPM) to write off accounts greater than \$1,000.
- Condition:* During our testing of write-offs, we noted that the college wrote off student receivables of less than \$1,000 without the authorization of the college president.
- We also noted that student receivables greater than \$1,000 were written off without the approval of OPM or the college president.
- Effect:* Receivables were written off without obtaining the required approvals.
- Cause:* The college was not familiar with the statutory requirements.

*Recommendation:* Charter Oak State College should comply with the requirements of Section 3-7 of the General Statutes. (See Recommendation 3.)

*Agency Response:* “The period under review was the first time the college had written off uncollectible receivables. The college has since revised its receivables policies and procedures to reflect the requirements for OPM and college president authorizations for write-offs. The revised policy has been issued to staff. This issue has been resolved.”

### **Disposal of Equipment**

*Criteria:* Section 4a-4 subsection (c) of the General Statutes requires the authorization of the president of the college in order to dispose of unused equipment.

*Condition:* A surplus piece of data processing equipment costing \$224,097 was disposed of through the DAS Property Distribution Center. The disposal did not have the authorization of the president. This item was one of 16 items that were disposed of during the audited period, and it represented 84 percent of the total capitalized cost of \$266,590 in total disposals.

*Effect:* The failure to document the authorization of the disposal of capital equipment weakened the college’s controls, making assets more vulnerable to the risk of loss or theft.

*Cause:* The cause is unknown.

*Recommendation:* Charter Oak State College should improve internal controls over the documentation and authorization of equipment disposals. (See Recommendation 4.)

*Agency Response:* “The Chief Financial and Administrative Officer has historically approved the disposal of surplus equipment. In order to align with Section 4a-4, the college president will approve disposals in the future. In addition, the president has issued a letter delegating authority for approving disposals to the Chief Financial and Administrative Officer (CFAO). The college believes these actions will satisfy the requirements of the statute. This issue has 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:* We noted that several online faculty members' payroll costs were charged, at least in part, to federal programs. The time and effort reporting system in place does not fully satisfy the requirements of 2 CFR, Part 220. In order to properly document these payroll charges to a federal program, 2 CFR, Part 220, provides that, where the institution uses timecards or other forms of after-the-fact payroll documents as original documentation for payroll charges, such documents qualify as records for this purpose, provided they meet the requirements outlined in the CFR. In the case of the online faculty members, payroll documents did not provide signed, after-the-fact certification that the employees' payroll expenditures were appropriately charged to the activities/programs on which the employees actually worked.

*Effect:* The college did not fully comply with 2 CFR, Part 220 requirements concerning the documentation of payroll distribution costs related to online faculty members.

*Cause:* The college misinterpreted the reporting requirements of the federal citation.

*Recommendation:* Charter Oak State College should comply with the requirements of 2 CFR, Part 220, by implementing adequate after-the-fact certification to support the payroll charges of online faculty members to federal programs. (See Recommendation 5.)

*Agency Response:* "This practice was corrected during FY 13. Faculty payments are currently authorized by the program director after the faculty work has been completed. The program manager authorizes payment only when the appropriate work has been completed. This issue has been resolved."

### **Telecommuting Agreements**

*Criteria:* The college's Telecommuting Program Guidelines state, "A renewal agreement shall be executed during the annual review process."

The college's Telecommuting Program Guidelines state, "The initial telecommuting agreement will be effective until the annual review process."

Core-CT guidelines stipulate that a telecommuting employee should use the code REGTC on their attendance records.

*Condition:* We tested the telecommuting agreements of five employees. From this sample, we noted the following:

- three instances in which the college failed to document the renewal of the telecommuting agreement in the employee's annual evaluation. In each instance, a vague reference was made to the employee's status as a telecommuter, but there was no explicit statement that the agreement should be renewed.
- the initial telecommuting agreement actually signed by each employee states, "Initial agreements must be renewed within 6 months of issue."
- numerous instances in which the attendance records for one telecommuting employee were recorded as REG, rather than the required REGTC.

*Effect:* There were instances in which the college was not in compliance with its Telecommuting Program Guidelines and Core-CT guidelines.

*Cause:* Established controls and procedures did not prevent these conditions from occurring.

*Recommendation:* Charter Oak State College should comply with established controls and procedures in the administration of its telecommuting agreements. (See Recommendation 6.)

*Agency Response:* "Much has been completed since the audit. Several changes in policy or procedure will eliminate these issues in the future. Regarding the continuation of the Telecommuting Agreement, supervisors are alerted prior to the evaluation that the evaluation of the current Telecommuting Agreement is required and a recommendation for continuation must be part of the evaluation. The evaluations are more quickly monitored upon receipt to assure that the information is included, and if not, is added appropriately.

Telecommuter timesheets in Core-CT are also more closely monitored biweekly for compliance with the appropriate coding and supervisors are also aware that the appropriate time and attendance code must be entered for their employees prior to their approval of the timecard. Lastly, the Telecommuting Policy was revised after the audit to eliminate the inconsistency of the guidelines and the agreement forms. These issues have been resolved."

**P-Card Transactions**

*Criteria:* The state’s Purchasing Card Program Agency Purchasing Card Coordinator Manual states, “EMPHASIZE that the state is a tax-exempt institution. If the supplier requests the state’s tax number, provide the supplier with the tax number on the front of the purchasing card. A copy of the tax-exempt certificate from the Department of Revenue Services may be faxed to the supplier as proof of the state’s tax-exempt status.”

The state’s Purchasing Card Cardholder’s Work Rules state that cardholders are responsible for maintaining adequate transaction documentation. Supporting documentation should include a copy of an order form or application where applicable, packing slip (for goods received), and an original cashier receipt or vendor invoice.

The college’s Purchasing Card Procedures state that a cardholder’s supervisor will review and authorize the transactions on the cardholder’s purchasing card log reconciliation by signing the log.

*Condition:* We selected five purchasing card (p-card) master statements and related documentation for testing purposes. From this sample, we noted the following:

- two instances in which sales tax was paid on the purchase.
- one case in which the college was unable to provide us with an employee’s supporting documentation for an advertising purchase in the amount of \$600.
- six instances in which individual cardholder log reconciliations were approved in an untimely manner. In addition, payment was issued for these purchases prior to the approval of the cardholder’s purchasing card reconciliations and ranged between one and 247 days before the approvals. In three instances, the cardholder’s purchasing cardholder log reconciliation was not completed by the cardholder in a timely manner.

*Effect:* The college was not in compliance with state or college purchasing card policies.

*Cause:* The college was not familiar with state or college purchasing card policies.

*Recommendation:* Charter Oak State College should improve controls related to the administration of purchasing cards. (See Recommendation 7.)

*Agency Response:* “The college does not accept the statement that it is not familiar with state or college purchasing card policies. The college has a large number of cardholders relative to its size and utilizes frequent contact with employees to reinforce program rules. The instances of sales tax were on purchases made outside of the State of Connecticut. Cardholders are frequently reminded of the need to identify the college as a tax exempt entity and that a copy of the tax exempt certificate can be readily provided. In the case of the advertising purchase, the college employee making the purchase unfortunately lost the original receipt and was unable to obtain a copy but was able to provide a statement from the vendor indicating the purchase. We however recognize that this is not consistent with the work rules and the cardholder was reminded of the need to provide original receipts to support purchases. The college continued to stress the importance of timely submission of P-Card supporting documentation with appropriate signatures prior to the processing of payment to the credit card company. Staff in the Finance & Administration department monitor submission times and suspend or terminate user privileges for non-compliance. A review of the findings on reconciliations suggests that the 247 day finding is incorrect and that both the purchaser and approver inadvertently entered the incorrect year for the transactions. These issues have been resolved.”

### **Certification and Affidavit Requirements Related to Large State Contracts**

*Criteria:* Section 4-252 subsection (c) of the General Statutes and Governor Rell’s Executive Orders No. 1 and 7c require that a contractor doing business with a state agency provide a Gift and Campaign Contribution Certification at the time of contract execution and annually thereafter if such contract has a value of \$50,000 or more in a calendar or fiscal year. In addition, Section 4-252 subsection (b) of the General Statutes and Executive Orders No. 1 and 7c require the agency official authorized to execute said contract to certify that the selection of the most qualified or highest ranked person, firm or corporation was not the result of collusion, the giving of a gift or the promise of a gift, compensation, fraud or inappropriate influence from any person. Furthermore, Section 4a-81 of the General Statutes requires that a Consulting Agreement Affidavit accompany a state agency contract with a value of \$50,000 or more in a calendar or fiscal year.

*Condition:* We reviewed the college’s compliance with these requirements. We noted that these documents were not obtained for one contractor. For another contractor, these documents were obtained approximately a year-and-a-half after the start of the contract.

*Effect:* The college was not in compliance with certification and affidavit requirements.

*Cause:* In the case of the first contractor, the college misinterpreted the requirements for state contracts. In the case of the second contractor, controls in place were not sufficient to prevent noncompliance with requirements.

*Recommendation:* Charter Oak State College should ensure that certifications and affidavits are obtained in compliance with Section 4-252 subsections (b) and (c) and Section 4a-81 of the General Statutes. (See Recommendation 8.)

*Agency Response:* “The college agrees with the findings and has amended its procedures to obtain all required certifications. This issue is resolved.”

### **Personal Service Agreements**

*Criteria:* It is a good business practice to set up written contracts when entering into agreements with individuals or organizations for the performance of personal services.

*Condition:* We noted an instance in which the college entered into an agreement with a firm to provide the college with data processing hardware, maintenance, and telephone support. The agreement was effective July 29, 2010, but was not signed by the contractor or the college until February 2012. The contractor received \$56,000 related to this agreement before the agreement was signed by both parties.

*Effect:* Internal control over the personal service agreements was weakened. A written contract for personal services, approved in a timely manner, can clarify standards that the contractor must meet to successfully execute the agreement. Absent such clear standards, successful completion of services is left open to interpretation.

*Cause:* Controls in place were not sufficient to prevent this condition from occurring.

*Recommendation:* Charter Oak State College should ensure that contracts and written personal service agreements are signed by all relevant parties prior to the commencement of services. (See Recommendation 9.)

*Agency Response:* “The college accepts the findings. The college had used the vendor to provide critical IT services for several years and on expiration of an earlier contract in 2010, the college issued the vendor a contract award document but then failed to properly complete the contract by securing the required signatures. Contracting staff have been reminded that a valid contract must be in place before purchasing transactions can take place. This issue has been resolved.”

### **Information System Access Controls**

- Criteria:* Strong internal controls require a separation of duties among employees so that certain incompatible functions, such as authorizing, recording, and reviewing transactions, are not performed by the same individual.
- Condition:* Our audit of the college disclosed two instances in which the same employee was granted Agency HR Specialist, Agency Payroll Specialist, and Agency Time and Labor Specialist roles in the state's Core-CT information system. These employees, therefore, had write-access to both the human resources and payroll modules in Core-CT.
- Effect:* Inappropriate access to an information system could increase the risk of data system error and fraud.
- Cause:* We were informed that the college felt the access was necessary to provide adequate backup when employees are absent from work.
- Recommendation:* Charter Oak State College should review the Core-CT access granted to employees. The college should also implement compensating controls to mitigate internal control weaknesses in this area. (See Recommendation 10.)
- Agency Response:* "Once notified of this access issue, the problem was immediately resolved. This issue is resolved."

### **Dual Employment**

- Criteria:* Proper internal controls require written agreements to be established and approved by the appropriate officials for employees who request dual employment arrangements prior to the commencement of the secondary employment.
- Condition:* From a sample of seven dual employment contracts tested, we noted six instances in which either the college and the secondary employer, or the secondary employer alone, signed and approved the dual employment request form after the commencement of the secondary employment. The forms were signed between two and 20 days after employment had begun.
- Effect:* Lack of properly approved dual employment forms weakened internal control.
- Cause:* The secondary employers were unable to sign the dual employment forms prior to the start of the dual employment period.

*Recommendation:* Charter Oak State College should improve internal controls related to dual employment. (See Recommendation 11.)

*Agency Response:* “The college works tirelessly to achieve compliance in this area. While our process is effective, the response time from the other state agencies is not. While our current practice involves timely follow ups with primary employer, these strategies are not totally effective. We will continue to aggressively pursue the completion of the dual employment form prior to employment.”

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- **The college should ensure that written personal service agreements are signed by all relevant parties prior to the commencement of corresponding services. In addition, the college should advertise for bids in the publications specified by Section 10a-151b of the General Statutes before making purchases exceeding \$50,000.** Our current audit of this area disclosed an instance in which a personal service agreement was not executed in a timely manner. We did not note any instances in which the college failed to advertise for bids as required by Section 10a-151b of the General Statutes. Therefore, the recommendation is being repeated with modification to reflect our current audit finding.
- **The college should improve internal controls over equipment by following the policies and procedures established by the State Property Control Manual. Specifically, the college should ensure that its property control records are kept up-to-date with respect to the locations, values, and status of its assets.** During our current audit, we noted improvement in this area. This recommendation is not being repeated.
- **The college should regularly review information system access privileges granted to employees to determine whether such access is appropriate. Further, the college 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.** In our current review, we noted two instances in which an employee was granted incompatible roles in Core-CT. The recommendation is being repeated.
- **The college 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.** We noted a similar condition in the current audit, and the recommendation is being repeated.
- **The college should take steps to strengthen controls over purchasing card transactions by ensuring compliance with its own purchasing card procedures.** Our current review disclosed weaknesses in the administration of purchasing card transactions. This recommendation is being repeated.
- **The college should improve the timeliness of management review and approval of employee telecommuting agreements.** In our current audit, we noted weaknesses in the college's administration of telecommuting agreements. We are repeating this recommendation.

*Current Audit Recommendations:*

1. **Charter Oak State College should ensure that all future expenses incurred by the foundation are paid by the foundation. In addition, the college should seek reimbursement for expenditures that were incurred during the audited period and thereafter.**

Comment:

In our review of payroll and other documentation at the college, we noted that a portion of the salaries of two employees of the Charter Oak State College Foundation are paid by the college.

2. **Charter Oak State College should take steps to ensure compliance with Section 4-32 of the General Statutes.**

Comment:

In our review of cash receipts, we noted that one batch of receipts was deposited in the bank one day later than required.

3. **Charter Oak State College should comply with the requirements of Section 3-7 of the General Statutes.**

Comment:

During our testing of receivables, we noted that the college wrote off student receivables with individual balances of less than \$1,000 without the authorization of the college president. We also noted that student receivables greater than \$1,000 were written off without the approval of OPM or the college president.

4. **Charter Oak State College should improve internal controls over the documentation and authorization of equipment disposals.**

Comment:

We noted that a surplus piece of data processing equipment costing \$224,097 was disposed of through the DAS Property Distribution Center. The disposal did not have the authorization of the college president.

5. **Charter Oak State College should comply with the requirements of 2 CFR, Part 220, by implementing adequate after-the-fact certification to support the payroll charges of online faculty members to federal programs.**

Comment:

We noted that the payroll costs of several online faculty members were charged, in part, to federal programs. The time and effort reporting system did not completely satisfy federal requirements. In the case of the online faculty members, payroll documents did not provide signed, after-the-fact certification that the employees' payroll expenditures were appropriately charged to the activities/programs on which the employees actually worked.

- 6. Charter Oak State College should comply with established controls and procedures related to the administration of its telecommuting agreements.**

Comment:

We noted instances in which the college failed to document the renewal of the telecommuting agreement in an employee's annual evaluation, an instance in which the college did not correctly record the attendance code in Core-CT for a telecommuting employee, and inconsistent wording between the college's guidelines and the Telecommuting Program Agreement Form.

- 7. Charter Oak State College should improve controls related to the administration of purchasing cards.**

Comment:

We selected a sample for reviewing the administration of p-cards. Our review disclosed numerous instances in which the college was not adequately administering its p-card activity.

- 8: Charter Oak State College should ensure that certifications and affidavits are obtained in compliance with Section 4-252 subsections (b) and (c) and Section 4a-81 of the General Statutes.**

Comment:

We reviewed the college's compliance with the requirements related to certifications and affidavits. We noted that these documents were not required for one contractor; for another contractor these documents were obtained approximately a year-and-a-half after the start of the contract.

- 9. Charter Oak State College should ensure that contracts and written personal service agreements are signed by all relevant parties prior to the commencement of services.**

Comment:

We noted an instance in which the college entered into an agreement with a firm to provide data processing and telephone services to the college. The agreement was not signed by either party until a year-and-a-half after the agreement went into effect. The contractor had received \$56,000 related to this agreement before the agreement was signed by both parties.

- 10. Charter Oak State College should review the Core-CT access granted to employees. The college should also implement compensating controls to mitigate internal control weaknesses in this area.**

Comment:

Our audit of the college disclosed two instances in which the same employee was granted Agency HR Specialist, Agency Payroll Specialist, and Agency Time and Labor Specialist roles in the state's Core-CT information system. These employees, therefore, had write-access to both the human resources and payroll modules in Core-CT.

- 11. Charter Oak State College should improve internal controls related to dual employment.**

Comment:

From a sample of seven dual employment contracts tested, we noted six instances in which either the college and the secondary employer, or the secondary employer alone, signed and approved the dual employment request form after the commencement of the secondary employment. The forms were signed between two and 20 days after employment had begun.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of Charter Oak State College for the fiscal years ended June 30, 2011 and 2012. This audit was primarily limited to performing tests of the college's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the college are complied with, (2) the financial transactions of the college are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the college are safeguarded against loss or unauthorized use. The financial statement audits of Charter Oak State College for the fiscal years ended June 30, 2011 and 2012, 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 Charter Oak State College 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 Charter Oak State College 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 Charter Oak State College's 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 college'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 college's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of Charter Oak State College's 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 noncompliance 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 college'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 college'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 7 – weaknesses in controls related to the administration of p-cards; Recommendation 9 – weaknesses in controls over personal service agreements; and Recommendation 10 – 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 Charter Oak State College 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.

Charter Oak State College's response to the findings identified in our audit is described in the accompanying Condition of Records section of this report. We did not audit Charter Oak State College's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the management of Charter Oak State College, 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 Charter Oak State College during the course of our examination.



Timothy M. LePore  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts