STATE OF CONNECTICUT

AUDITORS’ REPORT
CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE
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December 7, 2005

AUDITORS' REPORT
CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004

We have examined the books, records, and accounts of the Connecticut Higher Education Supplemental Loan Authority, as provided in Section 2-90 and Section 1-122 of the General Statutes, for the fiscal years ended June 30, 2003 and 2004.

SCOPE OF AUDIT:

This audit was primarily limited to performing tests of the Authority’s compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority has complied with its regulations concerning the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

We also considered the Authority’s internal control over its financial operations and its compliance with requirements that could have a material or significant effect on its financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority’s financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objects. Our consideration of internal control included the five areas identified above.

Our audit included a review of a representative sample of the Authority’s activities during the fiscal years in the five areas identified above and a review of other such areas as we considered necessary. The financial statement audit of the Connecticut Higher Education Supplemental Loan Authority, for the fiscal years indicated above, was conducted by the Authority’s independent public accountants.
COMMENTS

FOREWORD:

The Connecticut Higher Education Supplemental Loan Authority (hereafter referred to as CHESLA or the Authority) operates primarily under the provisions of Title 10a, Chapter 187b, Sections 10a-221 through 10a-246 of the Connecticut General Statutes.

Effective October 1, 1985, Section 10a-232 permits CHESLA to create and establish one or more Special Capital Reserve Funds for which the State of Connecticut has a contingent liability.

CHESLA is a public agency and political subdivision of the State. CHESLA's purpose is to assist borrowers (students, their parents or others responsible for paying the costs of education) and institutions of higher education in the financing and refinancing of the costs of higher education through its Bond Funds. During the audited period, the Authority reported no loans to institutions.

Under the Authority’s Connecticut Family Education Loan Program, qualifying applicants can receive an Education Loan for each academic year in an amount that does not exceed the student’s cost of education for the year. The cost of education is determined by the college or university in which the student is enrolled and is reduced by all other financial assistance received by the student.

CHESLA is defined by the General Statutes as a Quasi-Public Agency. Provisions for Quasi-Public Agencies are codified primarily in Sections 1-120 through 1-127 of Chapter 12 of the General Statutes. The provisions require that an annual compliance audit be performed addressing CHESLA's compliance with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance. We verified that an independent certified public accountant issued reports on CHESLA's compliance with the above requirements during the audited period. Effective July 1, 2004, Public Act 03-133, as codified in Section 1-122 of the General Statutes, requires that the Auditors of Public Accounts perform or contract out such audits. This is our report on our audit of CHESLA’s compliance with these requirements during the audited period.

Board Members:

As authorized under Section 10a-224 of the General Statutes, the powers of CHESLA are vested in an eight member board of directors, consisting of the State Treasurer, the Secretary of the Office of Policy and Management and the Commissioner of Higher Education, all serving as ex-officio directors, and five directors appointed by the Governor.

As of June 30, 2004, CHESLA's board of directors was as follows:

Ex-Officio:

Denise L. Nappier, State Treasurer
Marc S. Ryan, Secretary of the Office of Policy and Management
Valerie F. Lewis, Commissioner of Higher Education

Appointed by the Governor: Term Expires July 1.

Michael E. McKeeman, Chairman 2008
Winifred E. Coleman 2004
Frank R. A. Resnick 2005
Julie B. Savino 2005
William J. Pizzuto 2006

Gloria F. Ragosta was appointed the Executive Director of CHESLA on May 19, 1998, and has served in that position throughout the audited period.

Accounting Policies:

CHESLA maintains financial records for its own operation and for the debt issue outstanding in accordance with the requirements of bond issue documents. Assets of the Bond Issue Funds are held by a trustee. A brief description of each fund follows:

Authority Operating Fund - Revenues and expenses applicable to the Authority's operations are accounted for within this fund. Revenues are generated from interest income and administrative fees.

Bond Funds – The Authority issues revenue bonds whose proceeds are used to provide loans directly to students and others to finance the cost of higher education. Bond Fund revenue is generated from interest earned on investments and loans outstanding.

Bond Issue Funds Outstanding as of June 30, 2004, included:


During the period under review, the Authority issued in total $30,915,000 in 2003 Series A and B Bonds, consisting of $18,000,000 in 2003 Series A Revenue Bonds and $12,915,000 in 2003 Series B Revenue Refunding Bonds. Refunding bonds are new bonds issued to retire an already outstanding bond issue. The refunding of bonds is most frequently done to take advantage of more favorable interest rates and to escape from less favorable bond covenants. By this and other measures, such as restricting its administrative fees and covering bond issuance costs from its operating fund, the Authority seeks to achieve a competitive advantage in the market place for its student loans.

As of June 30, 2004, the Authority had issued $255,215,000 in Revenue Bonds and Revenue Refunding Bonds with $115,115,000 outstanding. During the audited period, the aggregate amount of bonds outstanding at any given time was limited by statute to $170,000,000.
With respect to bond issues outstanding as of June 30, 2004, the 1993 Series loans were made to finance an eligible student’s cost of education in principal amounts between $2,000 and $20,000 for each year of an academic program subject to the limitation of $100,000 aggregate principal amount of loans. The 1994, 1996, 1998, 1999, 2000, 2001, and 2003 Series loans may be made to finance educational needs, under the Connecticut Family Educational Loan Program (CT FELP), in principal amounts from $2,000 up to the costs of education for eligible students. Cumulative loan amounts are capped at $125,000 for each eligible student over the life of the CT FELP program.

The Authority contracts for the following services, among others, to help it achieve its accounting objectives:

- Loan Servicer: Originates and services student loans.
- Accountant: Produces financial statements and supporting ledgers.
- Investors: Invest and account for bond proceeds, payments.
- Financial Advisors: Perform underwriting, cash flow analyses, arbitrage calculations.
- Collection Agency: Pursues non-performing student loans.

Other Audit Examinations:

An independent certified public accountant audited the books and accounts of CHESLA for each of the two fiscal years under review.

The independent public accountant’s reports to the Authority for the fiscal years ended June 30, 2003 and 2004, each expressed unqualified opinions on the Authority’s financial statements and reported no material weaknesses in internal control.

Section 1-122 of the Connecticut General Statutes requires that quasi-public agencies such as CHESLA have a compliance audit performed annually. Such audits should determine whether these agencies comply with their own regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance. The results of the tests performed by CHESLA’s independent public accountant disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

While we considered the work performed by the independent certified public accountant, we did not rely on it for compliance audit purposes. In accordance with Public Act 03-133, we performed our own compliance audit of CHESLA covering the 2002-2003 and 2003-2004 fiscal years. In our compliance audit of CHESLA, we noted certain weaknesses in compliance and internal control, which are discussed in the “Condition of Records” and “Recommendations” sections of this report.

RÉSUMÉ OF OPERATIONS:

The Authority had issued 19 series of bonds as of June 30, 2004. The 1983 Series A Revenue Bonds were issued for the purpose of financing loans to Yale University, Wesleyan University, and Connecticut College in order to fund education loans to students, and parents of students, and to

The 2003 Series A Revenue Bonds and Series B Revenue Refunding Bonds, issued during the audited period, amounted to $18,000,000 and $12,915,000, respectively.

The bonds are special obligations of the Authority, which has no taxing power. The bonds shall not be deemed to constitute a debt or liability to the State or any of its political subdivisions, but shall be payable solely from the revenues and other receipts, funds or moneys pledged therefore. However, effective October 1, 1985, the State became contingently liable in that it must provide annual debt service requirements if not met by the Authority's funds. The State's contingent liability in connection with the various Series A and B Bonds is the Special Capital Reserve Fund requirement for such Bonds, funded as of June 30, 2004, in the aggregate amount of $8,500,000. As of June 30, 2004, the State has not made nor was it required to make any such deposit.

The Vice President of the Connecticut Conference of Independent Colleges (CCIC), Gloria F. Ragosta, served as the Executive Director of the Authority. The Executive Director was compensated by CCIC. The CCIC charged the Authority for services provided by the Executive Director, pursuant to a written agreement for services with the CCIC. Such fees totaled $102,000 for each of the fiscal years ended June 30, 2003 and 2004, respectively.

The Authority also entered into a sublease agreement with the CCIC for the use of office space in connection with the Authority's operation. Under the agreement, CCIC charged CHESLA a monthly fee for the use of such space.

Revenues credited to Bond Funds totaled $9,066,317 and $8,446,170 for the fiscal years ended June 30, 2003 and 2004, respectively. These consisted primarily of interest income derived from investments and loans to individuals.

Expenditures for the Bond Funds totaled $8,592,169 and $7,061,114 for the fiscal years ended June 30, 2003 and 2004, respectively. These expenditures consisted primarily of debt service (interest). The Bond Funds balance of $1,599,011 as of June 30, 2002, increased to $2,073,159 as of June 30, 2003, and to $3,458,215 as of June 30, 2004.

Revenues credited to the Authority Operating Fund for the fiscal years ended June 30, 2003 and 2004, totaled $815,286 and $652,909, respectively, and consisted of administrative fees and investment income. Operating expenses paid from the Operating Fund during the same fiscal years, primarily for professional and administrative fees, bond issuance costs, and general office expenses, totaled $637,397 and $728,489, respectively. The Authority Operating Fund fund balance increased from $2,966,941 at June 30, 2002, to $3,069,250 at June 30, 2004.

The cumulative number of loans made to students by the Authority for all Bond Funds as of June
30, 2004, totaled 21,083, compared to 18,852 as of June 30, 2002. This amounted to 2,231 additional loans over the audited period. The average of the cumulative dollar amount loaned to each student as of June 30, 2004, totaled $9,183.
CONDITON OF RECORDS

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

Purchasing of Goods and Services:

Criteria: Sound internal controls require that the duties of recording, approving, and reviewing transactions be separated among employees.

The Authority’s Operating Procedures require that the Executive Director promptly notify the Authority Chairman of the Board of Directors of non-budgeted expenditures below $2,000.

Section 1-84, subsection (c), of the General Statutes prohibits a public official or State employee from using his position to obtain financial gain for himself, his spouse, his child, and other immediate family members.

Condition: Given that the Authority consists of only two employees, as well as an Executive Director and a Board of Directors, the opportunities for segregation of duties are limited. Nevertheless, we noted weaknesses in the Authority’s segregation of duties that could and should be addressed. The Executive Director approves her own expense reimbursements. In addition, the Executive Director, as the only authorized check signer, signs all Authority Operating Fund checks. She also performs all of the Operating Fund bank reconciliations, comparing bank records of receipts, disbursements, and balances to the Authority’s books. (The Authority does, however, contract with an accountant who reviews Authority financial records in the process of preparing the Authority’s ledgers and quarterly financial statements.)

The Executive Director informed us that, in accordance with agency purchasing policies, she informs the Chairman of the Board of non-budgeted expenditures below $2,000 in amount; however, she doesn’t always convey this information in writing. Therefore, we lacked assurance that this aspect of the Authority’s purchasing policy was being followed.

We also noted two cases, one in January 2004 and another in March 2004, where questionable car rental charges were included on the Authority’s credit card invoices. The invoices indicated that the renter’s name was not that of an Authority employee. Rather, they indicated that the renter was the Executive Director’s husband. The Executive Director informed us that her husband routinely traveled with her on out-of-state,
Authority business trips. She added that, while on out-of-state Authority business trips, she would use the Authority credit card to rent cars under her husband’s account to obtain a discount not then available to the Executive Director. The instances we noted were examples of such cases, according to the Executive Director.

In the first case, in January 2004, the Executive Director stated that she flew into Fort Lauderdale, Florida, to attend a conference, which took place in Miami, Florida, on January 8 and 9, 2004. However, in connection with this trip, we examined a credit card receipt, amounting to $128, for the rental of a car for four days. The receipt showed the name of the Executive Director’s husband, and that the rental car was returned on January 11, 2004, to Fort Meyers, Florida. Given the above facts, it appears that the rental car was rented for two additional days past the conference end date on January 9 and that it was returned to an airport location (Fort Myers) farther away from the conference than was necessary. The Executive Director informed us that she extended her stay in Florida by a couple of days after the conference to spend time at her condominium in Florida. It, therefore, appears that the rental of a car for two days past the conference end date, coupled with the return of the car to Fort Myers, were for personal rather than Authority business purposes. The Executive Director did, however, indicate that the airfare and car rental fees were at low rates. Nothing came to our attention to indicate that any other additional non-business expenses were incurred by the Authority during this trip.

In the second case, in March 2004, the Executive Director attended a conference, which took place in Scottsdale, Arizona, from March 10 through March 12, 2004. We examined an Authority credit card statement that showed a car rental charge amounting to $228 and showed the renter’s name as the Executive Director’s husband. The statement indicated a rental period of March 9 through March 13, 2004. In this case, though the car rental period spanned a day before and a day after the conference, the rental period seemed reasonable, allowing that the conference began early in the morning and ended in the evening. In this case, we saw no clear evidence that the Authority incurred any non-business expenses. However, the practice of renting a car using a relative’s account, even for Authority business, raises questions and should be avoided.

After we brought these transactions to the attention of the Executive Director, she informed us that, in February 2005, she applied for and received membership in the same car rental discount program in which her husband was enrolled, eliminating any reason to place future Authority car rental charges on her husband’s account.
Effect: Weak segregation of duties reduces the chances that error or fraud will be detected.

Lack of written documentation to support instances where the Executive Director informed the Chairman of the Board of non-budgeted expenditures below $2,000 reduces assurance that such information was conveyed to the Chairman, as required by the Authority’s purchasing policy.

The use of a rental car beyond the time period needed for Authority business creates the appearance of incurring expenses for personal purposes rather than for Authority business. Further, the practice of renting a car using a relative’s account, even for Authority business, raises questions of propriety and should be avoided.

Cause: The Authority considered its segregation of duties adequate, given the limitations of an agency that only consisted of a small number of employees.

The Executive Director considered the rental of cars under her husband’s account as a cost saving measure.

Recommendation: The Authority should improve its internal control over purchasing and accounts payable operations by taking the following steps. The Board’s Chairperson should provide written approval for the Executive Director’s expense reimbursements. An employee, rather than the Executive Director, should reconcile Authority bank statements. The Executive Director should inform the Chairman of the Board of Directors in writing when making non-budgeted expenditures below $2,000. The Authority should also take steps to ensure that its credit card purchases preclude any transactions that could be perceived to be unrelated to Authority business. (See Recommendation 1.)

Agency Response: “The Executive Director will email the CHESLA Chairman for any unbudgeted expenses under $2,000. The Executive Director will email her expense claims to the Chairman and he can sign-off on them beginning immediately.

The Authority will have CHESLA’s Associate Director reconcile the checkbook statements each month beginning with July 2005, which is the first month of the fiscal year. The external CHESLA accountant does reconcile the Authority’s Quicken checkbook report on a quarterly basis as part of the quarterly financials. This is considered to be an additional control by the Executive Director and the Board. The Executive Director has registered with a car rental company for a preferred program, which should solve the car rental issue.”
Payroll and Personnel:

**Criteria:**

The State Code of Ethics, particularly Section 1-84, subsection (c), of the General Statutes, prohibits a public official or State employee from using his position to obtain financial gain for himself, his spouse, his child, and other immediate family members.

Section 1-86, subsection (a), of the General Statutes requires any public official or State employee without an immediate superior, when taking an action that is considered to be a potential conflict of interest, to consult with the State Ethics Commission on how to proceed.

The Authority’s written vacation policy provides that “staff members will be allowed to carry-over up to a maximum of five vacation days from one fiscal year to the next. Staff members may not accumulate more than five carry-over vacation days. Any vacation days in excess of five not taken during a fiscal year will be forfeited on June 30th of that fiscal year.”

It is a good business practice to periodically review and update written policies to ensure that they accurately and completely specify desired practices.

The Authority’s Operating Procedures provide to the Executive Director “all powers relating to the hiring, dismissing, promoting and compensating of employees of the Authority.”

**Condition:**

We found that the Authority’s Executive Director hired her son to perform temporary office services, filling in while an Authority employee was absent. However, contrary to Section 1-86 of the General Statutes, the Executive Director did not consult with the State Ethics Commission before taking this action (a potential conflict of interest). As compensation for services provided, we noted that the Executive Director approved and issued three payments to her son in the amounts of $1,067, $469, and $280 in July 2002, August 2002, and January 2003, respectively. The Executive Director informed us that her son was paid $20 per hour for services rendered. However, according to the Executive Director, while records documenting and supporting hours worked were prepared, they were not retained. We did not, therefore, have sufficient documentation to support whether or not the Executive Director’s son was, in fact, paid at an hourly rate of $20. We did, however, interview the Associate Director, who confirmed that the Executive Director’s son did, in fact, work at the Authority on a temporary basis. In a letter dated August 4, 2005, we reported this matter to the Office of State Ethics.

The Authority’s vacation leave records showed that an Authority
employee was granted ten vacation days for the fiscal year ended June 30, 2003, and 15 days in the fiscal year ended June 30, 2004. The other Authority employee was granted 15 vacation days for each of the fiscal years ended June 30, 2003 and 2004. The Authority’s written policies were not updated to adequately address the number of vacation days that are granted to employees annually.

Employee vacation leave records for one employee showed nine days of unused vacation leave carried forward to the 2003-2004 fiscal year and 6.5 days carried forward to the 2004-2005 fiscal year. Another Authority employee carried over 5.5 and 7 vacation leave days into the 2003-2004 and 2004-2005 fiscal years, respectively. The Authority’s written policy allows a maximum of five carry-over vacation days per fiscal year. We did, however, note that records showed that Authority employees used most of their carry-over vacation days early in the fiscal year.

We brought these conditions to the attention of the Executive Director who informed us that she approved the number of vacation days granted and the number of carry-forward vacation days for each employee.

Since the Authority’s Operating Procedures provide the Executive Director “all powers relating to the hiring, dismissing, promoting and compensating of employees of the Authority,” it appears that the amount of vacation leave granted and carried forward was in compliance with the Authority’s Operating Procedures, i.e., approved within the Executive Director’s purview. However, to ensure that Authority employees are granted and use vacation leave appropriately, the Authority should either follow its written vacation leave procedures or update its personnel policies with respect to vacation leave to reflect the Authority’s actual vacation leave practices.

The Authority maintained annual records showing the number of vacation, sick, and personal leave days granted to and used by each employee, as well as the number of vacation leave days carried forward from year to year. However, Authority employees were not required to and did not prepare signed time sheets certifying, for each pay period, time worked and leave time used.

**Effect:**

The hiring of a relative, without first consulting with the State Ethics Commission, was a potential conflict of interest that presented the appearance of a violation of the State Code of Ethics.

Having a written policy that was not updated to adequately address the number of vacation days that employees are granted may call into question whether employees are receiving equitable treatment.
Weaknesses in the employee time keeping system decreased support showing that employees actually worked during the time period for which they were paid and did not provide an audit trail to support leave time used.

**Cause:**

The Executive Director characterized the hiring of her son on a temporary basis as an emergency situation that required her to promptly hire someone to perform the duties of an absent employee.

The Authority’s Executive Director had broad authority with respect to personnel matters, and thus, at times, made ad hoc decisions on employee personnel matters. Further, the agency failed to update written policies to specify completely the number of vacation days its employees should be granted.

Given that there were only two Authority employees during the audited period, who were monitored by the Executive Director, the agency considered employee time sheets certifying time worked and leave time used unnecessary, and considered its vacation leave records adequate.

Considering that the Authority has only two employees, and that we observed that the Executive Director appeared to have steady contact with and oversight of the agency’s employees, the risk of noncompliance with the Authority’s personnel policies was somewhat mitigated. Nevertheless, to improve internal control and strengthen compliance with Authority personnel policies and other State requirements, we are presenting the following recommendation.

**Recommendation:** The Authority should implement and adhere to a written policy limiting the hiring of relatives and other business dealings with relatives of Authority employees, board members, or the Executive Director. The Authority should either follow its own written vacation policies with respect to the carry-over of vacation leave days from one year to the next or update these policies to reflect the Authority’s actual practices. Further, Authority personnel policies should be updated to clearly and completely specify the number of vacation, sick, and personal leave days granted to employees. In addition, the Authority should implement an employee time sheet system to document and support time worked and leave time used for each pay period. (See Recommendation 2.)

**Agency Response:** “The vacation and personnel compensation policies for the Authority's Compensation Committee have been updated and are scheduled to be approved by the Committee (and then sent to the board). The policy addresses the vacation policy and non-hiring of relatives.

As noted, in Recommendation 2, the Executive Director’s son worked
here for a short period of time when the Administrative Assistant was out with a knee operation. The Executive Director returned from a vacation in Europe and literally found out on her way home from JFK that the Administrative Assistant would be out for a few weeks starting the next day. There was need to get someone right away and her son was available to start the next day. This was during a busy time for the Authority for phones and borrower issues since most of the calls came directly to CHESLA and it was a peak time. The Executive Director’s son was paid the same hourly rate that was paid to the Administrative Assistant to do the same job. This was a one-time event that will not be repeated and language is included in the new draft policies prohibiting the hiring of relatives. The Executive Director was unaware that she needed to notify the Ethics Commission, and is now aware of the process.

The Executive Director had maintained employee payroll and vacation records. The Executive Director has implemented the suggested employee leave time cards (each of the two employees will sign them each month indicating any leave time for sick, personal or vacation days). The first one was implemented for July 2005.”
RECOMMENDATIONS

Status of Prior Audit Recommendations:

There were no recommendations presented in our prior audit report.

Current Audit Recommendations:

1. The Authority should improve its internal control over purchasing and accounts payable operations by taking the following steps. The Board’s Chairperson should provide written approval for the Executive Director’s expense reimbursements. An employee, rather than the Executive Director, should reconcile Authority bank statements. The Executive Director should inform the Chairman of the Board of Directors in writing when making non-budgeted expenditures below $2,000. The Authority should also take steps to ensure that its credit card purchases preclude any transactions that could be perceived to be unrelated to Authority business.

Comment:

The Authority’s system of checks and balances in its purchasing operations needed strengthening. The Executive Director performed almost all of the key business functions of the Authority, including approving certain purchases, signing checks, reconciling the Authority’s bank statements and performing record keeping functions in connection with Authority Operating Fund transactions. The Executive Director approved her own expense reimbursements. There was no written audit trail to support whether or not the Executive Director informed the Chairman of the Board of any non-budgeted expenditures below $2,000. We noted a couple of questionable Authority credit card charges that could be perceived as being unrelated to Authority business.

2. The Authority should implement and adhere to a written policy limiting the hiring of relatives and other business dealings with relatives of Authority employees, board members, or the Executive Director. The Authority should either follow its own written vacation policies with respect to the carry-over of vacation leave days from one year to the next or update these policies to reflect the Authority’s actual practices. Further, Authority personnel policies should be updated to clearly and completely specify the number of vacation, sick, and personal leave days granted to employees. In addition, the Authority should implement an employee time sheet system to document and support time worked and leave time used for each pay period.

Comment:

The Executive Director hired her son to work at the Authority on a temporary basis during the audited period without consulting the State Ethics Commission on this potential conflict of interest. The Authority’s written vacation leave policies were not
updated to adequately reflect the number of vacation days granted to employees. Although approved by the Executive Director, we noted a few cases where Authority employees carried over more than five vacation days from one year to the next. (The Authority’s written vacation leave policy caps the carry-over vacation leave days at five per fiscal year.) While the Executive Director maintained annual records tracking leave time used for each employee, Authority employees were not required to and did not prepare signed time sheets certifying time worked and leave time used for each pay period.
INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the Connecticut Higher Education Supplemental Loan Authority’s activities for the fiscal years ended June 30, 2003 and 2004. This audit was primarily limited to performing tests of the Authority’s compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial resources, and to understanding and evaluating the effectiveness of the Authority’s internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grants applicable to the Authority are complied with. The financial statement audit of the Connecticut Higher Education Supplemental Loan Authority, for the fiscal year indicated above, was conducted by the Authority’s independent public accountants.

We conducted our audit in accordance with the requirements of Section 2-90 and Section 1-122 of the General Statutes. In doing so, we planned and performed the audit to obtain reasonable assurance about whether the Connecticut Higher Education Supplemental Loan Authority complied in all material respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of 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 Connecticut Higher Education Supplemental Loan Authority is the responsibility of the Authority’s management.

As part of obtaining reasonable assurance about whether the Connecticut Higher Education Supplemental Loan Authority 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 Authority’s financial operations for the fiscal years ended June 30, 2003 and 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our examination included reviewing all or a representative sample of the Authority’s activities in those areas and performing such other procedures as we considered necessary in the circumstances. The results of our tests disclosed no instances of noncompliance.
Internal Control

The management of the Connecticut Higher Education Supplemental Loan Authority is responsible for establishing and maintaining effective internal control over its financial operations and compliance with the requirements of laws, regulations, contracts and grants applicable to the Authority. In planning and performing our audit, we considered the Authority’s internal control over its financial operations and its compliance with requirements that could have a material or significant effect on the Authority’s financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority’s financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included, but was not limited to, the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our consideration of the internal control over the Authority’s financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. 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 that would be material in relation to the Authority’s financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Authority being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted certain matters involving the internal controls over the Authority’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 and operation of internal controls over the Authority’s financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Authority’s ability to properly record, process, summarize, and report financial data consistent with management’s authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following finding represents a reportable condition: The Authority lacked a segregation of duties among the functions of recording, authorizing, and reviewing Operating Fund transactions, especially cash disbursements under $2,000, as the Executive Director performed all of these duties. However, we believe the reportable condition described above is not a material or significant weakness.

We also noted other matters involving the internal controls over the Authority’s financial operations and/or 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. Users of this report should be aware that our audit does not provide a legal determination of the Connecticut Higher Education Supplemental Loan Authority’s compliance with the provisions of the laws, regulations, contracts and grants included within the scope of this audit.
CONCLUSION

We wish to express our appreciation for the cooperation and courtesy extended to our representatives by the personnel of the Connecticut Higher Education Supplemental Loan Authority during the course of this examination.

Daniel F. Puklin  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts  

Robert G. Jaekle  
Auditor of Public Accounts