STATE OF CONNECTICUT

AUDITORS' REPORT
STATE BOARD OF EDUCATION AND
SERVICES FOR THE BLIND
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003

AUDITORS OF PUBLIC ACCOUNTS
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September 15, 2004

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003

We have examined the financial records of the State Board of Education and Services for the Blind for the fiscal years ended June 30, 2002 and 2003.

This audit examination of the Board has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating internal control structure policies and procedures established to ensure such compliance. Financial statement presentation and auditing have been done on a Statewide Single Audit basis to include all State agencies.

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 the following six divisions:

The Division of Administration – includes finance and business operations, human resources, and electronic data processing functions.

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

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

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

The Business Enterprise Program Division – provides financial and technical training and support to individuals who own or want to own their own business.

The Division of Industries – provided participants with training and employment opportunities within its two workshops. This Division was eliminated in January 2003.

During the audited period, BESB was within the Department of Social Services for administrative purposes only. Donna L. Balaski served as Executive Director throughout the audited period and served until her resignation on February 19, 2004. Brian Sigman was appointed Executive Director on February 20, 2004, and continues to serve in that capacity.

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, 2003, there were two vacancies on the Board and the following were members:

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

Appointed Members:
Eileen Akers
Mary R. Brunoli
M. Carolyn Dodd
Kenneth Olson

In addition to the Board members listed above, Richard G. Fairbanks, Ph.D., and Salvatore D'Amico also served on the Board during the audit period.

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:

Receipts:

General Fund receipts consisted primarily of Federal grants, Industries' workshop sales, and vending operations that included machine commission receipts and vending site sales. Receipts for the two fiscal years examined and the prior fiscal year are summarized below:

	Fiscal Year Ended June 30,		
	2001	**2002**	**2003**
Federal grants	$3,070,618	$2,874,153	$2,683,883
Industries' workshop sales	3,694,890	4,245,279	2,068,254
Vending operations	1,625,488	2,020,510	2,344,901
All other	269,504	277,705	281,798
Total General Fund Receipts	**$8,660,500**	**$9,417,647**	**$7,378,836**

The increase in receipts during the 2001-2002 fiscal year was caused primarily by an increase in Industries' workshop sales of $550,389 and an increase in Vending Operations of $394,765 due to BESB expanding and increasing its vending machine operations and revenues under its statewide contract with Coca-Cola. The decrease in cash receipts in the 2002-2003 fiscal year was caused by a decrease of Industries' workshop sales of $2,177,025 due to the closing of the workshop in January 2003.

Expenditures:

Expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

	Fiscal Year Ended June 30,		
	2001	**2002**	**2003**
Budgeted Accounts:			
Personal services	$4,364,835	$4,409,588	$4,530,814
Contractual services	2,605,838	1,820,920	2,324,347
Commodities	592,354	209,529	698,675
Sundry charges	58,681	10,690	850,003
State aid grants	7,808,646	8,101,106	5,175,842
All other	348,763	366,006	330,517
Total Budgeted Accounts	15,779,117	14,917,839	13,910,198

Restricted Accounts:			
Federal	3,154,004	3,059,948	2,525,917
Other than Federal:			
Sales and Services	3,793,800	4,430,922	2,489,285
Vending Facility program	1,042,791	1,435,928	1,499,413
All other accounts	89,044	139,612	183,753
Total Restricted Accounts	8,079,639	9,066,410	6,698,368
Total Expenditures	**$23,858,756**	**$23,984,249**	**$20,608,566**

The decrease in expenditures during the 2002-2003 fiscal year was primarily due to a decrease of $1,941,637 in Sales and Services due to the closing of the Industries workshops in January 2003 and a decrease in State Aid Grants.

State Aid Grants:

General Fund budgeted account expenditures for State aid grants totaled $8,101,106 and $5,175,842 during the fiscal years ended June 30, 2002 and 2003, 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:

	2001-2002	**2002-2003**
Educational aid for blind and visually handicapped children (SID 012)	$	4,257,509
Education of handicapped blind children (SID 605)	5,017,766	19,617
Services for persons with impaired vision (SID 701)	695,994	
Tuition and services - public school children (SID 702)	1,255,865	507
Total Children Services Grants	6,969,625	4,277,633
Vocational rehabilitation (SID 606)	596,940	554,587
Special training – deaf and blind	314,755	281,232
Other State aid grants	219,786	62,390
Total	**$8,101,106**	**$5,175,842**

Grants for children services were combined into the newly established SID 012 during the 2002-2003 fiscal year. State aid grant expenditures decreased during the 2002-2003 fiscal year because, due to lack of staff, fewer grants were processed. Section 43(c) of Public Act 03-1 (June Special Session) permits the unexpended balance of funds appropriated for Educational Aid for Blind and Visually Handicapped Children to continue to be available for expenditure during the fiscal year ending June 30, 2004.

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:

	2001-2002	2002-2003
Beginning balance	$ (698,311)	$ (883,954)
Receipts	4,245,279	2,068,254
Expenditures	(4,430,922)	(2,489,285)
Ending balance	**$ (883,954)**	**$(1,304,985)**

General Fund restricted account balances above are presented on the cash basis of accounting and do not reflect accruals such as accounts receivable balances. 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 entrepreneurial opportunities to blind individuals by providing vending facility sites for their use under BESB's Business Enterprise Program. As of June 30, 2003, 29 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 and funds from temporarily operated vending site locations. Expenditures from this account were primarily for program operating costs including establishing and maintaining vendor operator locations. Increases in receipts during the 2002-2003 fiscal year were primarily attributable to BESB expanding and increasing its vending machine operations and revenues under its statewide contract with

Coca-Cola. A summary of cash transactions for both vending operating accounts follows:

	2001-2002		2002-2003	
	1143	**SID 361**	**1143**	**SID 361**
Beginning cash balance	$ 24,997	$ 2,107,256	$ 13,039	$ 2,691,838
Receipts	29,337	2,020,510	20,209	2,344,901
Expenditures	(41,295)	(1,435,928)	(9,315)	(1,499,413)
Ending cash balance	**$ 13,039**	**$ 2,691,838**	**$ 23,933**	**$ 3,537,326**

CONDITION OF RECORDS

Our review of the records of the Board of Education and Services for the Blind revealed the following areas that warrant comment.

Electronic Data Processing – Disaster Recovery Plan:

Criteria: Sound business practices include provisions that organizations have current disaster recovery plans in place to enable critical operations to resume activity within a reasonable period after a disaster.

Condition: The Agency has a disaster recovery plan that was implemented in 1998 and established the Agency's West Haven facility as its backup location in the event of an emergency. Due to the closing of this facility in January 2003, the disaster recovery plan is no longer applicable.

Effect: In the event of a disaster, the Agency's ability to operate satisfactorily and serve its clients is diminished without a formal disaster recovery plan.

Cause: The Agency did not update its disaster recovery plan after the closing of its West Haven facility.

Recommendation: The Agency should develop a current comprehensive disaster recovery plan. (See Recommendation 1.)

Agency Response: "The Agency agrees that the recovery plan should be updated, given the closure of the West Haven location of BESB Industries. The plan will be updated in the upcoming fiscal year and will include measures that would ensure the ability to implement a recovery in a relatively short period of time, ensuring the continuance of services during and immediately following a disaster.

The recovery plan will include a full backup of each file server nightly, with tapes stored away from servers in a fireproof safe. A month-end tape from each server will be taken to an off site storage location. In addition, a copy of the agency's master client configuration CD (ghost image) will be stored at a secure, off-site location."

Property Control and Reporting:

Criteria:

Section 4-36 of the General Statutes requires that each State Agency establish and keep an inventory account in the form prescribed by the State Comptroller. The State 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 including the taking of annual physical inventories, the reporting of surplus property to the State and Federal Property Distribution Center, and the preparation of Form CO-853, Report of Loss or Damage to Real and Personal Property (Other than Motor Vehicles), to report losses/damages to property other than vehicles pertaining to theft, vandalism, criminal malicious damage, missing property (cause unknown) or damages caused by wind, fire or lightening.

The Agency is required to transmit annually, on or before October first, to the Comptroller a detailed inventory, as of June thirtieth, of all property, real or personal, owned by the State and in custody of such department.

Condition:

Our review of twenty-five inventory items randomly sampled from the Agency's inventory listing and twenty-five inventory items identified by a random inspection of the Agency premises disclosed that three items could not be physically located and five items were not found in the location specified on the fixed inventory listing. Our review also disclosed that a complete physical inventory had not been performed since the 2001-2002 fiscal year.

Our review of the CO-59 Fixed Assets/Property Inventory Report for the fiscal years ended June 30, 2002 and 2003, disclosed the following.

- The Department was unable to provide us with the supporting documentation for the amounts reported for the fiscal year ended June 30, 2002.
- For the fiscal year ended June 30, 2003, the Department was unable to provide us with supporting documentation for the materials and goods-in-process deletions totaling $441,269.
- Although the Agency had a detailed inventory listing to support the deletions reported for furnishings and equipment, the Agency was unable to provide us with

documentation that the items had either been reported to the State and Federal Distribution Center or a Form CO-853 Report of Lost Property had been prepared for $130,003 of the $255,798 reported.

- Ten items totaling $36,866 that had been reported as surplus property to the State and Federal Distribution Center were not included in the deletions figure reported for furnishings and equipment.
- The CO-59 Fixed Assets/Property Inventory Reports for the fiscal year ended June 30, 2003, was not submitted in a timely manner.

Effect: Deficiencies in the control over the equipment inventory result in a decreased ability to properly safeguard State assets. The Agency is not in compliance with the requirements of the State Property Control Manual and the Agency's report of inventory to the State Comptroller was unsupported.

Cause: We were informed that due to lack of staff, the Agency has not taken a complete physical inventory and updated its inventory records. The supporting documentation for the CO-59 Fixed Assets/Property Inventory Report for the fiscal year ended June 30, 2002, was not located because the individual responsible for preparation of the report during the audit period is no longer employed at BESB and the current staff did not know where it was filed. For the fiscal year ended June 30, 2003, the materials and goods-in-process inventory was not tracked due to the closing of the Agency's Industries Division in January 2003.

Recommendation: The Agency should improve property control, should perform annual physical inventories, and should institute procedures to ensure that the inventory reported to the State Comptroller is submitted in a timely manner and is properly supported. (See Recommendation 2.)

Agency Response: "The Agency agrees that it should improve its property control and should perform annual physical inventories.

The Agency would like to point out that the entire Industries Division was closed in January, 2003 with all the staff laid off. In addition, between layoffs and early retirements, the Business Office lost 5.5 positions in the past year, leaving only 9 employees. The stockroom lost two staff members and at one point, the only remaining person in the stockroom was out on extended leave for a portion of the year.

The previous Business Manager had these greatly reduced staffing resources to maintain the essential functions of the Business Office. This required the making of difficult choices, such as placing a higher priority on the purchase or services and adaptive technology for consumers who are blind, providing funding support to towns for the education of children who are blind or visually impaired, meeting payroll obligations and paying vendors for services rendered within required timeframes to avoid interest penalties. As a result, inventory control was a task that was not accomplished in the past year, given the limited staffing resources available to the Agency.

The new Executive Director and new Business Manager both feel that inventory control is very important. The Agency will request a durational or temporary position to assist with completing the physical inventory. Additionally, the Agency will request additional full-time positions in the Business Office to offset the severe staff shortages that currently exist."

Procurement:

Criteria: The State Accounting Manual and the State Purchasing Manual specify the procedures to be used by State Agencies for the purchasing of goods and services.

Condition: Our review of forty expenditure transactions for the fiscal years ended June 30, 2002 and 2003, disclosed the following.

- For three payments the incorrect direct purchasing authority was used.
- Two payments were for goods or services that were not included in the contract awards listed on the purchase orders.
- One direct purchase order could not be located.
- One personal service agreement appeared to be incomplete and we were unable to determine whether the proper amount was paid.

Effect: There was non-compliance with State procedures.

Cause: Established procedures were not followed due to the large number of transactions processed by the Agency and the relatively small number of employees in the Business Office.

Recommendation: The Department should follow established procedures to ensure that expenditures are processed in accordance with the State Accounting and Purchasing Manuals. (See Recommendation 3.)

Agency Response: "The Agency agrees that it should follow established procedures to ensure that expenditures are processed in accordance with the State Accounting and Purchasing Manuals.

The Agency further agrees with the 'cause' indicated in the audit report, noting that there is a 'relatively small number of employees in the Business Office'. The Agency plans to request additional positions through the budget process in the hope of re-establishing the level of staffing that is essential to maintaining adequate quality controls."

Questionable Use of Restricted Funds – Business Enterprise Program:

Criteria: Section 10-303 of the General Statutes states that the Board of Education and Services for the Blind may maintain a nonlapsing account and accrue interest thereon for State and local vending machine income which shall be used for the payment of fringe benefits, training and support to vending facilities operators, and to provide entrepreneurial and independent-living training and equipment to children who are blind or visually impaired and adults who are blind. The Board of Education and Services for the Blind may disburse State and local vending machine income to student or client activity funds, as defined in Section 4-52 of the General Statutes.

Condition: Our review of ten expenditure transactions charged to the Business Enterprise Program disclosed one payment in the amount of $2,917 for ninety-six "ride all day" admission tickets and 100 meals at an amusement park. We were informed that the purpose of the payment was for the annual meeting of the vending facilities operators who participate in the Business Enterprise Program.

Effect: The payment does not appear to be in compliance with the intent of Section 10-303 and appears to represent potential abuse of Business Enterprise Program funds.

Cause: The Department believed that this was an allowable payment since the source of the funds is from vending commissions and because a meeting took place.

Recommendation: The Department should institute procedures to ensure that payments are in compliance with the General Statutes. (See Recommendation 4.)

Agency Response: "The Agency believed that authority existed for conducting an off-site meeting of the Business Enterprise Program Operators Committee, and combining it with a Family Day celebration. Section 10-303-9(d)(4) of the Regulations of State Agencies does permit the option for off-site meetings of the Operators Committee, and such a meeting did occur on that date.

Regardless of where the meeting was held, there would have been food provided for the blind vendors, the individuals who transported them to the meeting, and staff members who were required to participate in the meeting that was held after normal business hours. Therefore, a portion of the expenditure under question is unclear to the Agency.

The Agency will refrain from any future Family Day type events that require the expenditure of funds unless written guidance can be provided in advance regarding the scope and authority for offering such activities."

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 10-295-7, subsection (b), of the State Regulations states that in order for a school district to be reimbursed for special services and instructions provided to visually handicapped children, the special services and instructions must be in the child's individualized education program. Section 10-295-10 of the State Regulations states that purchase and provision by the Board to a visually handicapped child of such items as braille or large print books and related materials, special supplies and equipment will be made based on the determination of such child's planning and placement team that such items be provided to the child as they are necessary to implement the child's individualized education program.

Section 10-295-8, subsection (b)(4), of the State Regulations, concerning special education classroom teacher costs, states that 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 classroom 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.

Condition: Our review of twenty-five Children Services Grant payments totaling $100,169 for the fiscal years ended June 30, 2002 and 2003, disclosed the following.

- For two payments, the clients' individualized education programs were not on hand at the time the payments were processed.
- For one payment, the amount of speech therapy approved in the individualized education program was one-half of an hour per week, but the Agency approved reimbursement of one hour per week.
- In one instance, the town billing for the cost of special education teachers was not prorated correctly and the agency paid the amount billed.
- In one instance, the amount paid to the school district for costs associated with a teacher of the visually impaired was greater than the amount of reimbursement requested and the Agency was unable to provide us with an explanation as to why this was done.

Effect: There was non-compliance with State Regulations. Payments totaling $7,317 were unsupported and $797 were overpaid. One instance noted did not result in an overpayment because the total amount approved was not paid due to the maximum statutory limits. In another instance, the individualized education program was subsequently obtained by the Agency as a result of the audit, and the related payment is not being reported as unsupported. In the final instance noted, we are concerned about the control aspect of the Agency's inability to provide us with an explanation of how the payment was calculated, and more specifically, we are concerned that it appears that only one individual, who is no longer employed, was aware of how the payments were determined. We did not find enough evidence to positively determine what the correct payment should have been.

Cause: The Agency did not follow established procedures for ensuring that payments were supported by, and included in, the clients' individualized education programs and the Agency did not recalculate the costs of special education as provided by the school district. It is unknown why the amounts paid were greater than the amounts requested by the towns since the individual responsible for approving the amounts is no longer employed at the Agency.

Recommendation: The Board of Education and Services for the Blind should review and strengthen internal controls over Children Services Grant payments. (See Recommendation 5.)

Agency Response: "The Agency acknowledges the inaccuracies noted. The Manager of cognizance who approved these particular items is no longer with the Agency. The current management of the Agency is in agreement with the findings of the Auditors.

The town bill reimbursement process was cumbersome and confusing, to staff and to town personnel who were charged with completion of the BESB 103 form. Despite the Agency offering training on how to complete the form, and issuing specific written instructions to the towns, errors did occur. With the passage of Public Act 03-219, a more streamlined approach has been put into Statute, therefore eliminating the confusing town reimbursement process and instead replacing it with a simple formula driven disbursement process for future years."

Payroll Records:

Background: During the audited period, the Agency maintained a separate payroll for the Industries Division workshop employees.

Criteria: Proper internal controls require that payroll transactions are supported by timesheets and documentation to support the rates at which employees are paid.

State records retention requirements promulgated by the State Library, Office of Public Records Administration, in accordance with Section 11-8 of the General Statutes, provide that payroll records be retained for three years or until audited, whichever comes later.

Condition: Our review of ten payroll transactions for the Industries Division's contractual payroll for the fiscal years ended June 20, 2002 and 2003, revealed that the Department was unable to provide us with three timesheets and the supporting wage rate documentation for all ten transactions in our sample.

Effect: The lack of timesheets and supporting rate documentation lessens the assurance that services were received and properly paid.

Cause: We were informed that the payroll records could not be located due to the closing of the Industries Division in January 2003. Files pertaining to the Industries Division are currently stored in unlabeled boxes that the Agency has not had time to search through due to lack of staff.

Recommendation: The Agency should institute procedures to ensure that all records can be located and are retained in accordance with the State records retention requirements. (See Recommendation 6.)

Agency Response: "BESB agrees with the auditors' recommendation. Due to the fiscal crisis that Connecticut and much of the nation experienced in Fiscal Year 2003, BESB Industries closed abruptly with the layoff of all staff of that Division. The functions previously handled by administrative staff of the Industries Division could not be shifted as the Business Office for the Agency also experienced a significant reduction of staff due to layoffs and the early retirement incentive program. In the new fiscal year, BESB will seek permission to hire a temporary clerical worker, specifically for the purpose of organizing the Industries Division records so that BESB will be in compliance with the state records retention requirements."

Accounts Receivable:

Background: Until January 2003, BESB operated an Industries Division that consisted of two workshops that employed blind and low-vision employees. The Industries Division was responsible for producing or assembling merchandise such as shirts, sweatpants, duffel bags, reflective vests, admission kits and pens. The Division also bought other items and sold them for a profit.

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. Effective July 1, 1999, BESB entered into a contract with one vendor to service all vending machine sites under its authority. Vending commissions are remitted to BESB on a monthly basis based on the number of items stocked in the vending machines.

Under Section 10-303 of the General Statutes, BESB operates a Business Enterprise Program. The primary purpose of this program is to provide entrepreneurial opportunities to blind individuals by providing vending facility sites for their use. Under permits with host agencies, entrepreneurs operate businesses that range from gift shops to restaurants located in municipal, State and Federal buildings. The entrepreneurs derive the full profits from their operations and are given an initial stock of inventory that must be repaid upon termination from the program.

Criteria: Sound business practice includes the maintenance of adequate accounts receivable records and the active pursuit of amounts owed by outside parties.

Condition: Our review of various receivables throughout the Agency disclosed the following.

- The Agency has not updated its receivables for the Industries Division since the closing of the Division in January 2003. As of June 30, 2003, undetermined amounts are owed by outside parties.
- The Agency does not have a current accounts receivable listing for amounts owed for inventory stock from vending operators who have terminated the Agency's Business Enterprise Program.
- The Agency does not appear to be adequately reviewing and reconciling the vending commissions received from its Statewide vending contractor to the monthly sales reports received. Our review of two months of receipts disclosed variances that were not identified or investigated by the Agency until questioned.

Effect: As time passes, the ultimate collection of receivables becomes less likely when adequate accounts receivable records are not maintained and amounts owed are not actively pursued.

Cause: We were informed that due to lack of staff, the Agency has fallen behind on maintaining its accounts receivable records.

Recommendation: BESB should maintain adequate accounts receivable records and pursue all amounts owed by outside parties. (See Recommendation 7.)

Agency Response: "The Agency will seek permission to increase clerical support positions for the Agency so that staffing resources can be assigned to organizing these records. If records of payments owed to BESB Industries from other entities are located, the Agency will take steps to collect these sums. BESB will also seek legislation to amend the Connecticut General Statutes that affect BESB Industries.

Initial inventory is granted to a B.E.P. Manager when they are assigned to a facility. The total amount is entered onto Schedule B of an operator's agreement. Final reconciliation and re-payment occurs upon termination from the program as noted in Section 10-303-3(h)(ii) of the Regulations of State Agencies. Upon exiting the Program, the operator is presented with an ending inventory figure that is then compared to the opening amount granted. Payment is necessary at that time, in lump sum or in installment payments."

Auditors' Concluding Comment:

The Agency was unable to provide us with a receivable listing for former vending operators paying amounts owed on an installment basis. In addition, the accounts receivable documentation provided to us during the prior audit revealed that there were outstanding payments owed from former vendors. The Agency was unable to provide us with the current status of these receivables.

Reports Required by Statute:

Criteria: Section 10-311 of the General Statutes requires that the Board of Education and Services for the Blind shall annually file with the Comptroller a balance sheet as of June thirtieth and a statement of operations for the fiscal year ending on that date. A copy of such statement shall be filed with the Auditors of Public Accounts.

Section 10-304 of the General Statutes requires that at the end of each fiscal year any surplus as of June thirtieth determined by including cash, accounts receivable and inventories less accounts payable over the sum of three hundred thousand dollars derived from sales of manufactured goods or articles or other sales, in excess of such cost of labor or services, materials, merchandise, supplies and other such operating expenses shall revert to the General Fund of the State. The State Accounting Manual states that a report on the Agency's Sales and Services Account is due as soon after the end of the fiscal year as is practical and a negative report is required.

Condition: Our review disclosed that the Department was unable to provide us with a balance sheet and a statement of operations for the fiscal years ended June 30, 2002 and 2003.

Our review also disclosed that the Department was unable to provide us with documentation to support that the balance in the sales and service account, including a negative report, was reported to the State Comptroller for the fiscal years ended June 30, 2002 and 2003.

Effect: Non-compliance with the General Statutes and the State Accounting Manual.

Cause: The individual responsible for the preparation of the balance sheet and statement of operations during the audit period is no longer employed at the Agency and the current staff were unable to determine whether the required reports were filed. For the fiscal year ended June 30, 2002, we were unable to determine why the balance in the Sales and Services account was not reported. For the fiscal year ended June 30, 2003, the Department believed that since there was a deficit in the Sales and Services Account a report was not required.

Recommendation: The Agency should institute procedures to ensure that all reports required by Statute are prepared and submitted in a timely manner or should seek legislation to have the General Statutes amended. (See Recommendation 8.)

Agency Response: "The individual responsible for the preparation of these reports was laid off when the entire Industries program was closed in January 2003. The current staff were unable to determine whether the required reports were filed. A call was placed to the Comptroller's Office inquiring about the submission of these reports. They were unable to produce any of them.

As a result of this audit finding, the Agency has submitted to the Comptroller's Office a letter referring to these two Statutory requirements explaining that the Industries Program has been closed for a year and a half now and these Statutes should be amended or eliminated."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. The Agency has complied with this recommendation.

- The Board of Education and Services for the Blind should review and strengthen internal controls over Children Services Grant payments. This recommendation is repeated in a modified form. (See Recommendation 5.)

- Property control over computer equipment and manufacturing inventories should be improved. This recommendation is repeated in a modified form. (See Recommendation 2.)

- The status of Industries workshop employees as being exempt from State classified service should be reviewed and, if applicable, clarified as a statutory exemption. This recommendation has been resolved due to the closing of the Industries workshops.

- 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. The Agency has complied with this recommendation.

Current Audit Recommendations:

1. **The Agency should develop a current comprehensive disaster recovery plan.**

   Comment:

   The Agency has a disaster recovery plan that was implemented in 1998 and established the Agency's West Haven facility as its backup location in the event of an emergency. Due to the closing of this facility in January 2003, the disaster recovery plan is no longer applicable.

2. **The Agency should improve property control, should perform annual physical inventories, and should institute procedures to ensure that the inventory reported to the State Comptroller is submitted in a timely manner and is properly supported.**

   Comment:

   Our review of twenty-five inventory items randomly sampled from the Agency's inventory listing and twenty-five inventory items identified by a random inspection of the Agency premises disclosed that three items could not be physically located and five items were not found in the location specified on the fixed inventory listing. Our review also disclosed that a complete physical inventory had not been performed since the 2001-2002 fiscal year. Our review also disclosed that several amounts reported on the CO-59 Fixed Assets/Property Inventory report were unsupported.

3. **The Department should follow established procedures to ensure that expenditures are processed in accordance with the State Accounting and Purchasing Manuals.**

   Comment:

   Our review of forty expenditure transactions for the fiscal years ended June 30, 2002 and 2003, disclosed that for three payments the incorrect direct purchasing authority was used, two payments were for goods or services that were not included in the contract awards listed on the purchase orders, one direct purchase order could not be located, and one personal service agreement appeared to be incomplete and we were unable to determine whether the proper amount was paid.

4. **The Department should institute procedures to ensure that payments are in compliance with the General Statutes.**

   Comment:

   Our review of ten expenditure transactions charged to the Business Enterprise Program disclosed one payment in the amount of $2,917 for ninety-six "ride all day" admission tickets and 100 meals at an amusement park. We were informed that the purpose of the payment was for the annual meeting of the vending facilities operators who participate in the Business Enterprise Program.

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

   Comment:

   Our review of Children Services Grant payments disclosed amounts that were overpaid or unsupported.

6. **The Agency should institute procedures to ensure that all records can be located and are retained in accordance with the State records retention requirements.**

   Comment:

   Our review of ten payroll transactions for the Industries Division's contractual payroll for the fiscal years ended June 20, 2002 and 2003, revealed that the Department was unable to provide us with three timesheets and the supporting wage rate documentation for all ten transactions in our sample.

7. **BESB should maintain adequate accounts receivable records and pursue all amounts owed by outside parties.**

   Comment:

   Our review of various receivables throughout the Agency revealed that the Agency does not have current accounts receivable listings for the former Industries Division and for amounts owed for inventory stock from vending operators who have terminated the Agency's Business Enterprise program. The Agency does not appear to be reconciling the vending commissions received from its Statewide vending contractor to the monthly sales reports received.

8. **The Agency should institute procedures to ensure that all reports required by Statute are prepared and submitted in a timely manner or should seek legislation to have the General Statutes amended.**

   Comment:

   The Agency was unable to provide us with a balance sheet and a statement of operations for the fiscal years ended June 30, 2002 and 2003. The Agency was unable to provide us with documentation to support that the balance in the sales and service account, including a negative report, was reported to the State Comptroller for the fiscal years ended June 30, 2002 and 2003.

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, 2002 and 2003. 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, 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 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, 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 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 the following findings represent reportable conditions: the lack of a disaster recovery plan; inadequate property control and reporting; the questionable use of restricted funds; the lack of contractual payroll records; and inadequate accounts receivable 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 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, we believe that none of the reportable conditions described above is 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 for the cooperation and courtesies extended to our representatives by the personnel of the Board of Education and Services for the Blind during this examination.

Lisa G. Daly
Principal Auditor

Approved:

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