STATE OF CONNECTICUT

AUDITORS' REPORT
BOARD OF TRUSTEES OF
COMMUNITY-TECHNICAL COLLEGES
SYSTEM OFFICE
FOR THE FISCAL YEARS ENDED JUNE 30, 2001, 2002, AND 2003

AUDITORS OF PUBLIC ACCOUNTS
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April 22, 2005

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SYSTEM OFFICE
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We have examined the financial records of the System Office of the Connecticut Community College System (System Office) for the fiscal years ended June 30, 2001, 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 System Office's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the System Office'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:

The Board of Trustees of Community-Technical Colleges (the Board) operates primarily under the provisions of Sections 10a-71 through 10a-80 of the General Statutes. Pursuant to provisions of Section 10a-72 of the General Statutes, the Board, through the System Office located in Hartford, administers the Connecticut Community College System, comprised of the following 12 two-year, public institutions of higher education:

Community College	Location
Asnuntuck	Enfield
Capital	Hartford
Gateway	New Haven
Housatonic	Bridgeport
Manchester	Manchester
Middlesex	Middletown
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 System Office of the Community College System and to address certain issues noted in our separate audits of each of the community colleges, issues which appear to have system-wide implications. Separate audit reports are issued to cover operations of each of the community colleges. Certain information pertaining to the system as a whole is included in this report to provide background information.

Section 10a-71 of the General Statutes currently provides that the Board of Trustees of Community-Technical Colleges consist of 18 members, 16 appointed by the Governor and two elected by students. The Board, among other things, makes rules and establishes policies for the governance, development and maintenance of the educational programs and services of the community colleges. Members receive no compensation for their services, but are entitled to reimbursement for expenses.

The Board of Trustees of Community-Technical Colleges included the following members as of June 30, 2003:

Lawrence J. Zollo, Chairman	William R. Johnson
Murali Atluru, Ph.D.	Jules Lang, Esq.
Louise S. Berry	Raymond Rivard
Rev. David L. Cannon	Hector Rodriguez
Ari Disraelly (elected by students)	Marie M. Spivey
General David Gay	Andrew Summerville
Andi Jackson-Ali (elected by students)	Virginia D. Zawoy

There were four vacancies on the Board at the end of the audited period.

Among the duties of the Board of Trustees is the appointment of a chief executive officer of the Community College System. Marc Herzog was appointed Chancellor effective June 1, 2000, and served as Chancellor during the audited period.

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 not fully refunded.

Public Act 03-69 – Effective July 1, 2003, this Act provides that General Fund appropriations shall be transferred from the Comptroller and deposited into the Regional Community-

Technical Colleges' Operating Fund. Also, upon request of the Board of Trustees of Community-Technical Colleges, 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:

The following reflects the Connecticut Community College System enrollment of full-time and part-time students during the three audited years:

	Fall 2000	Spring 2001	Fall 2001	Spring 2002	Fall 2002	Spring 2003
Full-time students	10,887	9,494	12,044	10,937	13,715	12,313
Part-time students	29,938	29,320	30,598	30,211	31,154	30,902
Total enrollment	40,825	38,814	42,642	41,148	44,869	43,215

The average of Fall and Spring semesters' total enrollment amounted to 39,819, 41,895 and 44,042 during the 2000-2001, 2001-2002, and 2002-2003 fiscal years, respectively. The increases in these figures, amounting to roughly five percent annually during both the 2001-2002 and 2002-2003 fiscal years, reflected the slowdown in the State's economy during the audited years. Generally, when the economy deteriorates, community college enrollment increases as people seek to improve or develop new job skills and pursue lower cost higher education.

RÉSUMÉ OF OPERATIONS:

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

General Fund:

General Fund receipts totaled $574, $4,068, and $1,521 during the 2000-2001, 2001-2002, and 2002-2003 fiscal years, respectively, and consisted primarily of refunds of expenditures of budgeted accounts.

During the audited period, General Fund expenditures consisted mostly of personal services costs and transfers of annual "Tuition Freeze" appropriations by the State Legislature. These appropriations were made to help defray the impact of reduced revenues as a result of tuition rate freezes at the Community Colleges, which were implemented during the 1998-1999 and 1999-2000 fiscal years. In the 2001-2002 fiscal year, the System Office also received a one-time "Operating Reserves" supplemental appropriation to defray salaries and fringe benefits costs in the 2001-2002 and 2002-2003 fiscal years. This appropriation was transferred from the System Office's General Fund to its Operating Fund and recognized as a General Fund expenditure.

General Fund expenditures totaled $6,802,136, $14,717,657, and $9,525,027 for the fiscal years ended June 30, 2001, 2002, and 2003, respectively, compared to $7,358,945 for the fiscal year ended June 30, 2000. Fund expenditures decreased by $556,808 (7.6 percent), increased by $7,915,520 (116.4 percent), and then fell by $5,192,629 (35.3 percent), respectively, during the three audited years, compared to the respective preceding years.

The 7.6 percent decrease in Fund expenditures during the 2000-2001 fiscal year was, in part, the result of a shift in funding of personal services costs from the General Fund to the Operating Fund. In the 2000-2001 fiscal year, the System Office's Operating Fund accounts shouldered a larger share of these costs, compared to the previous year.

The apparent sharp rise in General Fund expenditures during the 2001-2002 fiscal year was the result of several factors. In the 2001-2002 fiscal year, there was a change in the method of accounting for restricted collective bargaining funds held under provisions of the System's union contracts. As a result, in the 2001-2002 fiscal year, the System Office transferred $3,575,687, the balance of these restricted collective bargaining unit funds, from the General Fund to the Operating Fund. This transfer was recognized as a General Fund expenditure and had the effect of inflating General Fund expenditures. In previous years, such unexpended collective bargaining funds were carried forward as a General Fund appropriation for the next year, with no General Fund expenditure recognized. Adding to the increase in General Fund expenditures during the 2001-2002 fiscal year, the System Office received a one-time, "Operating Reserves" appropriation to fund the costs of salaries and fringe benefits during the 2001-2002 and 2002-2003 fiscal years. In the 2001-2002 fiscal year, the System Office transferred this appropriation from its General Fund account to its Operating Fund account, recognizing a General Fund expenditure in the process. Salary increases approved by the Board of Trustees and an increase in the number of System Office employees also contributed to the rise in General Fund expenditures in the 2001-2002 fiscal year.

The decline in Fund expenditures in the 2002-2003 fiscal year, compared to the previous year, resulted partly from the lack of an "Operating Reserves" appropriation to defray salaries and fringe benefits costs. In the previous year, the System Office transferred this appropriation from its General Fund to its Operating Fund. This transfer was recognized as a General Fund expenditure by the State Comptroller. In the 2002-2003 fiscal year, without this appropriation, no such expenditure was recorded. In addition, compared to the 2001-2002 fiscal year, during the 2002-2003 fiscal year, the System Office transferred a much smaller amount of restricted collective bargaining funds from the General Fund to the Operating Fund.

Operating Fund:

The System Office's operating revenues and expenditures (excluding personal services expenditures charged to the General Fund) are accounted for within the Operating Fund. During the 2000-2001 fiscal year, a major component of Fund receipts was a $1,000,000 private donation. As requested by the donor, the System Office used this donation to fund an auditorium construction project at Naugatuck Valley Community College.

During the 2001-2002 fiscal year, Fund receipts consisted in large part of the above-mentioned (see "General Fund" section) transfer from the General Fund of an "Operating Reserves" appropriation to support Community College System salaries and fringe benefits costs. Fund receipts also included a "Tuition Freeze" appropriation transferred from the General Fund. In addition, in the 2001-2002 fiscal year, the System Office received and credited to its

Operating Fund restricted grant funds for the Connecticut Charts-a-Course program, a State career development program for early care and education and school-age care.

In the 2002-2003 fiscal year, receipts were mostly made up of another “Tuition Freeze” appropriation and restricted grants for the continued funding of the Charts-a-Course program.

During the audited period, a small share of Fund receipts also consisted of fees charged to State agencies for in-service training services provided by the Community College System. (The State’s in-service employee training program is coordinated through the System Office and provided statewide through the individual colleges within the Community College System.)

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

	Fiscal Year			
	1999-2000	**2000-2001**	**2001-2002**	**2002-2003**
Total Receipts	$583,216	$1,990,664	$8,902,018	$3,573,584

Operating Fund receipts increased by $1,407,448 (241 percent) during the 2000-2001 fiscal year, compared to the previous year. This increase was primarily the result of the above-mentioned $1,000,000 donation for a Naugatuck Valley Community College construction project.

In the 2001-2002 fiscal year, Operating Fund receipts increased by $6,911,353 (347 percent), compared to the previous year. The increase was, in part, the result of a change in the method of distributing the “Tuition Freeze” appropriation to the colleges. In the 2001-2002 fiscal year, this money was transferred from the System Office’s General Fund account to its Operating Fund account and recognized as a receipt of the Operating Fund. In contrast, in the 2000-2001 fiscal year, it was transferred directly from the System Office’s General Fund to the Colleges, with no impact on System Office Operating Fund receipts. Adding to the increase in Fund receipts in the 2001-2002 fiscal year was a one-time “Operating Reserves” appropriation totaling $3,253,333 for salaries and fringe benefits. This appropriation was transferred from the System Office’s General Fund to its Operating Fund and recorded as an Operating Fund receipt. In addition, in the 2001-2002 fiscal year, the System Office received restricted grant funds for the above-mentioned Connecticut Charts-a-Course program. These funds further contributed to the increase in Operating Fund receipts during the 2001-2002 fiscal year.

In the 2002-2003 fiscal year, Operating Fund receipts fell by $5,328,434 (nearly 60 percent), compared to the previous year. This decrease reflected the lack of an “Operating Reserves” appropriation in the 2002-2003 fiscal year. It also reflected a decrease in grant funding received for the Connecticut Charts-a-Course program.

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

	Fiscal Year			
	1999-2000	**2000-2001**	**2001-2002**	**2002-2003**
Personal Services	$ 48,121	$ 530,896	($3,201,442)	($508,995)
Contractual Services	2,483,719	2,551,724	3,559,128	3,206,957
Commodities	126,495	144,132	115,242	146,510
Sundry Charges	520,379	989,108	635,074	420,660
Equipment	199,976	76,725	37,305	190,733
Buildings & Improvements	-	-	1,183,657	68,993
Total Expenditures	$3,378,690	$4,292,585	$2,328,964	$3,524,858

Expenditures were primarily made up of costs associated with contractual services. Operating Fund expenditures increased by $913,895 (27 percent), decreased by $1,963,621 (nearly 46 percent), and then increased by $1,195,894 (51 percent) during the 2000-2001, 2001-2002, and 2002-2003 fiscal years, respectively, compared to the previous fiscal years.

The increase during the 2000-2001 fiscal year was due, in part, to a shift in the funding of personal services expenditures. In the 2000-2001 fiscal year, the System Office charged a smaller share of its personal services expenditures to the General Fund, compared to the 1999-2000 fiscal year. As a result, in the 2000-2001 fiscal year, the Operating Fund bore a larger share of personal services and related employee fringe benefit expenditures, compared to the previous year.

The large apparent decline in Fund expenditures during the 2001-2002 fiscal year was mostly related to transfers of restricted collective bargaining unit personal services funds from the General Fund to the Operating Fund. These transfers were recorded in the Operating Fund as negative expenditures and had the effect of distorting (understating) true Fund expenditures. In the 2001-2002 fiscal year, the State Comptroller's records showed a large negative total, amounting to ($3,201,442), for System Office personal services expenditures. This total was largely the result of a change in the method of accounting for restricted System Office collective bargaining funds held under provisions of certain of the System's union contracts. As mentioned in the "General Fund" section of this report, in the 2001-2002 fiscal year, the System Office transferred $3,575,687, the balance of these restricted collective bargaining unit funds, from the General Fund to the Operating Fund. This transfer was recognized by the State Comptroller as a negative Operating Fund expenditure. (The transfer was somewhat offset by true Operating Fund personal services expenditures.) In previous years, such unexpended collective bargaining funds were carried forward as a General Fund appropriation for the next year, with no impact on recorded Operating Fund expenditures.

In the 2001-2002 fiscal year, the large negative total for Operating Fund personal services expenditures was partially offset by increases in certain other categories of Fund expenditures. In this year, Fund contractual services expenditures rose sharply (more than $1,000,000). This increase was mostly related to a shift in the administration of the Connecticut Charts-a-Course program from Norwalk Community College to the System Office. Further, the 2001-2002 fiscal year saw a more than $1,000,000 increase in Fund expenditures in the category of buildings and improvements. This increase was related primarily to a Naugatuck Valley Community College auditorium construction project, which was administered by the System Office and funded by the private donation mentioned above.

The 51 percent increase in recorded Fund expenditures in the 2002-2003 fiscal year was mostly due to a much smaller transfer of collective bargaining funds from the General Fund to the Operating Fund, compared to the previous year's transfer. In the 2002-2003 year, the transfer amounted to $857,725, an amount that was somewhat offset by true Operating Fund personal services expenditures. Once again, the transfer was recorded on the State Comptroller's records as a negative Operating Fund personal services expenditure, having the effect of distorting (understating) Fund expenditures. This smaller negative expenditure number contributed greatly to the apparent overall increase in Fund expenditures in this year.

State Capital Projects:

Capital projects funds expenditures during the 2000-2001, 2001-2002, and 2002-2003 fiscal years totaled $8,824,426, $8,124,449, and $8,960,179, respectively.

These expenditures were primarily made for improvements to community college campus buildings and grounds and, to a lesser extent, for equipment purchases for various community colleges.

Grants – Tax-Exempt Proceeds Fund:

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

Fund receipts recorded by the State Comptroller totaled $7,209,708, $4,138,731, and $699,919 during the 2000-2001, 2001-2002, and 2002-2003 fiscal years, respectively. Fund expenditures, according to the State Comptroller, totaled $2,556,717, $5,202,864, and $2,173,684 during the 2000-2001, 2001-2002, and 2002-2003 fiscal years, respectively. Expenditures consisted primarily of capital outlays for Community College System buildings.

CONDITION OF RECORDS

Our review of the financial records of the System Office revealed certain areas requiring attention, as discussed in this section of the report.

Payroll:

Background: State employees who have attained at least ten years of State service are paid, in addition to their regular salary payments, semiannual payroll payments based on their years of service and salary level. Such payments are called longevity payments.

Criteria: Section 10a-72, Subsection (a), of the General Statutes provides that the Board of Trustees of Community-Technical Colleges "…shall determine who constitutes its professional staff and establish compensation and classification schedules for its professional staff."

Sound internal controls require the establishment of a system of checks and balances to ensure that payroll payment rates are properly authorized. Such rates for longevity payroll payments for Connecticut Community College System management employees should be established by the Board of Trustees of Community-Technical Colleges, according to Section 8 of *Personnel Policies for Management Employees in the Community College System*. Accordingly, either the Board or the Chancellor should formally approve the longevity pay rates established for such employees.

The Federal Office of Management and Budget Circular A-21 calls for the documented confirmation that personal services charges to a Federal 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 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. Such reports should be prepared at least semi-annually or annually, depending on the method of reporting chosen.

Condition: It was the System Office's policy to pay certain executive employees longevity pay, based on a rate amounting to 115 percent that of the rate paid to College Deans. However, we found that the System Office had no formal written approval on hand, from either the Board of Trustees of Community-Technical Colleges or the Chancellor, for this method. Rather, this method was only formalized in an unsigned memo to System Office files, which indicated that it was based on discussions with Chancellor Marc Herzog.

The System Office charged payroll costs for three System Office employees to Federal programs during part of the audited period. In August 2004, we asked System Officials if corresponding time and effort reports were completed for these employees. In September 2004, the System Office provided us statements, signed by the Chief Academic Officer, indicating for each of these three employees that their "duties were 100 percent assigned and paid within the Federal Grant (grant name cited)…." These reports were all dated September 16, 2004, and were, evidently, completed during the course of our examination.

Reports for two employees covered the work periods July 1, 2000 to June 30, 2001, and July 1, 2001 to June 30, 2002. Reports for the third employee covered the work periods May 17, 2002 to June 30, 2002, and July 1, 2002 to September 30, 2002.

None of these time and effort reports met either the frequency or timeliness requirements set by Circular A-21, which requires at least annual or semi-annual time and effort reports, depending on the method of reporting chosen.

Effect: Lack of documented approval for the longevity pay rates paid to certain System Office employees raises questions as to whether these rates were properly approved.

The System Office did not comply with Federal OMB Circular A-21 with respect to the frequency of time and effort reporting for documenting payroll costs charged to Federal programs. This decreases contemporaneous assurance that payroll charges made to Federal programs actually applied to these programs.

Cause: We were told that paying certain executive System Office employees longevity pay at 115 percent the rate for College Deans was a longstanding practice. We were further informed that the unsigned memo to System Office files was an attempt to formally codify these rates.

The System Office did not have effective procedures in place to adequately document the time and effort of employees whose salaries were charged to Federal programs.

Recommendation: The System Office should seek formal, documented approval, from either the Board of Trustees of Community-Technical Colleges or the Chancellor, for its established longevity pay rates for System Office executive employees. The System Office should also comply with Federal Office of Management Budget Circular A-21 by completing time and effort reports, on the required schedule, to support payroll charges to its Federal programs. (See

Recommendation 1.)

Agency Response: "Management agrees with the recommendation regarding federal time and effort reporting and issued a system procedure as Fiscal Memorandum 2005-1 on October 1, 2004. This memorandum had originally been planned over a year ago as part of a broader time and attendance policy, but was delayed because of the complexity of the Core-CT conversion, so it has now been issued as a separate, stand-alone memorandum.

Management also agrees that appropriate approvals should be in place to support the longevity rates for System Office executive employees, and will incorporate this into future documentation approved either by the Chancellor or the Board."

Property Control:

Criteria: An adequate internal control system for the disposal of equipment requires a separation of duties between employees having custody of equipment being disposed of and employees approving such disposal. Furthermore, this authorization should be documented before the equipment disposal.

The State of Connecticut's *Property Control Manual*, under authority of Section 4-36 of the General Statutes, sets forth criteria and policies over assets owned or leased by a State agency. Requirements include, among other things, that capital equipment and certain other controllable items be recorded in property control records and that an annual report reflecting the total of physical inventory as of June 30, each year, be submitted to the State Comptroller.

The *Property Control Manual* also states that fine arts inventory items with a value or cost of $1,000 or more at acquisition should be included on annual property inventory reports submitted to the State Comptroller.

Condition: We found that the System Office's internal control over equipment items disposed of (scrapped or traded-in) needs strengthening. Just as the System Office provides documented approval for the purchase of equipment, the System Office should also provide authorization, through signed approval, before the disposal of any equipment items. While the System Office did have a form in place to document approvals for such disposals, in the cases we tested, the form was not used. In the audited period, we noted one trade-in of equipment and five other disposals for which there was inadequate documented approval.

For the 2001-2002 and 2002-2003 fiscal years, the System Office prepared and submitted to the Office of the State Comptroller annual property inventory reports (CO-59) for all of the colleges within the Community College System. We found that the System Office excluded the value of Community College System works of art for each of the colleges, system-wide. According to the Office of the State Comptroller, such values should not have been excluded. Most notable among the exclusions was the case of Housatonic Community College's art collection for which a value of $8,698,523 was reported as of June 30, 2001. The value of this art collection was not reported on annual property reports for June 30, 2002, and 2003.

Effect: Internal control over equipment disposals was weakened, increasing the chance that the loss or theft of equipment will go undetected.

The System Office did not fully comply with the State of Connecticut's *Property Control Manual* with respect to the annual reporting of works of art. This resulted in understating the value of property reported on certain Community College System annual property inventory reports.

Cause: Evidently, the System Office considered its controls over equipment disposals adequate.

We were told that the System Office believed that it could follow the pronouncements of the Government Accounting Standards Board (GASB) when completing its annual property inventory reports to be submitted to the State Comptroller. GASB allows, under certain circumstances, the exclusion of works of art and historical treasures from government financial statement reporting. (However, annual property inventory reports required by the State Comptroller are not traditional financial statements, but are instead part of the State's internal reporting mechanism, and are not subject to the same requirements set by GASB.)

Recommendation: The System Office should ensure that it properly documents the approval for the disposal of any of its equipment. Further, the System Office should report the value of Community College System works of art in the annual property inventory reports that it submits to the State Comptroller. (See Recommendation 2.)

Agency Response: "Management agrees that controls should be in place to ensure internal control over property disposals, and believes that existing CCC Fixed Asset Policy with respect to dispositions provides for the required controls. CCC Fixed Asset policy section 13.2.2, as approved by the Comptroller's Policy Services Division, outlines the property disposal requirements applicable to the community colleges as authorized by C.G.S. 4a-4(c). This policy does not require approval per se, but does require open disclosure of the date, name of person making the disposal determination, and the reason therefore (unused/unneeded or unserviceable/obsolete, etc.) and that this information be added to the fixed asset system inventory record. The disposal determination is typically initiated by the end user; while the documentation (or de facto "approval") of that decision can only be made by authorized business office staff who have secure access to the fixed asset system. Additionally, the annual physical inventory serves as a backup control to ensure that assets are properly identified and accounted for.

An internal review of the items tested by the state auditors indicates that written documentation exists for each item tested, regarding the date, name of the person making the disposal determination, and the reason therefore; that in each case the disposal status and date was entered into the fixed asset system; however the required notations regarding name of the end user and reason were not made to the fixed asset system. Management is re-emphasizing the importance of documenting the required information in the fixed asset system, and using the (optional) disposal form, memoranda or similar means to identify that information.

Management also agrees that works of art should be included on the annual CO-59 inventory report, and will do so beginning with fiscal year 2004. Their exclusion in 2002 and 2003 resulted from a misunderstanding with the Comptroller's Office following the implementation of GASB 35, which does not include the value of fine arts collections for purpose of financial statement reporting."

Auditor's Concluding Comments: Our recommendation with respect to the System Office's documentation of approval for equipment disposals focuses on internal control, not on the System Office's compliance with State laws or regulations regarding State property. We are not suggesting that the System Office's fixed asset policy does not comply with such laws or regulations. Rather, we believe that implementing a system where the employee charged with approving the disposal of equipment actually records his or her approval of such actions before the disposal occurs would provide better internal control over such disposals.

Cash Receipts Records:

Criteria: Good internal controls require that cash receipts be recorded promptly in cash receipts journals. Prompt recording of cash receipts provides a trail of monies received, helping to prevent their loss or theft.

Also, Section 4-32 of the General Statutes provides that each State institution receiving revenue for the State shall, where such sums amount to $500 or more, deposit the amounts in bank accounts approved by the State Treasurer, within 24 hours of their receipt.

Condition: As in our last audit of the System Office, our testing of cash receipts records showed that System Office cash receipts accounting records, generally, did not reflect actual cash receipt dates. In fact, we tested bank deposits associated with nine State Treasurer's deposit slips and found that, in eight cases, receipts deposited were recorded in the System Office's Banner automated cash receipts records after deposits were made.

Effect: There was an increased risk of loss or theft of cash received. Also, this condition prevented us and the System Office from determining how long cash was held pending deposit. We could not, therefore, determine if there was compliance with Section 4-32 of the General Statutes.

Cause: The System Office informed us that the recording of cash receipts was, at times, delayed pending determination of proper receipt coding or pending completion of other duties.

Recommendation: The System Office should improve internal control over its cash receipts by promptly recording their receipt in its cash receipts accounting records. (See Recommendation 3.)

Agency Response: "Management agrees that cash receipts over $500 should be both deposited and accounted for within 24 hours as required by statute, and believes that we are substantially in compliance with that requirement. The prior audit recommendation, covering fiscal years 1999 and 2000, was not issued until April 2002, with preliminary information in December 2001. The current audit covers fiscal years 2001, 2002 and 2003. All items tested for 2001 and one of two items tested for 2002, reflect transactions that occurred ***prior to*** the previous (December 2001) audit finding. Management agrees that these earlier transactions were incorrectly accounted for on a delayed basis, similar to those transactions audited in 1999 and 2000. However, a review of those 2002 and 2003 transactions selected for audit which occurred ***after*** December 2001, shows that three of five were accounted for within one business day of deposit, one was accounted for within two business days (delayed by the fourth of July holiday) and one was accounted for within three business days. (State auditor's backup which reflected longer timeframes did not correctly identify the Banner A/R and GL accounting transaction dates, but instead incorrectly reflected the A/R feed date as the cash receipt accounting date.) Management will continue to emphasize that all receipts over $500 should be both deposited and accounted for within 24 hours as required by statute."

Auditor's Concluding Comments: We are not stating that the above findings represent instances of noncompliance with State laws or regulations. Instead, we are citing these conditions to highlight an area where internal control could and should be strengthened. We stand by our findings as described above. The System Office's accounting records support these findings. The System Office says, "…after December 2001…three of five [cash receipts tested] were accounted for within one business day of deposit, one was accounted for within two business days…and one was accounted for within three business days." We must clarify this statement by emphasizing, again, that these and almost all of the other cash receipts we tested were recorded in the System Office's cash receipts records after their deposit into the bank. Since the System Office's cash receipts records clearly did not reflect actual receipt dates, we could not determine the exact number days that the recording of receipts was delayed. What is clearer is that it is a standard principle of sound internal control to record cash receipts when received. In most of the cases we tested, the System Office did not do this, but instead delayed their recording. It should be noted, however, that compared to the conditions found in our last audit of the System Office, it appears that the System Office has made considerable improvement in reducing the degree of the delays in the of recording its cash receipts. Nevertheless, to enhance internal control, further improvement needs to be made.

Information Technology:

Background: The System Office Data Center administers centralized databases for the entire Connecticut Community College System. The Colleges' administrative software system, Banner, is housed on a server located at the Data Center. The Banner system is used to record financial and student academic data for the entire Community College System.

Criteria: A disaster recovery plan that addresses the resumption of business operations should a disaster occur is an important planning tool for information technology security.

Condition: We were told that the System Office Data Center performs procedures to reduce the risk of lost data and interruption of services in the event of a disaster. These procedures include scheduled data back-up and off-site storage of back-up tapes. However, the System Office has no formal, written disaster recovery plan for its information technology operations.

We did, however, note that subsequent to the audited period, the System Office developed a request for proposals, dated October 8, 2004, for the creation of a comprehensive disaster recovery plan with respect to System Office information technology operations. The System Office posted this RFP on its Web site.

Effect: The lack of a formal information technology disaster recovery plan could impair the resumption of Community College System operations if a disaster were to occur.

Cause: The System Office cited a lack of resources needed to produce a disaster recovery plan.

Recommendation: The System Office should develop a formal, written information technology disaster recovery plan.
(See Recommendation 4.)

Agency Response: "Management agrees that disaster recovery planning for the system data center is important and has been working on this issue for some time. Concurrent with the development and approval of its IT Strategic Plan, the CCC's have also begun a comprehensive process to consider the impacts on college and system operations from the loss of its information systems, to review possible alternatives to mitigate those impacts beyond the existing data backup and other procedures currently in place, and to develop and implement an appropriate plan consistent with an assessment of risks and resources. The first step currently underway will provide a comprehensive business impact analysis of the business systems, processes and functions that would be impacted as a result of a denial of access to CCC computer systems; will conduct an assessment of our current system data center preparedness; and will provide alternative recovery options as well as identification of minimum recovery configuration requirements."

The following weaknesses were noted at a number of Community College System institutions during the course of our separate audits of those organizations.

Time and Effort Reporting

Criteria: The Federal Office of Management and Budget Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements between the Federal government and educational institutions. Under this Circular, the method of distributing payroll charges must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. To accomplish this, institutional records must adequately document that payroll expenditures posted to an account were actually incurred in the course of carrying out the program accounted for in the account.

According to Circular A-21, 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 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. Using this method, for professorial and professional staff, the statements must be prepared each academic term, but no less frequently than every six months.

Condition: During the audited period, we noted that the following Community College System institutions received and administered one or more Federal grants to which payroll expenditures were charged. However, these institutions either did not have a time and effort reporting system or had an inadequate system in place:

- Middlesex Community College*
- Asnuntuck Community College*
- Gateway Community College
- Manchester Community College*
- Norwalk Community College
- Tunxis Community College
- Naugatuck Valley Community College
- Quinebaug Valley Community College
- Northwestern CT Community College
- System Office of the Community College System

*Based on our audit covering the 2000-2001 and 2001-2002 fiscal years, our most recent audit of this institution at the time of this writing, in March 2005.

In the case of Norwalk Community College, we noted that the College did have an adequate time and effort reporting system in place for one of its Federal programs, but had no system in place for two other Federal programs.

Circular A-21 provides that where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents qualify as records for this purpose, provided that they meet the requirements outlined in the Circular. In the cases cited above, payroll documents did not provide a signed certification that the employee's payroll expenditures were charged to the activities/programs on which the employee actually worked.

The System Office has informed us that it did prepare a formal, written policy addressing Community College System requirements for time and effort reporting. The policy, however, was not disseminated to the Community Colleges during the audited period.

Effect: The System Office and the above community colleges did not fully comply with the Office of Management and Budget Circular A-21 requirements concerning the documentation of payroll distribution costs. This decreases assurance that payroll costs charged to Federal programs actually applied to those programs.

Cause: Community College officials had other, higher priorities.

Conclusion: The System Office has established written policies and procedures for implementing a system-wide time and effort reporting system to document Community College System payroll charges to Federal programs. These procedures were distributed to the Community Colleges in October 2004. Considering that the System Office has taken steps to address the time and effort reporting deficiencies noted above, we are not making another recommendation on time and effort reporting at this time.

Contracts with State Employees:

Criteria: Section 1-84, subsection (i), of the General Statutes provides that, "No public official or state employee or member of his immediate family or a business with which he is associated shall enter into any contract with the state, valued at one hundred dollars or more, other than a contract of employment as a state employee or pursuant to a court appointment, unless the contract has been awarded through an open and public process, including prior public offer and subsequent public disclosure of all proposals considered and the contract awarded."

In addition, section 9.2 of the *Community-Technical Colleges Agency Purchasing Policies* quotes the above statute and adds, "Accordingly, no state employee may be offered a Personal Service Agreement unless the contract has been awarded pursuant to an appropriate bidding process."

Condition: While we noted some improvement in Community College System compliance with Section 1-84, subsection (i), of the General Statutes, further improvement is needed.

During our audits of the State's community colleges, covering the 2000-2001, 2001-2002, and 2002-2003 fiscal years, we found instances in which three of the colleges, in the process of entering into contracts amounting to $100 or more with their own employees, did not appear to meet the requirements of Section 1-84, subsection (i), of the General Statutes, as discussed below.

Asnuntuck Community College (Asnuntuck):

In our audit of Asnuntuck, covering the 2000-2001 and 2001-2002 fiscal years, we found that Asnuntuck contracted with two employees to develop course curricula and redesign letterheads for $4,110 and $1,250, respectively. Additionally, we noted that Asnuntuck contracted with a corporation, the Vice-president of which was a Tunxis Community College professor, while her husband was the president of the corporation. Payments to the firm amounted to $6,750 and $9,955, respectively, in the 2000-2001 and 2001-2002 fiscal years. All of these agreements were made without submitting proposals for public bid.

Quinebaug Valley Community College (Quinebaug):

In our audit of Quinebaug, covering the 2001-2002 and 2002-2003 fiscal years, we found five violations of Section 1-84, subsection (i), of the General Statutes. Quinebaug contracted with three employees, amounting to $2,500 each, to develop on-line courses. Further, Quinebaug contracted with two of its employees to provide a series of art exhibits at the college for $2,500 and $1,250, respectively. These agreements were made without submitting proposals for public bid.

Gateway Community College (Gateway):

In our audit of Gateway, covering the 2002-2003 and 2003-2004 fiscal years, we found two cases where the college contracted with one of its own employees to perform catering services for graduation receptions. However, the college did not publicly advertise for bids. Instead, Gateway requested and obtained price quotes from targeted vendors. Gateway processed corresponding payments to this college employee amounting to $5,582 and $6,422 in the 2002-2003 and 2003-2004 fiscal years, respectively.

In addition, we noted that a Gateway employee, without obtaining prior administrative approval, bypassed the Purchasing Office and set up an agreement with her mother to provide catering services for a college event in May 2004. Unaware of this agreement, the Purchasing Office did not solicit bids for these services. After examining the circumstances surrounding this agreement, in July 2004, Gateway processed a payment in the amount of $1,225 to the contractor (the employee's mother), covering only reimbursement for documented food items purchased, excluding any labor charges for catering services provided. We also found that Gateway took other, meaningful steps to prevent such conditions from recurring.

Effect: Three colleges within the Community College System did not fully comply with Section 1-84, subsection (i), of the General Statutes, which provides, among other things, that no State employee may enter into any contract with the State, amounting to $100 or more, unless the contract has been awarded through an "open and public process." Lack of compliance raises questions as to the propriety of such transactions.

Cause: Though the Community College System does have a written policy addressing this issue, it appears that Quinebaug Valley Community College was not aware of the requirements of Section 1-84 of the General Statutes concerning the award of contracts to State employees. On the other hand, Asnuntuck Community College did not have adequate procedures in place to identify State employees during the contract award process. In the first two Gateway Community College cases cited, the college considered obtaining price quotes sufficient without regard to open, public solicitation of bids. In the third Gateway case cited, an employee, on her own, circumvented the college's purchasing procedures by setting up an agreement for catering services with her mother, without first obtaining administrative approval and without going through the Purchasing Office.

Recommendation: The System Office should take further steps to improve Community College System compliance with Section 1-84, subsection (i), of the General Statutes, which provides, among other things, that no State employee may enter into any contract with the State, amounting to $100 or more, unless the contract has been awarded through an "open and public process." (See Recommendation 5.)

Agency Response: "Management agrees that the requirements of Section 1-84 must be complied with and will seek to develop specific practical guidelines that will facilitate compliance in the CCC higher education environment."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **Develop and disseminate a written off-site employment policy to set guidelines for authorizing Community College System employees to work off-site and take steps to ensure that written agreements are set up and approved by appropriate management employees before such arrangements take effect.** We noted improvement in the System Office's internal control over its off-site work arrangement. Annual written agreements detailing the terms of the arrangement were set up for the 2002-2003 and 2003-2004 fiscal years. This time, these agreements were properly signed by the Chancellor, among others, before they took effect. The System Office took the position that since only one System Office employee participated in an off-site work arrangement, and since control over this situation improved, there was no need to establish a written a policy addressing off-site work arrangements. No such policy was, therefore, developed. Given the improved control noted, we are not repeating this recommendation.

- **Improve controls over property, especially computer equipment, by following the property control requirements set forth by the State Comptroller.** We noted improvement in this area. Inventory control records that we examined, generally, appeared up-to-date, complete, and accurate. We noted no exceptions with respect to the System Office's own annual property inventory reports submitted to the State Comptroller. However, we found inaccuracies in certain of these reports, which the System Office completed for each of the individual Community Colleges for the 2001-2002 and 2002-2003 fiscal years. We also saw weaknesses in the System Office's internal control over equipment disposals. Therefore, the recommendation is being repeated but modified to reflect the conditions noted. (See Recommendation 2.)

- **Improve internal control over cash receipts by promptly recording their receipt in cash receipts accounting records.** In our current audit, we found that the System Office, generally, continued to delay recording cash receipts in its accounting records until after their deposit into the bank. Therefore, the recommendation is being repeated. (See Recommendation 3.)

- **Develop a written policy requiring that all Community College System institutions implement a time and effort reporting system for documenting payroll costs associated with Federal grant programs, as required by the Office of Management and Budget Circular A-21.** During our separate audits of the Community Colleges and of the System Office, for the 2000-2001, 2001-2002, and 2002-2003 fiscal years, we found that most of the Community Colleges and the System Office itself either had no time and effort system in place for documenting payroll costs charged to Federal programs, or had an inadequate system in place. (See the "Condition of Records" section of this report.) The System Office informed us that it made some progress in developing a written policy for time and effort reporting during the audited period. However, completion and dissemination of the policy was delayed while the System Office was implementing the State's Core-CT information system for the Community College System. Therefore, no such policy was distributed during the audited period. However, subsequent to the audited period, the System Office completed and distributed to the colleges written policies and procedures for implementing a time and effort reporting system. We are, therefore, not repeating the recommendation.

- **Consider implementing procedures to monitor whether or not all colleges in the Community College System adequately account for student activity fees and should consider effecting procedures to compensate the System's Student Activity Funds for any lost return on investment while student activity fees were held in Operating Fund accounts.** As noted in the System Office's response to this recommendation, per an agreement with the Office of the State Comptroller, all college student activity funds were transferred to college Operating Fund accounts, effective during the 2001-2002 fiscal year. The Community Colleges set up separate accounts within the Operating Fund to properly account for these funds, including student activity fees. The System Office considered our recommendation calling for compensating Student Activity Funds for lost return on investment while student activity fees were held in Operating Fund accounts during the period July 1998 through March 2000. The System Office took the position that any lost return on investment was minimal and would not warrant the time and effort needed to calculate these amounts. Given the above, we are not repeating this recommendation.

- **Take steps to improve Community College System compliance with Section 1-84, subsection (i), of the General Statutes, which provides, among other things, that no State employee may enter into any contract with the State, amounting to $100 or more, unless the contract has been awarded through an "open and public process."** We saw some improvement in compliance with Section 1-84, subsection (i), of the General Statutes in our separate audits of the Community Colleges. However, we found several violations of this Section in our audit of Asnuntuck Community College for the 2000-2001 and 2001-2002 fiscal years. We also noted several violations in our audit of Quinebaug Valley Community College for the 2001-2002 and 2002-2003 fiscal years. Furthermore, similar weaknesses were found during our audit of Gateway Community College covering the 2002-2003 and 2003-2004 fiscal years. The recommendation is, therefore, being repeated. (See Recommendation 5.)

Current Audit Recommendations:

1. **The System Office should seek formal, documented approval, from either the Board of Trustees of Community-Technical Colleges or the Chancellor, for its established longevity pay rates for System Office executive employees. The System Office should also comply with Federal Office of Management Budget Circular A-21 by completing time and effort reports, on the required schedule, to support payroll charges to its Federal programs.**

Comment:

The System Office did not have written approval, from either the Board of Trustees or the Chancellor, for the longevity pay rates it paid to System Office executive staff members. During the audited period, the System Office did not complete time and effort reports for System Office employees whose payroll costs were charged to Federal programs. Such reports were only recently completed, in September 2004, during the course of our examination.

2. **The System Office should ensure that it properly documents the approval for the disposal of any of its equipment. Further, the System Office should report the value of Community College System works of art in the annual property inventory reports that it submits to the State Comptroller.**

Comment:

We found that the System Office had inadequate written approval on hand to support the disposal of equipment items that we tested. Also, the value of Community College System works of art was excluded from annual property inventory reports submitted to the State Comptroller.

3. **The System Office should improve internal control over its cash receipts by promptly recording their receipt in its cash receipts accounting records.**

Comment:

Cash receipts accounting records, generally, did not reflect actual cash receipt dates. Receipts deposited into the bank were recorded in the System Office's Banner automated cash receipts records after deposits were made.

4. **The System Office should develop a formal, written information technology disaster recovery plan.**

Comment:

While the System Office's Data Center took steps to ensure the continuation of information technology operations in the event of a disaster, it had no formal, written disaster recovery plan.

5. **The System Office should take further steps to improve Community College System compliance with Section 1-84, subsection (i), of the General Statutes, which provides, among other things, that no State employee may enter into any contract with the State, amounting to $100 or more, unless the contract has been awarded through an "open and public process."**

Comment:

In our separate audits of the Community Colleges, we found several cases where three colleges, in the process of entering into contracts amounting to $100 or more with State employees, did not meet the requirements of Section 1-84, subsection (i), of the General Statutes. That is, the agreements were not awarded through an "open and public process."

INDEPENDENT AUDITOR'S CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the System Office of the Connecticut Community College System for the fiscal years ended June 30, 2001, 2002, and 2003. This audit was primarily limited to performing tests of the System Office's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the System Office's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the System Office are complied with, (2) the financial transactions of the System Office are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the System Office are safeguarded against loss or unauthorized use. The financial statement audits of the System Office for the fiscal years ended June 30, 2001, 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 the System 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 System Office is the responsibility of the System Office's management.

As part of obtaining reasonable assurance about whether the System 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 System Office's financial operations for the fiscal years ended June 30, 2001, 2002, and 2003, 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 System 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 System Office. In planning and performing our audit, we considered the System 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 System Office's financial operations in order to determine our auditing procedures for the purpose of evaluating the System 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 System 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 System Office's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the System 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: weaknesses in controls over equipment disposals; and weaknesses in controls over recording cash receipts in cash receipts accounting records.

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 System 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 System Office'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 neither of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the System 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 and cooperation extended to our representatives by the personnel of the System Office of the Community College System during the course of our examination.

Daniel F. Puklin
Principal Auditor

Approved:

Kevin P. Johnston	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts