

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD OF TRUSTEES FOR
COMMUNITY-TECHNICAL COLLEGES
CENTRAL OFFICE
FOR THE FISCAL YEARS ENDED JUNE 30, 1997 AND 1998**

AUDITORS OF PUBLIC ACCOUNTS
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June 16, 2000

**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 1997 AND 1998**

We have made an examination of the financial records of the Central Office of the Community-Technical Colleges for the fiscal years ended June 30, 1997 and 1998. This report on that examination consists of the Comments, Condition of Records, Recommendations, and Certification which follow.

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

COMMENTS

FOREWORD:

The Board of Trustees for Community-Technical Colleges operates primarily under the provisions of Chapter 185b, Sections 10a-71 through 10a-80, of the General Statutes. Pursuant to provisions of Section 10a-72 of the General Statutes, the Board of Trustees, through the Central Office located in Hartford, administers the Community-Technical College System, comprised of the following institutions:

Community-Technical College	Location
Asnuntuck	Enfield
Capital	Hartford
Gateway	New Haven
Housatonic	Bridgeport
Manchester	Manchester
Middlesex	Middletown

Auditors of Public Accounts

Naugatuck Valley	Waterbury
Northwestern Connecticut	Winsted
Norwalk	Norwalk
Quinebaug Valley	Danielson
Three Rivers	Norwich
Tunxis	Farmington

This audit report is intended to cover operations of the Central Office of the Community-Technical College system. Separate audit reports will be issued to cover operations of its constituent units. Certain information pertaining to the system as a whole is included in this report for informational purposes.

Section 10a-71 of the General Statutes provides that the Board of Trustees for Community-Technical Colleges consists of 24 members, 22 appointed by the Governor and two elected by students. The Board establishes policies for the development and maintenance of the educational programs and services of the community-technical colleges. Members receive no compensation for their services, but are entitled to reimbursement for expenses.

The Board of Trustees for Community-Technical Colleges was comprised of the following members as of June 30, 1998:

Lawrence J. Zollo, Chairman	Jules Lang, Esq.
Bryan N. Anderson	Raymond Rivard
Maureen Baronian	Hector Rodriguez
Louise S. Berry	Marie M. Spivey
Dorothy K. Bowen, Ed. D.	Joseph Steinkirchner
Rev. David L. Cannon	Nancy B. Stolfi
Kathleen Celadon	Stephen Bucholtz (elected by students)
Eleanor D. Coltman	Frank Reyes (elected by students)
Lawrence S. Fox	Six vacancies
William R. Johnson	

Other members who served on the Board of Trustees during the audited period were the following: Thomas F. Dowd, Jr., George Frantzis, Gretchen R. Kingsley, Marvin Stewart, and Stanley Vitzoski.

Among the duties of the Board of Trustees is appointment of a chief executive officer of the Community-Technical College System. Bruce H. Leslie served as Chancellor of the Board of Trustees during the audited period. He officially resigned on June 30, 1999. Andrew C. McKirdy, was the Interim Chancellor. Marc Herzog was appointed Chancellor effective June 1, 2000.

Recent Legislation:

The following notable legislation took effect during the audited period:

Public Act 97-293 – Effective July 1, 1997, Section 2 of this act requires each individual college to establish a permanent Endowment Fund to encourage donations from the private

sector. The net earnings on the endowment principal are dedicated and made available to the college for scholarships and programmatic enhancements. Section 1 creates a Higher Education State Matching Grant Fund, administered by the Department of Higher Education, to match one half of the private funds raised for those endowment funds. Section 2 establishes the annual maximum State grant commitment for the College for the fiscal years through fiscal year 2008 – 2009.

Enrollment Statistics:

The following enrollment figures reflect combined General Fund and Extension Fund enrollments at all colleges during semesters within the audited period.

	Fall 1996	Spring 1997	Fall 1997	Spring 1998
Full time students	9,931	8,418	9,558	8,273
Part time students	<u>31,109</u>	<u>30,097</u>	<u>30,768</u>	<u>29,623</u>
Total students	<u>41,040</u>	<u>38,515</u>	<u>40,326</u>	<u>37,896</u>
Full time equivalents	19,745	18,004	19,279	17,695

RÉSUMÉ OF OPERATIONS:

During the audited period, operations of the Central Office were supported primarily by appropriations from the State’s General Fund.

General Fund:

General Fund receipts totaled \$2,732 and \$1,500 during the fiscal years ended June 30, 1997 and 1998, respectively. These receipts consisted of refunds of expenditures from budgeted accounts.

General Fund expenditures totaled \$3,442,852 and \$3,267,769 during the fiscal years ended June 30, 1997 and 1998, respectively, and consisted of personal services expenditures. These totals represent an increase of \$322,877 (10 percent) for the fiscal year ended June 30, 1997, and a decrease of \$175,083 (five percent) for the fiscal year ended June 30, 1998. The increase in expenditures in the fiscal year ended June 30, 1997 was due primarily to payment of accrued leave balances at retirement. The decrease in expenditures in the fiscal year ended June 30, 1998 was due primarily to the large number of retirements which occurred between June 1, 1997 and August 1, 1997.

Operating Fund:

The Operating Fund accounts for the Central Office’s receipts and disbursements of private donations. For receipts purposes, the Fund was considered to have been comprised of accounts through the first three quarters of fiscal year ended June 30, 1997. Receipts of the fourth quarter were recorded as Operating Fund receipts. Receipts of the fiscal year ended June 30, 1998 were recorded as Operating Fund receipts. Receipts recorded by the State Comptroller during the audited period and the preceding fiscal year are shown below.

Auditors of Public Accounts

	Fiscal Year 1995-1996	Fiscal Year 1996-1997	Fiscal Year 1997-1998
Operating Fund Accounts:			
Tuition	\$ 4,984	\$ 14,426	
Grants	4,682	283,713	
Educational Extension	7,261	7,701	
Auxiliary Services	500	311	
Operating Fund			\$ 290,164
Total Receipts	<u>\$ 17,427</u>	<u>\$ 306,151</u>	<u>\$ 290,164</u>

For expenditures purposes, the Fund was considered to have been comprised of accounts through the fiscal year ended June 30, 1997. Beginning with the fiscal year ended June 30, 1998, expenditures were charged to the Fund as a whole, rather than to the Tuition, Grants, Educational Extension, and Auxiliary Services accounts within the Operating Fund.

Expenditures of the Operating Fund during the audited period and the preceding fiscal year are shown below.

	Fiscal Year 1995-1996	Fiscal Year 1996-1997	Fiscal Year 1997-1998
Operating Fund Accounts:			
Tuition	\$ 2,276,141	\$ 1,509,297	
Grants	1,444	51,921	
Educational Extension		17,348	
Auxiliary Services	779	102	
Operating Fund			\$ 2,439,945
Total Expenditures	<u>\$ 2,277,064</u>	<u>\$ 1,578,668</u>	<u>\$ 2,439,945</u>

Expenditures consisted primarily of contractual services. The increase in Operating Fund expenditures which occurred in the fiscal year ended June 30, 1998, was due primarily to consulting fees associated with the implementation of a new information system throughout the Community-Technical College system.

Interagency Grants Fund:

The Interagency Grants Fund is used to account for the transfer of funds from the State Department of Public Works. Receipts of the Fund totaled \$1,961,000 and \$5,484,774 for the fiscal years ended June 30, 1997 and 1998, respectively. Expenditures of the Fund totaled \$1,958,110 and \$3,469,087 during the same period. These expenditures consisted primarily of capital outlays for buildings.

Capital Equipment Fund:

Expenditures charged to the Capital Equipment Fund totaled \$62,271 during the fiscal year ended June 30, 1997. These expenditures consisted of the purchase of equipment at the

individual college campuses. There were no expenditures during the fiscal year ended June 30, 1998.

Expenditures for equipment reported under this section do not include equipment purchased by the individual colleges through their respective Operating Funds.

Capital Projects Funds:

Expenditures charged to capital projects totaled \$3,430,269 and \$2,863,239 during the fiscal years ended June 30, 1997 and 1998, respectively. Expenditures were primarily for capital improvements at the various colleges.

Pending Receipts Fund:

Receipts credited to the Pending Receipts Fund totaled \$7,549 during the fiscal year ended June 30, 1997. There were no receipts during the fiscal year ended June 30, 1998.

Expenditures charged to the fund totaled \$11,220 during the fiscal year ended June 30, 1997. There were no expenditures recorded during the fiscal year ended June 30, 1998.

CONDITION OF RECORDS

Our review of the financial records of the Central Office revealed some areas of concern. Those areas are described in this section of the report.

Equipment Inventory:

Criteria: The State of Connecticut's Property Control Manual sets forth criteria and policies over all assets owned or leased by State agencies.

Condition:

- We selected 20 inventoriable items from the May 1999 Fixed Asset Inventory Reporting System (FAIRS) for testing purposes. We were unable to physically locate 15 of these items.
- We noted that 12 items with a unit cost of \$4,065 were recorded on the inventory system under one tag number.

Effect: The Central Office did not maintain adequate controls over its equipment inventory.

Cause: The Central Office did not comply with internal control procedures related to equipment.

Recommendation: The Central Office should improve controls and procedures related to equipment inventory. (See Recommendation 1.)

Agency Response: "We agree with the recommendation that controls and procedures related to equipment inventory should be improved in the System Office. As part of the Community-Technical Colleges' multi-year financial and administrative software implementation, the Banner Fixed Assets module is now scheduled for implementation during fiscal year 2001 to facilitate our compliance with the new accounting and financial reporting requirements of GASB 35 which the State will be implementing effective with the beginning of fiscal year 2002. This will also have the effect of improving inventory control procedures for the colleges and system office. The items which were not located during the System Office audit are primarily technologically obsolete data processing equipment originally purchased in the 1980's and early 1990's, which have no current value and which for the most part have since been disposed of but never taken off of the inventory system. The item reflected as 12 items with one tag number relates to library automation workstations originally purchased by the System Office on behalf of and delivered to the twelve colleges. This item should probably never have been reflected on the System Office inventory since the physical asset was never at the System Office. We are now beginning a comprehensive review of our entire inventory system as the first step in the upcoming Fixed Asset module implementation."

Reporting:

Criteria: The State Accounting Manual states, “In order to meet the requirements of the Federal Single Audit Act, the Comptroller will annually compile a *Schedule of Federal Financial Assistance*. This schedule must include all State expenditures chargeable or reimbursable by the Federal government, exclusive of those representing the “pass-through” of Federal funds to other State agencies, and aggregate these expenditures by federal program as defined in the Catalog of Federal Domestic Assistance.”

Condition: The Central Office is responsible for preparing the Schedule of Federal Financial Assistance for the 12 Community-Technical Colleges and then reporting the consolidated expenditures activity in these programs to the State Comptroller.

The Schedule for the fiscal year ended June 30, 1998, consisted of 59 federal grants with total expenditures of \$13,452,294. We reviewed expenditures activity recorded in Banner, the Central Office’s accounting system, for six of these grants. Total expenditures for these grants reported to the State Comptroller were \$11,000,661, while the total expenditures recorded in Banner were \$11,878,104.

Effect: The total expenditures of these six grants as reported to the State Comptroller was understated by \$877,443, or 8 percent of the reported amount.

Cause: Expenditures charged to the Federal grants were reported to the State Comptroller in December 1998; the Central Office did not close out its fiscal year until March 1999.

Recommendation: The Central Office should close out its accounting records in a timely manner in order to comply with reporting requirements. (See Recommendation 2.)

Agency Response: “We agree with the recommendation that accounting records should be closed out in a timely manner. Fiscal year 1998 was the first full year in which the Community-Technical Colleges utilized a comprehensive new accounting system for most of our core financial transactions, and the resulting learning curve and the need to reconcile information at twelve colleges and the system office as fully as possible, resulted in a later than normal fiscal year-end close. Our regular schedule calls for each fiscal year to be closed in October to enable us to meet all reporting requirements. During fiscal year 1999 this schedule was met, and we anticipate meeting it during fiscal year 2000 and future years as well.”

Payroll – Termination Payments for 10-Month Employees:

The individual colleges employ faculty members who earn their salaries over a ten month period that essentially coincides with the academic calendar. Salary payments to these employees are made over a 12-month period.

Criteria: Faculty members who retire are paid for the portion of their contracts that they have earned but not yet received. The contract period for these faculty members is always August 25 through June 7. The balance of the contract payments and longevity payments for faculty members should be made in accordance with employee contracts, applicable bargaining unit contracts and Board of Trustees' personnel policies.

Condition: We reviewed the payroll procedures for these faculty members at two colleges and determined that the procedures are not consistent. These inconsistencies result in different termination payments being made to applicable faculty members, depending on which college the faculty members are employed at.

The procedures that are not being applied consistently are proration or non-proration of an employee's first and final payperiods over each period of appointment. This affects the termination payment for a faculty member who retires in the middle of the period.

Effect: Termination payments to faculty members under similar circumstances are made in different amounts because procedures used to determine those amounts are not applied consistently throughout the Community-Technical College system.

Cause: Each college has made its own interpretation of the relevant language contained in bargaining unit contracts.

Recommendation: The Central Office should determine the policy to be used on a system-wide basis to calculate employment data for 10-month employees. (See Recommendation 3.)

Agency Response: "We agree with the recommendation that the System Office should determine the policy to be used on a system-wide basis to calculate employment data for 10-month employees, in particular with respect to the issue of how to handle the first and last pay periods. In fact there has been a long-standing practice at the twelve community-technical colleges, that a faculty member's first payment should cover the full two-week period, regardless of the actual date on which the contract period begins, since under collective bargaining agreement, pay is earned based on the contract period. As a result, the final payment has never been an issue. It has recently come to light that the former technical college payroll practice was to prorate the first payment based on the number of days actually worked in the first two-week period. We are currently reviewing the issue

and will be issuing a formal Human Resources Memorandum clarifying the proper handling of these transactions.”

Payroll Internal Controls:

Criteria: Strong internal control over payroll requires that an employee’s timesheet be certified by the employee’s supervisor.

Condition: We selected 20 employees in each fiscal year for testing purposes. We noted that the timesheets for three employees were consistently not signed by the employees’ supervisor.

Effect: The internal control system over payroll is weakened.

Cause: Internal controls over payroll were inadequate.

Resolution: The Central Office has implemented procedures to prevent this condition from recurring. The matter has been resolved.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Board of Trustees' Central Office should follow property control requirements set forth by the State Comptroller. The Office did not have a controllable asset policy in effect during the audited period. The Office did not implement the increase in the State's capitalization policy on the Fixed Asset/Property Inventory Report. We selected 26 items to test to the inventory records, including 16 newly-purchased items. Five of these items were not at locations as set forth on the records. In addition, we noted one item which had not been tagged. (See Recommendation 1.)
- The Community-Technical College system, through its Central Office, should develop procedures to assure that its affiliated foundations comply with statutory sections related to audit reports. Our examination disclosed regular, recurring violations of provisions of Sections 4-37f and 4-37g of the General Statutes with respect to audit reports, namely, a failure to have audits performed at Gateway CTC, failure in all cases to transmit reports to our office with accompanying letters signed by the executive authority, and, in four cases, failure to ensure reports contained statements addressing compliance with statutory compliance. Our office now reviews these matters during the audits at the individual colleges. The recommendation is not being repeated in this report.
- A performance audit conducted during the previous audit addressed matters related to the operation of bookstores by the individual colleges within the system. The performance audit resulted in the three recommendations which follow.
 - 1) Manchester Community-Technical College should give consideration to converting from a contracted bookstore operation to an in-house operation to take advantage of the opportunity for significantly increased bookstore revenues. Such increases could benefit students through reduced textbook costs or by providing funding for educational programs. The Board of Trustees reviewed this matter and determined that it would not be advantageous for the college to convert to an in-house operation. Therefore, this recommendation is not being repeated.
 - 2) The Community-Technical College System should develop policies and procedures to ensure that before entering a bookstore contract, its member colleges are aware of commission rates being offered to other colleges with similar sales levels. A policy has been established in which the deans of administration at the individual colleges are made aware of the commission rates the other colleges are receiving. Therefore, this recommendation is not being repeated.
 - 3) The Community-Technical College System should consider alternative approaches to bidding out its member college bookstore contracts, such as a multiple-institution bidding package. The Board of Trustees reviewed this recommendation and determined that due to the relatively small size of some of the bookstores and vendor constraints, multiple-institution bidding would provide no material savings. Therefore, this recommendation is not being repeated.

Current Audit Recommendations:

The three recommendations which follow contain one recommendation which has been restated from the recommendation in the previous audit report and two recommendations which were developed as a result of this examination.

1. The Central Office should improve internal controls and procedures related to equipment inventory.

Comment:

We were unable to locate 16 items from a sample of 20 inventoriable items selected from the Fixed Asset Inventory Reporting System. We also found that 12 individual items with a unit cost of \$4,065 were recorded on the inventory system under one tag number.

2. The Central Office should close out its accounting records in a timely manner in order to comply with reporting requirements of the State Comptroller.

Comment:

The Central Office prepares the Schedule of Federal Financial Assistance for the 12 individual colleges and reports this activity in a consolidated format to the State Comptroller. We reviewed six grants on the Schedule for the fiscal year ended June 30, 1998, and noted that the expenditures of these grants as reported to the State Comptroller totaled \$11,000,661. The total expenditures of these six grants per the accounting system at the date of our review totaled \$11,878,104.

3. The Central Office should determine the policy to be used on a system-wide basis to calculate employment data for 10-month employees.

Comment:

Bargaining unit contract stipulations related to payroll processing of 10-month faculty members have been interpreted differently at the individual colleges within the system. These inconsistencies have resulted in different termination payments being made to faculty members at the various colleges.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Central Office of the Community-Technical Colleges for the fiscal years ended June 30, 1997 and 1998. This audit was primarily limited to performing tests of the Central Office's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Central Office's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Central Office are complied with, (2) the financial transactions of the Central Office are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Central Office are safeguarded against loss or unauthorized use. The financial statement audits of the Central Office for the fiscal years ended June 30, 1997 and 1998, 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 generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Central Office complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Central Office is the responsibility of the Central Office's management.

As part of obtaining reasonable assurance about whether the Central Office 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 Central Office's financial operations for the fiscal years ended June 30, 1997 and 1998, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of the Central Office 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 Central Office. In planning and performing our audit, we considered the Central Office's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Central Office's financial operations in order to determine

our auditing procedures for the purpose of evaluating the Central Office'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 Central Office'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 Central Office's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Central Office'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 findings represent reportable conditions: lack of control over equipment inventory, inadequate reporting of Federal grant expenditures activity, and inconsistent application of procedures related to the payment of 10-month faculty members.

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 Central Office's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency 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 Central Office's financial operations, books and accounts 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, of the reportable conditions described above, we believe the following reportable conditions to be material or significant weaknesses: lack of control over equipment inventory, inadequate reporting of Federal grant expenditures activity, and inconsistent application of procedures related to the payment of 10-month faculty members.

We also noted other matters involving internal control over the Central Office'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 shown to our representatives during the course of our audit by personnel of the Central Office of the Community-Technical Colleges. The cooperation and assistance extended to them in making records readily available and in explaining transactions as required greatly facilitated the conduct of this examination.

Timothy M. LePore
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts