STATE OF CONNECTICUT

AUDITORS' REPORT
STATE BOARD OF EDUCATION AND
SERVICES FOR THE BLIND
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

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

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February 7, 2003

AUDITORS' REPORT
STATE BOARD OF EDUCATION AND SERVICES FOR THE BLIND
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

We have made an examination of the financial records of the State Board of Education and Services for the Blind for the fiscal years ended June 30, 2000 and 2001.

This report on that examination consists of the following Comments, Condition of Records, Recommendations and Certification. Financial statement presentation and auditing have been done on a Statewide Single Audit basis to include all State Agencies. Auditing of the Board's Federal grants has also been performed as part of the Statewide Single Audit. This audit has been limited to assessing the Board's compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the Board's internal control policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Board of Education and Services for the Blind (hereinafter referred to as "BESB") operates primarily under the provisions of Title 10, Chapter 174, of the General Statutes. BESB provides services to the blind that assist them to overcome the handicap of blindness or impaired vision with the goal of attaining as high a degree of self-sufficiency as is possible. The services provided include education, training, consultation, rehabilitation, employment, medical care and relief.

During the audited period, BESB was organized into five divisions; a Division of Administration included finance and business operations, human resources and electronic data processing functions. Also, the Business Enterprise Program (formerly called the Vending Facility Operators' Program) was transferred to this Division during the audited period. The other four divisions provided the following direct services for blind and visually impaired individuals:

The Division of Children Services – provided special education from birth through high school (or age 21).

The Division of Adult Services – provided information, counseling, referral services and individualized instruction in techniques and skills used in activities of daily living.

The Division of Vocational Rehabilitation – provided diagnostic evaluations, vocational training and placement services to enhance employment opportunities.

The Division of Industries – provided participants with training and employment opportunities within its two workshops.

During the audited period, BESB was within the Department of Social Services for administrative purposes only. Kenneth R. Tripp served as Executive Director until his resignation on December 31, 1999. Effective January 1, 2000, Lawrence Alibozek was appointed as Executive Director and served until his resignation on March 29, 2001. On April 1, 2001, Donna L. Balaski was appointed as Executive Director and served throughout the remainder of the audited period.

As provided by Section 10-293 of the General Statutes, a seven-member board assisted the Executive Director in overseeing operations. As of June 30, 2001, the Board consisted of the following members:

Ex Officio Member:
Patricia A. Wilson-Coker, Commissioner, Department of Social Services

Appointed Members:
Richard G. Fairbanks, Ph.D., Chairperson
Eileen Akers
Mary R. Brunoli
Salvatore D'Amico
M. Carolyn Dodd
Kenneth Olson

In addition to the board members listed above, Shirley Phelon also served on the Board during the audited period.

Legislative Change:

Effective May 26, 2000, Public Act 00-127, codified as Section 10-294b of the General Statutes, created a nine-member Braille Literacy Advisory Council. This Council is responsible for studying, evaluating and reporting on braille literacy services.

RÉSUMÉ OF OPERATIONS:

Funding for Agency programs was provided by State General Fund appropriations, contributions from private sources, Federal grants, and from the Vending Facilities Operators' Fringe Benefit Program Fund.

General Fund Cash Receipts and Expenditures:

General Fund receipts totaled $9,003,388 and $8,660,500 during the fiscal years ended June 30, 2000 and 2001, respectively. Receipts consisted primarily of Federal grants, Industries' workshop sales, and vending operations that included machine commission receipts and vending site sales. A summary of General Fund receipts for the audited period follows:

	1999-2000	2000-2001
Federal grants	$ 3,304,359	$ 3,070,618
Industries' workshop sales	3,553,216	3,694,890
Vending operations	2,085,403	1,625,488
All other	60,410	269,504
Total	**$ 9,003,388**	**$ 8,660,500**

Decreases in cash receipts in the 2000-2001 fiscal year were largely attributable to vending operations revenue, which declined as a result of the July 1, 2001 transfer of BESB's training center cafeteria to a Business Enterprise Program client. Business Enterprise Program operations are further discussed in the Facilities Operators' Fringe Benefit Program Fund and Performance Evaluation Sections of this report.

General Fund expenditures totaled $24,233,584 and $23,858,756 during the respective audited years. A comparison of expenditures, including 1998-1999 fiscal year expenditures, is presented below:

	1998-1999	1999-2000	2000-2001
Budgeted Accounts:			
Personal services	$ 3,396,940	$ 4,003,644	$ 4,364,835
Contractual services	2,734,124	3,166,731	2,605,838
Commodities	916,113	593,493	592,354
Grant refunds	23,078	29,714	
Sundry charges	127,883	633,485	58,681
State aid grants	5,866,297	6,187,823	7,808,646
Equipment	761,782	444,714	348,763
Total Budgeted Accounts	13,826,217	15,059,604	15,779,117

	1998-1999	1999-2000	2000-2001
Restricted Accounts:			
Federal	3,496,140	3,917,102	3,154,004
Other than Federal:			
Sales and Services	4,374,588	3,738,680	3,793,800
Vending Facility program	1,435,247	1,437,929	1,042,791
All other accounts	69,280	80,269	89,044
Total	**$23,201,472**	**$24,233,584**	**$23,858,756**

Increases of $1,233,387 and $719,513 in budgeted account expenditures, during the respective audited years, were primarily due to personal services and Children Services Grants, which are discussed under the State Aid Grants caption of this report. Increases in personal services were attributable to general wage increases and, in the 1999-2000 fiscal year, included the transfer of 14 full-time Vocational Rehabilitation Federal Grant positions to budgeted accounts as part of cost allocation changes. These positions were established as Federal to be the equivalent value of the total amount chargeable to the grant based on time and effort reporting for employees who are partially chargeable to the grant. As a result, salary charges of these employees did not reflect the actual time worked on the grant but rather, the equivalent value of all partially chargeable employees. With the transfer of these positions, cost allocation procedures were simplified by using activity or volume measurements to allocate salaries to the grant. A schedule of filled positions for the audited year and the preceding year follows.

	As of June 30,		
Filled Positions:	1999	2000	2001
Budgeted Accounts:			
Full-time	72	86	83
Part-time and all others	3	4	1
Total Budgeted	75	90	84
Federal and Private:			
Federal full-time	48	32	33
Private full-time	5	5	31
All others	3	4	3
Total Federal and Private	56	41	67
Total	**131**	**131**	**151**

The increase of 26 full-time positions paid from private contribution accounts at June 30, 2001 was primarily the result of the unionization of some Industries workshop employees. The unionization of these employees is discussed further in the Condition of Records section of this report under the Industries Workshop Employees caption.

State Aid Grants:

General Fund budgeted account expenditures for State aid grants totaled $6,187,823 and $7,808,647 during the fiscal years ended June 30, 2000 and 2001, respectively. These expenditures were made from various budgeted appropriation accounts for programs administered by BESB. A discussion of the larger grant programs follows.

Section 10-295, subsection (a) of the General Statutes provides for special education costs, up to $6,400 per State fiscal year, for a blind or visually impaired student. Section 10-295, subsection (b) of the General Statutes provides for special education costs, up to $11,000 per State fiscal year, for students who are blind or visually impaired and also have other severe handicaps. Sections 10-306 through 10-310 of the General Statutes provide for vocational rehabilitation services with no specific limits on expenditures for rehabilitation services. Expenditures from the State Vocational Rehabilitation budgeted appropriation account were used to fulfill State cash matching requirements of several Federal grants.

The following schedule summarizes State aid grant expenditures made from budgeted appropriation accounts during the audited period:

	1999-2000	**2000-2001**
Education of handicapped blind children (SID 605)	$4,757,444	$5,147,794
Services for persons with impaired vision (SID 701)	458,869	595,601
Tuition and services - public school children (SID 702)	734,937	1,088,661
Children Services Grants	5,951,250	6,832,056
Vocational rehabilitation (SID 606)	68,502	550,621
Special training – deaf and blind	93,677	249,366
Other State aid grants	74,394	176,604
Total	**$6,187,823**	**$7,808,647**

Additional comments concerning State aid grant expenditures can be found in the Condition of Records section of this report.

Restricted Appropriations - Other than Federal:

Sales and Services Account (SID 360):

Receipts credited to the Sales and Services account were primarily from the sales of products made by BESB's two workshops. Expenditures consisted primarily of manufacturing costs, labor costs and material purchases. A summary of account activity for the audited period follows:

	1999-2000	**2000-2001**
Beginning balance	$ (413,936)	$ (599,400)
Receipts	3,553,216	3,694,889
Expenditures	(3,738,680)	(3,793,800)
Ending balance	**$ (599,400)**	**$ (698,311)**

General Fund restricted account balances above are presented on the cash basis of accounting and do not reflect accruals such as accounts receivable balances which amounted to $653,860 at June 30, 2001. Additional funding sources from General Fund budgeted appropriations and Federal grants were used for workshop operating costs, such as leasing and administrative salaries.

Vending Facilities Operators' Fringe Benefit Program Fund (1143/SID 361):

Under Section 10-303 of the General Statutes, authority is granted to BESB to operate food service facilities, vending stands and vending machines on property owned or leased by the State or any municipality. The primary purpose of this program is to provide entrepreneur opportunities to blind individuals by providing vending facility sites for their use under BESB's Business Enterprise Program. As of June 30, 2001, 32 vending facility operator sites were in operation.

BESB uses a Special Revenue Fund (1143) and a General Fund private restricted contribution account (SID 361) to account for vending facility operations. Vending machine commissions earned at Federal locations were deposited to the Special Revenue Fund and were restricted primarily for the payment of vendor operators' fringe benefit costs. The General Fund private restricted account was used to account for all other vending machine commissions, funds from temporarily operated vending site locations and receipts from the BESB training center cafeteria until July 1, 2000, at which time, this location was transferred to a program participant. Expenditures from this account were primarily for program operating costs including establishing and maintaining vendor operator locations. Decreases in receipts and expenditures in the 2000-2001 fiscal year were primarily attributable to the transfer of BESB's training center cafeteria previously discussed. A summary of cash transactions for both vending operating accounts follows:

	1999-2000		2000-2001	
	1143	SID 361	1143	SID 361
Beginning cash balance	$ 24,027	$ 877,087	$ 7,905	$ 1,524,559
Receipts	14,264	2,085,402	17,092	1,625,488
Expenditures	(30,386)	(1,437,930)		(1,042,791)
Ending cash balance	**$ 7,905**	**$ 1,524,559**	**$ 24,997**	**$ 2,107,256**

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. Under the provisions of Section 10-303 of the General Statutes, BESB is authorized to operate vending machines in State and municipal buildings. Funds from such sources were primarily used for the Business Enterprise Program, which establishes entrepreneurial opportunities for blind and visually impaired persons. Effective

July 1, 1999, BESB entered into a contract with Coca-Cola to service all vending machine sites under its authority. We have selected to review how the implementation of this new contract has affected vending machine commission operations.

Prior to July 1, 1999, BESB had used over 35 vendors to service 224 locations with about 680 vending machines. Individual contracts had been negotiated with each of these vending machine companies and the contract terms varied greatly. BESB had difficulty administering and monitoring these contracts. Also, at times, even though contract periods had expired, services with these companies continued.

Effective with the July 1, 1999 Statewide contract, Coca-Cola began replacing vending machines at existing locations. BESB and Coca-Cola also worked as partners actively pursuing new vending site locations with a large emphasis placed on municipal locations, which had not been actively pursued in the past. As of April 25, 2002, BESB had more than doubled its operations to 463 locations with 1,310 vending machines. In addition, BESB vending company commissions increased over three times during a three-year period as shown in the following schedule, which also includes the fiscal year prior to the start of the new Coca-Cola Contract.

	Vending Machine Commissions - SID 361			
	1998-1999	**1999-2000**	**2000-2001**	**2001-2002**
Vending companies:	$	$	$	$
Coca-Cola	16,562	615,373	1,077,013	1,535,562
All other vending companies	461,674	178,924	16,955	30,994
Total vending companies	**478,236**	**794,297**	**1,093,968**	**1,566,556**
Other vending revenue:				
Coca-Cola contract advance		100,000		
Dept. of Transportation	381,207	382,743	509,499	433,460
Total Commissions	**$859,443**	**$1,277,040**	**$1,603,467**	**$2,000,016**

BESB has been very successful in expanding and increasing its vending machine operations and revenues under the new contract with Coca-Cola. In addition, operations have been simplified since BESB only has to deal with one company. Although implementation of the new contract with Coca-Cola has been effective, our examination did note a weakness in the transition of establishing Coca-Cola as the overall single vending company. Many of the former vending machine companies were not cooperative when Coca-Cola replaced them. In many cases, commission activity for the final period of their operations was never finalized. As a result of this situation, we are making the following recommendation.

Criteria: It is good business practice to pursue and collect any outstanding accounts receivable or write off such accounts if deemed uncollectible. State procedures require any claims of the State to be written off in accordance with Section 3-7 of the General Statutes.

Condition: A final accounting of commissions due from many vending machine companies was not performed when their services were discontinued and replaced by a new Statewide vending contract with the Coca-Cola Bottling Company of New England.

Effect: Based on historical data, the Agency estimates that uncollected commissions due from vendors when they were replaced by Coca-Coca could potentially amount to $55,000.

Cause: Many vending machine companies did not cooperate in submitting final commission activity reports when they were replaced by Coca-Cola. With limited resources available, BESB delayed collection activity in order to expedite the establishment of a single Statewide vending company system.

Recommendation: The Board of Education and Services for the Blind should pursue former vending machine companies which have not submitted a final commission activity report and collect any delinquent commissions due. (See Recommendation 1.)

Agency Response: "BESB agrees with this recommendation. BESB has already initiated a review of delinquent vending machine company accounts, and will pursue each open account to collection or other appropriate disposition. "

CONDITION OF RECORDS

Our examination of Agency records disclosed the following matters of concern requiring disclosure and agency attention.

State Accountability Directive Number 1:

Criteria: The State Comptroller's Accountability Directive Number 1 requires all State Agencies to perform an internal control self-assessment to be completed by June 30 of each fiscal year.

Condition: Internal control self-assessments were not performed for the fiscal years ended June 30, 2000 and 2001. As of August 29, 2002, the Agency had not completed its internal control self-assessment for the fiscal year ended June 30, 2002.

Effect: BESB was not in compliance with the State Accountability Directive Number 1, thereby increasing the risk that internal control weaknesses could go undetected.

Cause: Over the last several years, BESB's administration and staffing had undergone several major changes, which contributed to internal control self-assessments not being performed.

Recommendation: The Board of Education and Services for the Blind should comply with the State Accountability Directive Number 1 by performing annual internal control self-assessments. (See Recommendation 2.)

Agency Response: "BESB agrees with this recommendation. With the completion of the most recent organizational reassignments, BESB is now in a position to complete the Accountability Directive Number 1 annually as required."

State Aid Grants:

Criteria: Section 10-295 of the General Statutes provides for payments of educational costs of up to $6,400 for a blind or visually impaired child and $11,000 for a blind or visually impaired child with other handicaps (multi-handicapped children). A majority of Children Services Grant payments are made to towns.

Section 10-295-8, subsection (b)(4) of the State Regulations, concerning special education classroom teacher costs, states "the amount of allowable reimbursement will be determined by the board on the basis of that portion of such child's time in the special education classrooms as it relates to his or her total education program time, multiplied by the ratio of such child to the total number of children in the special education classroom."

Conditions:

1. Beginning with the 1998-1999 fiscal year, special education cost reimbursements to towns has been based on a trimester billing cycle. However, during both fiscal years under review, town payment processing was delayed until fiscal year end with over 70 percent of total grant expenditures being made during the months of May and June. In June 2001, duplicate grant payments totaling $127,753 were made to two towns. Duplicate grant recoveries were received in July and August 2001.
2. Our review of town payments disclosed instances of towns billing BESB for the full cost of special education teachers when they were teaching classes containing several students and should have been billed on a prorated basis.

Effects:

1. Payment of town bills was not done in conjunction with the billing cycle resulting in a fiscal year end rush situation. Duplicate grant payments were issued in error.
2. Overpayments could occur if special education teacher costs are not properly prorated based on student class enrollment. In the instances tested in our examination, the failure to prorate special education teacher salaries did not appear to effect total grant payments made since special education costs exceeded the maximum statutory limits without such costs.

Causes:

1. It appears that town bill processing was delayed until fiscal year end as a result of procrastination. Duplicate payments resulted from internal controls being by-passed in order to meet fiscal year end payment deadlines.
2. Information on special education class size or a method for allocating special education teachers was not included in reimbursement/calculation forms.

Recommendation:

The Board of Education and Services for the Blind should review and strengthen internal controls over Children Services Grant payments. (See Recommendation 3.)

Agency Response: "In the past, town bill processing has been delayed until all other materials, equipment and services required by the Individualized Education Programs of children who are blind or visually impaired have been purchased or obligated. The agency is moving up this internal deadline, as well as issuing the BESB-103 Applications to the Local Education Agencies earlier. These changes will in turn permit town bill processing to be initiated earlier in the fiscal year. In addition, beginning with the 2002-2003 school year, reimbursements of special education teacher salaries will be prorated, as indicated in the state regulations, based on the number of total children in the special education class as declared by the Local Education Agencies."

Property Control:

Criteria: The State of Connecticut's Property Control Manual requires that all State agencies have polices and procedures in place to ensure that the State's property, plant and equipment are properly managed. The Property Control Manual specifies requirements and standards that State agencies' property control systems must comply with.

Conditions:

1. The Electronic Data Processing (EDP) unit was responsible for the testing, assignment, installation and removal of computer equipment. Information on installations, transfers and removals of computer equipment was not always forwarded to the storeroom so that new location and other changes could be entered on property control records.
2. Warehouse staff periodically performed physical inventory counts and adjusted inventory records to count balances without evidence of management review or approval.

Effects:

1. Computer equipment locations were not accurate for many items.
2. Without evidence of management review and approval of adjustments to inventory records, there appears to be no oversight on inventory operations and recordkeeping practices.

Causes:

1. The EDP unit did not always forward information that was necessary to update property control records to the storeroom.
2. Procedures were not established that require management to review adjustments of inventory records.

Recommendation: Property control over computer equipment and manufacturing inventories should be improved. (See Recommendation 4.)

Agency Response: "BESB concurs that the procedures in place for recording installation, transfer and removal of computer equipment are inadequate, and revised procedures are now being developed and implemented. In addition, BESB concurs that management must sign off on, not simply review, adjustments to inventory based on physical counts, and has implemented this change."

Industries Workshop Employees:

Background: In the previous audit cycle covering the 1997-1998 and 1998-1999 fiscal years, we noted that statutory authority did not exist exempting certain Industries workshop employees from State classified service. A special State payroll account was used to pay these workshop employees, which included both sighted and visually disabled workshop employees. In September 2001, 25 sighted workshop employees unionized and became State employees, partially resolving this finding. However, as of August 31, 2002, there were six sighted persons that continued to be considered exempt from State classified service.

Criteria: According to the State Personnel Act, any position or office in State service shall be a position in classified service except as specified by statutes or as set forth in the Personnel Act.

Condition: Industries workshop employees that are paid on a special payroll charged to the Sales and Services Account (SID 360) are not considered to be in State classified service. As of June 30, 2002, there were 40 disabled individuals and six sighted employees charged to the special workshop payroll account. These workshop employees are not included as exceptions to State classified service in either the Personnel Act or under Section 10-298a of the General Statutes, which established the workshop for the blind.

Effect: Specific authority that exempts workshop employees from State classified service does not exist. However, under standards set forth in Parts 524, 525, and 529 of Title 29 of the Code of Federal Regulations, individuals with disabilities can work for less than minimum wage and it appears that workshop positions held by such disabled persons could be properly exempt from classified State service.

Cause: Specific authority was never made to define and clearly exclude Industries workshop employees from State classified service.

Recommendation: The status of Industries workshop employees as being exempt from State classified service should be reviewed and, if applicable, clarified as a statutory exemption. (See Recommendation 5.)

Agency Response: "BESB concurs that specific statutory authority exempting Industry workshop employees from State classified service does not exist. BESB is seeking advice on the resolution of this issue through the cognizant state agencies."

RECOMMENDATIONS

Our prior audit report, which covered the fiscal years ended June 30, 1998, and 1999, contained six recommendations. Of these six recommendations, three recommendations have been implemented and three are being repeated. As a result of our current audit examination, we are including two new recommendations, one concerning collection of vending machine commissions and a second, to comply with the State Accountability Directive Number 1.

Status of Prior Audit Recommendations:

- *Improvements should be made in fiscal year end reporting* – Improvements were made in fiscal year end reporting, therefore, this recommendation is not being repeated.

- *Property control over fixed assets and manufacturing inventories should be improved* – This recommendation is being repeated since property control weaknesses still exist. (See Recommendation 4.)

- *Receipts should be deposited and reported within the time limit specified by Section 4-32 of the General Statutes* – Improvements were made in the handling of cash receipts, therefore, this recommendation is not being repeated.

- *BESB should review and strengthen internal control over Children Services Grant payments and recover duplicate town payments* – Weaknesses over Children Services Grants continued to exist, therefore, this recommendation is being repeated. (See Recommendation 3.)

- *BESB should improve operations of the General Fund private restricted Lions Clubs Workshop Fund account and resolve any issues and concerns the Lions may have concerning this fund's operation* – A committee comprised of both State and Lions Club members was established to oversee the activity of this private account. As a result, this recommendation is not being repeated.

- *The status of Industries workshop employees as being exempt from State classified service should be reviewed and, if applicable, clarified as a statutory exemption* – The exempt status from State classified service for a number of Industries workshop employees has not been clarified and as a result, this recommendation is being repeated. (See Recommendation 5.)

Current Audit Recommendations:

1. **The Board of Education and Services for the Blind should pursue former vending machine companies who have not submitted a final commission activity report and collect any delinquent commissions due.**
   Comment:

   Our examination disclosed that a final accounting of commissions due from many vending machine companies was not performed when their services were discontinued and replaced by a new single Statewide vending company.

2. **The Board of Education and Services for the Blind should comply with the State Accountability Directive Number 1 by performing annual internal control self-assessments.**

   Comment:

   Internal control self-assessments that are required to be done annually by State procedures had not been performed for several years.

3. **The Board of Education and Services for the Blind should review and strengthen internal controls over Children Services Grant payments.**

   Comment:

   Our examination disclosed that two towns were issued duplicate payments and that special education teacher costs billed by towns were not always properly prorated in accordance with class size.

4. **Property control over computer equipment and manufacturing inventories should be improved.**

   Comment:

   Our examination disclosed that information on computer equipment locations was not always updated on inventory records and that adjustments to manufacturing inventories lacked evidence of managerial review.

5. **The status of Industries workshop employees as being exempt from State classified service should be reviewed and, if applicable, clarified as a statutory exemption.**

   Comment:

   Industries workshop employees paid on a special payroll charged to the Sales and Services Account (SID 360) are not considered to be in State classified service.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Board of Education and Services for the Blind for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Board of Education and Services for the Blind for the fiscal years ended June 30, 2000 and 2001, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Board of Education and Services for the Blind 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 Board of Education and Services for the Blind is the responsibility of the Board of Education and Services for the Blind's management.

As part of obtaining reasonable assurance about whether the Agency 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 Agency's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of its compliance with certain provisions of the 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 result 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 Board of Education and Services for the Blind 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 Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets and compliance with requirements that could have a material or significant effect on the

Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Board of Education and Services for the Blind'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 Agency'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 Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency'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 property control weaknesses and internal control weaknesses over Children Services Grants to be reportable conditions.

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 Agency'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 Agency'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, of the reportable conditions described above, we believe internal control weaknesses over Children Services Grants to be a material or significant weakness.

We also noted other matters involving internal control over the Agency'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 to the Board of Education and Services for the Blind for the cooperation and courtesies extended to our representatives during the course of the examination.

Anthony Turko
Principal Auditor

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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