STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF EDUCATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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September 12, 2002

AUDITORS' REPORT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2001

We have made an examination of the financial records of the Department of Education for the fiscal year ended June 30, 2001. This report on our examination consists of the Comments, Recommendations and Certification which follow. Financial statements pertaining to the operations and activities of the Department of Education are presented on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Education (hereafter "the Department") functions primarily under the provisions of Title 10 of the General Statutes. The Department, under the direction of the Commissioner of Education, serves as the administrative arm of the State Board of Education, established under Section 10-1 of the General Statutes. General supervision and control of the State's educational interests with respect to preschool, elementary and secondary education, special education, vocational education and adult education are included in the statutory responsibilities of the State Board. The fiscal duties of the Department of Education include the administration of State and Federal grants which are paid to local and regional educational agencies. The Department of Education also administers the State's Regional Vocational Technical School System.

Members of the State Board of Education:

Members of the Board as of June 30, 2001, were as follows:

	Term Expires February 28,
Craig Toensing, Falls Village, Chairperson	2005
Donald J. Coolican	2005
Patricia B. Luke	2005
Allan B. Taylor, Hartford	2005
Amparo Adib-Samii, Suffield	2003
Terri L Masters, Wolcott	2003
Janet Finneran, Bethany, Vice-Chairperson	2003
Annika L. Warren, Hartford	2003
Timothy J. McDonald, Waterbury	2003
Non-voting members	
Valerie F. Lewis	(A)
David R. Agrawal	(B)
Jennifer Y. Santiago	(B)

Note A:
Under the provisions of Section 10-1 of the General Statutes, the Commissioner of Higher Education serves as an ex-officio member without a vote.

Note B:
There are two non-voting student members. Each student's term expired on June 30, 2001.

Theodore S. Sergi served as Commissioner of Education during the audited period.

Legislative Changes:

Notable legislative changes, which took effect during the audited period, are presented below:

- **Public Act 00-167 –** Section 60 of the Act increased the amount of bond funds authorized to finance school construction projects by $54,000,000 for fiscal year 2000-2001. Section 61 decreased the amount of the bond funds authorized for interest subsidy grants by $44,000,000 for fiscal year 2000-2001. (See Special Act 00-13, below).

- **Special Act 00-13 –** Amends the Department of Education's budget for fiscal year 2000-2001: Section 35 makes new appropriations as follows: For School Construction grants of $43,632,000; Educational Cost Sharing Hartford Supplemental School Aid of $5,700,000; Section 72 directs that of the unappropriated surplus for the fiscal year ending June 30, 2000, (1) $10,000,000 is to be appropriated to the Department of Information Technology for school wiring and (2) the balance to the Department of Education for avoiding the issuance of debt for school construction grants.

- **Public Act 00-187** - Section 1, effective July 1, 2000, specifies that Hartford is to use a portion of its Educational Costs Sharing (ECS) supplemental school aid (See Special Act 00-13, above) to implement improvement plans and partnership programs in its schools that have been identified as in need of improvement. Sections 4 and 9 through 12 expand the number of districts eligible for school readiness program grants. Section 13 increases the regional bonus under the ECS formula from $25 to $100 per student. Section 19 eliminates a $6,000,000 increase in Hartford's ECS grant for fiscal year 2000-2001. (However, Hartford receives $5,700,000 in ECS supplemental school aid in Section 35, of Special Act 00-13, as noted above).

- **Public Act 00-220 -** Section 22, effective July 1, 2000, requires the Department of Education to conduct a limited scope audit of a school building project if it has not completed an audit of the project during the five-year period from the date the district filed a notice of project completion. It also provides that the Department shall not make any adjustments to a school construction grant based on the result of an audit finding that a change order was not publicly bid.

- **Special Act 00-10 –** Section 1, effective May 16, 2000, authorizes the Commissioner of Education to enter into grant commitments [i.e. new] for school construction projects. The estimated total cost of the projects authorized is approximately $1,500,000,000.

RÉSUMÉ OF OPERATIONS:

General Fund receipts of the Department of Education totaled $297,471,988 for the 2000-2001 fiscal year. A summary of General Fund receipts by category, as compared to the 1999-2000 fiscal year, follows:

	Fiscal Year	
	2000-2001	**1999-2000**
Federal grants	$275,920,082	$256,032,042
Other-than-Federal grants	12,885,211	3,010,198
Teachers' Certification fees	1,564,857	1,584,175
Regional Vocational Technical Schools		
- Cafeteria collections	2,272,758	2,127,290
Examination fees	10,047	8,795
Refunds of expenditures	4,807,153	4,934,842
Miscellaneous	11,880	32,644
Total General Fund Receipts	**$297,471,988**	**$267,729,986**

As presented in the summary, the increase in revenues was primarily attributable to increases in Federal and State grants. Refunds of expenditures resulted primarily from the return of grant funds from educational agencies.

General Fund expenditures charged to Department of Education appropriations for the fiscal year ended June 30, 2001, as compared to the fiscal year ended June 30, 2000, are summarized below:

	Fiscal Year	
	2000-2001	**1999-2000**
Budgeted Appropriations:	$	$
Personal services	102,906,412	97,820,366
Other expenses	13,116,301	11,691,916
Equipment	-	1,000
Grants to education agencies and Various other payments	2,053,739,369	1,715,791,528
Total Expenditures from Budgeted Appropriations	2,169,762,082	1,825,304,810
Restricted Contributions:		
Other than Federal	5,058,822	4,941,608
Federal	272,445,408	259,257,786
Total Expenditures	$ 2,447,266,312	$ 2,089,504,204

Federal restricted contributions were audited on a Statewide basis. The results of that review are presented as part of our Statewide Single Audit for each respective fiscal year.

According to Agency expenditure records, the majority of personal services expenditures from budgeted accounts were related to the operation of the Regional Vocational Technical School System, amounting to $80,769,480 and $85,492,837 for the fiscal years ended June 30, 2000 and 2001, respectively.

The large increase in grants to education agencies during the 2000-2001 fiscal year was primarily due to a change in the way School Construction Grants were funded. The Department expended $292,713,001 in General Fund appropriations for School Construction Grants to fund school construction projects. In the prior period, those projects were primarily made from the proceeds of State issued bonds. The large increase in grants in the current period was offset by the effect of a 1999-2000 appropriation of $55,186,000 to subsidize the payments for interest incurred by towns that issued bonds for school construction projects. Of that appropriation, $53,093,049 was expended in the prior period and $1,906,888 was expended in the current period.

A summary of grants to educational agencies and other payments made from budgeted appropriations is as follows:

	2000-2001	1999-2000
Payments to Educational Agencies and Others:	$	$
Education equalization grants	1,384,627,280	1,347,876,789
School construction grants	292,713,001	0
Excess cost – student based	58,398,566	46,763,109
Transportation of school children	45,939,134	42,800,371
Early childhood program	38,051,323	36,126,942
Magnet schools	29,891,217	19,244,357
Early reading success	20,571,876	20,356,796
Priority school districts	20,057,500	20,336,250
Interdistrict cooperation	17,766,944	14,428,637
Adult education	15,344,655	15,133,012
Charter schools	13,725,000	11,309,368
Excess cost – equity	11,500,000	11,500,000
School wiring	9,888,491	0
School accountability	7,650,000	300,000
American School for the Deaf	7,276,295	6,916,865
OPEN Choice program	6,651,400	5,450,000
Family resource centers	6,050,000	6,000,000
ECS Hartford supplemental school aid	5,700,000	0
Development of mastery exams	5,479,269	5,430,483
Nonpublic school transportation	4,537,489	4,512,907
Teachers' standards implementation program	3,519,067	3,415,880
Regional educational services	3,297,384	3,147,384
Health and welfare services	3,174,743	3,441,371
Library book grants to schools	3,115,530	3,165,530
Extended school hours support programs	3,108,185	3,262,075
Head Start services	3,100,000	3,063,721
Interest subsidy debt avoidance grants	1,906,888	53,093,049
Miscellaneous program payments	30,698,132	28,716,632
Total Grants to Educational Agencies and Other Payments	**$ 2,053,739,369**	**$ 1,715,791,528**

In addition to the grants and payments from General Fund budgeted accounts presented in the above summary, there were grants for school building construction financed from a capital projects fund, which are discussed further in the report section entitled "School Construction Grants".

Descriptions of the significant State grant programs follow:

Education Equalization Grants to Towns:

Sections 10-261a to 10-262i of the General Statutes provide for education equalization aid to towns. This grant program provides aid to each town maintaining public schools. Aid distributed to a town under this grant program is to be expended for educational purposes only, upon the authorization of the local or regional board of education.

School Construction Grants:

Grants for public school building projects were governed primarily by the provisions contained in Chapter 173 of Title 10 of the General Statutes. Various statutory rates were used in the grant computations.

In general, grants are provided for construction of new schools (including site acquisition) and expansion or major alteration of existing facilities. Aid is also provided for regional vocational agriculture centers, occupational training centers, administrative or service facilities, and special education facilities. In addition, bond interest subsidy payments and special hardship grants are made.

Funding for the school construction program is provided by General Fund appropriations and by the School Building Capital Projects Fund, established under the provisions of Sections 10-287a through 10-287i of the General Statutes to account for the proceeds of State bonds issued for school construction. A summary of cash receipts and disbursements of the School Building Capital Projects Fund for the year under audit, is presented below:

	Fiscal Year 2000-2001
Beginning Cash	$ 35,081,075
Receipts - Sale of Bonds	60,896,127
Total Available	95,977,202
Disbursements - School construction grants	97,214,380
Ending Cash	**$ (1,237,178)**

Public Act 00-167, Sections 60 and 61, increased the total bond authorization for school construction grants from $2,299,460,000 to $2,709,460,000 for the 2000-2001 fiscal year. An additional $106,666,000 was authorized for Magnet School construction projects and educational technology grants by various Special Acts. This resulted in total authorizations for school construction of $2,816,126,000 in the School Building Capital Projects Fund, at June 30, 2001. State assistance for Magnet Schools is also available in the form of grants to local governments, from sources other than the School Building Capital Projects Fund.

Under the provisions of Special Act 00-13, after the State's accounts for the fiscal year ending June 30, 2000, were closed, the Department was directed to receive all but $10,000,000 of the unappropriated surplus in the General Fund. Those funds were for the purpose of avoiding the issuance of debt for school construction grants made pursuant to Chapter 173 of the General Statutes. This resulted in the appropriation to the Department's School Construction Account of $414,516,991 of which $292,713,001 was expended during the fiscal year ended June 30, 2001.

A summary of State payments for school building programs, by type of grant and by source of funding, follows:

	2000-2001 Fiscal Year
Type of Grant:	$
School Construction Grants	292,713,001
Principal Installment	97,137,359
Interest Subsidy	1,887,782
Total Grants	**$391,738,142**
Source of Funding:	$
General Fund	294,619,889
School Building Capital Projects	97,118,253
Total Grants	**$391,738,142**

The State's liability for installment grant obligations under Sections 10-287 and 10-287h amounted to approximately $947,217,000 as of June 30, 2001. The liability for bond interest subsidy grants amounted to approximately $326,927,107 as of that same date. These amounts represent only those projects which have gone forward and for which grants have been calculated. They do not include estimated amounts for projects authorized by the Legislature prior to 1997, which have not moved forward and have not had a grant calculated. As explained below, the Department no longer provides financial support for construction projects as "installment grant obligations." The amounts of outstanding grant obligations will eventually peak and then decrease gradually in future periods.

In accordance with Public Act 97-265, codified as Section 10-287 of the General Statutes, the State no longer participates in the payment of debt service on municipal bonds for school construction projects. The State now incurs its share of construction project costs on a progress-payment basis during the construction period. As of June 30, 2001, progress-payment indebtedness totaled approximately $2,201,000,000.

Excess Cost – Student Based:

Under the provisions of Sections 10-76d, 10-76g, and 10-253 subsection (b), of the General Statutes, the Department will reimburse local school districts for the cost of special education services that exceed certain spending levels. Depending on the type of special education services, local school districts are expected to pay for special education services costing from one and one half times to five times the average per pupil costs of education before receiving reimbursement. Section 10-76d of the General Statutes allows State reimbursements for special education placements in private institutions if the public arrangements are more costly than the private arrangements, provided the private institution offers a suitable educational program.

Excess Cost – Equity:

Section 10-76g of the General Statutes establishes criteria for towns to receive supplemental special education grants. Town eligibility is based on the ratio of the town's net costs of special education to the product of the town's total need students and the average regular program expenditures per need student. Towns with ratios that exceed the Statewide average for all such ratios are eligible to receive a grant.

Transportation Grants:

Transportation grants were administered under the provisions of Sections 10-54, 10-66ee, 10-97, 10-158a, 10-266m, 10-273a, 10-277, and 10-281 of the General Statutes.

Under the provisions of Section 10-266m of the General Statutes, boards of education are reimbursed for their eligible transportation costs under a sliding-scale percentage method. During the audited period, the percentage range for reimbursement was from zero to 60 percent, with all towns receiving a minimum grant of $1,000. The rate of reimbursement is based on town wealth, with wealthier communities receiving minimal support and needier towns receiving higher rates.

Early Childhood Program:

In accordance with Sections 10-16o through 10-16r of the General Statutes, welfare reform initiatives were addressed with the funding of school readiness programs. An apparent significant increase in expenditures during the 1999-2000 fiscal year was actually due to a change in the method of funding. Funds that had been “passed through” the Department of Social Services during the 1998-1999 fiscal year were appropriated directly to the Department of Education beginning in the 1999-2000 fiscal year.

Magnet Schools:

In accordance with Sections 10-264h through 10-264l of the General Statutes, there exists an Interdistrict Magnet School grant program designed to support racial, ethnic and economic diversity through a high-quality curriculum. This program also provides transportation to interdistrict students who reside outside of the district in which the school is located. Eligibility is dependent upon a cooperative arrangement involving two or more local districts and approval of the operations plan by the Department.

Early Reading Success:

In accordance with Section 10-265f of the General Statutes, an early reading success program to implement plans of local school districts was established to improve the reading skills of students in kindergarten through grade three. Funds are used to establish full-day kindergartens, reduce class sizes in kindergarten through grade three to not more than eighteen students, and establish early intervention reading programs for at-risk students.

Priority School Districts:

This grant program, established under the provisions of Sections 10-266p through 10-266r of the General Statutes, is designed to provide assistance to improve student achievement and enhance educational opportunities in certain school districts. During the audited period, the eight towns in the State with the largest populations were Priority School Districts. The law also provides that a number of towns with the highest count and/or the highest percentage of children in families participating in the Temporary Family Assistance Program, adjusted by certain factors from the town's Mastery Test results, also be designated as Priority School Districts.

School districts receiving Priority School District funding during the 2000-2001 fiscal year included Bloomfield, Bridgeport, Bristol, Danbury, East Hartford, Hartford, Meriden, Middletown, New Britain, New Haven, New London, Norwalk, Stamford, Waterbury, West Haven and Windham.

Grants for Interdistrict Cooperative Programs:

In accordance with Section 10-74d of the General Statutes, the Department shall maintain a competitive grant program for the purpose of assisting local and regional boards of education and regional education service centers with the establishment and operation of interdistrict cooperative education programs.

Adult Education:

Sections 10-69 to 10-73c of the General Statutes provide for State grants to local and regional education agencies based on a percentage of eligible adult education costs. Instructional and administrative services related to programs in U.S. citizenship; limited English proficiency; elementary/secondary school completion, and any other subject provided by the elementary and secondary schools of a school district are all eligible costs. The reimbursement percentage range for the audited period was zero to 65 percent.

Charter Schools:

Section 2 of Public Act 96-214 authorizes the creation of charter schools. Section 10-66aa of the General Statutes defines Charter Schools as public, nonsectarian schools that operate independently of any local or regional board of education in accordance with a State or local charter. The goal of charter schools is to serve as centers for innovation and educational leadership to improve student performance, to provide a choice to parents and students within the public school system, and to be a possible vehicle to reduce racial, ethnic and economic isolation. They are assessed annually to determine if they are meeting the goals of the legislation and their charters. For students enrolled in a local charter school, the local board of education of the school district in which the student resides pays annually an amount specified in its charter.

The Department of Education also administered other special funds, during the audited period. A brief description of these operations follows.

Vocational Education Extension Fund:

The Vocational Education Extension Fund, an enterprise fund, operates under the provisions of Section 10-95e of the General Statutes. The Fund was used during the audited period to account for the revenues and expenses of adult educational programs and includes an Industrial Account for production activities conducted at the Regional Vocational Technical Schools. Section 10-99 of the General Statutes requires that any balance in the Industrial Account at the close of the fiscal year in excess of $350,000 be transferred to the General Fund within ten months of the close of a fiscal year. For the fiscal year ended June 30, 2001, no transfers were required.

Vocational Education Extension Fund cash receipts and disbursements for the 2000-2001 fiscal year are presented below:

	2000-2001 Fiscal Year
	$
Beginning Cash	**816,757**
Receipts:	
Tuition fees	1,861,552
Customer charges	558,625
Total Receipts	**2,420,177**
Total	3,236,934
Disbursements:	
Extension school	1,945,065
Industrial account	627,060
Total Disbursements	**2,572,125**
Ending Cash	**$ 664,809**

We comment on the operation of the fund in the "Condition of Records" and "Recommendations" sections of this report.

CONDITION OF RECORDS

Our examination of the records of the Department of Education disclosed matters of concern requiring disclosure and Agency attention.

Management of the Vocational Education Extension Fund:

Background: The Vocational Education Extension Fund is an enterprise fund designed to account for the revenues and related costs of the Regional Vocational Technical Schools' adult educational programs and the production activities of the Schools' shops.

Criteria: Enterprise funds are designed to account for the specific revenues and costs of certain activities, with the objective of being able to make periodic determinations of the need for adjustments to specific costs or associated revenues. Section 10-95e of the General Statutes authorizes the Fund. Per subsection (a) of that Section, the Department is to fix the tuition fees to be charged students for preparatory and supplemental programs including apprenticeship programs. However, the Department may not charge more than $100 for any apprenticeship program or course.

According to Governmental Generally Accepted Accounting Principles, an enterprise fund should be established if "Operations are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis is financed or recovered primarily through user charges."

Section 10-95e, subsection (b), of the General Statutes provides that a separate apprenticeship account be established to account for activities of the apprentice programs. Established policies call for the preparation of tuition accountability reports for each school's extension program. Policies pertaining to the collection of fees from students should be formalized to permit consistent treatment.

Condition: Our prior review of the revenues and expenses of the Fund disclosed that adjustments were made at the end of the fiscal year, the effect of which was to transfer personnel costs from the Extension Fund to the General Fund. As a result, the Extension Fund was presented in a more favorable financial condition than what would have been presented had the adjustments not been made. Further, the Department determined that the ultimate effect of the transactions would be to "free up" Extension Fund resources so that "other expense" type expenditures could be made.
Our current review found that the Fund continues to operate at a

deficit with expenditures exceeding revenues by $151,949 for the fiscal year ended June 30, 2001. This deficit does not include approximately $1,100,000 in payroll expenditures directly related to the operation of the Extension Fund, which were charged to the General Fund. We were also informed that as many as four Regional Assistant Directors, who perform Extension Fund related duties, have not been charged to the Extension Fund.

As regards tuition charges, we noted that the rate of $100 charged for apprenticeship programs/courses was established in 1992 and has not kept pace with corresponding increases in costs. While the fees charged for other Extension Fund courses and programs have increased, they are not sufficient to cover related costs.

With respect to revenues, we were informed that the Department does not periodically reconcile its detailed adult education tuition and attendance records to the revenues recorded by the Comptroller.

Effect: Contrary to the intended purpose for such funds, the Extension Fund has not been self-sufficient. Without significant changes in its operations with respect to revenue generation and/or costs, the Fund will require periodic transfers from other sources to remain solvent.

Cause: Revenue generation is not sufficient to match all the costs associated with the operations of the Fund. Significant payroll expenditures directly related to the operations of the Extension Fund are charged to the General Fund.

Recommendation: The Department should take the necessary steps to ensure that the Vocational Education Extension Fund achieves self-sufficiency with the goal of matching all revenues with all costs allocable to the fund. In the event that such self-sufficiency cannot be achieved, the Department should pursue the dissolution of the Vocational Education Extension Fund and the creation of a budgeted General Fund appropriation account to fund the cost of services currently provided through the Extension Fund. (See Recommendation 1.)

Agency Response: "We agree with this finding. The Regional Vocational-Technical School System annually reviews revenue and expense projections when formulating its adult education budget and submitting its biennial tuition and fee rate proposals. We continue to increase tuition and fees for most non-apprentice courses and will submit a legislative proposal to the State Board of Education to increase the tuition rate for apprentice courses. However, the Department has made a strategic decision to maintain rates slightly below the tuition and fees charged by Connecticut's Community-Technical College System.

The expenses of operating the Regional Vocational Technical School System's (RVTSS) Adult Education Program are primarily charged to the Vocational Education Extension Fund. The RVTSS has taken immediate action to reduce operating expenses by consolidating adult education courses where feasible and reducing/eliminating low enrollment courses. However, in comparison to local education agencies, the RVTSS incurs additional administrative costs due to the geographical apportionment of the twenty VT schools, satellites and centers. The expectation that user fees will cover all expenses is not feasible if the RVTSS is to remain competitive in the adult education marketplace. The Department will discuss with the Office of Policy and Management (OPM) creation of an Adult Education account for the Regional Vocational-Technical School System."

Student Activity Funds:

Background: Separate Student Activity Funds are maintained at each of the Vocational Technical Schools.

Criteria: The Department has issued formalized procedures for the Vocational Technical Schools to follow relative to the maintenance of Student Activity Fund operations.

Condition: Our examination of five Vocational Technical Schools noted certain deficiencies concerning the record-keeping and administration of Student Activity Funds. We present the following:

- At one of the five schools reviewed, we noted an excess cash balance in a non-interest bearing account.
- For the schools reviewed, procedures had not been established to ensure a proper and sufficient segregation of duties over Fund records and resources.
- The Student Activity Funds had 17 "old" class account balances totaling $65, 363 that had not been closed out as required.
- The staff at one school could not account for $273 in fund receipts, which were recorded in the cash receipts ledger but apparently not deposited.

Effect: The lack of a proper segregation of duties increases the risk that errors may occur and go undetected. Revenues of the funds are reduced when large cash balances are maintained in non-interest bearing accounts. The funds maintained in old class account balances are not available for use.

Cause: At the Vocational Technical Schools reviewed, it was noted that management often assigns the various functions (i.e. receipting, asset control, record keeping, reconciliation and reporting) required to

operate their respective Student Activity Funds to one or two employees. Management has not effectively utilized other available employees to reduce the number of incompatible Student Activity Fund functions performed by one employee.
While the Department's internal monitoring procedures have been effective in identifying the types of conditions noted above, that identification has not always been effectively translated into timely corrective action.

Recommendation: The Department should ensure that the Vocational Technical Schools' Student Activity Funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. Student Activity Fund operations should be modified to ensure a proper segregation of duties. (See Recommendation 2.)

Agency Response: "We agree with this recommendation.

Regarding the excess funds, notification has already been reissued to VT schools directing them to transfer funds held in non-interest bearing accounts, over and above the amount needed for current operating expenses, to an interest bearing account.

Regarding the segregation of duties, given the current organizational structure of our school business offices, it is not always practical or even possible in the day-to-day operations of schools.

The Regional Vocational Technical School System is working with the Department's Bureau of Human Resources to design an optimal organizational structure for our school business offices. Segregation of duties would be inherent in this plan.

Regarding the old class accounts, since the date of the audit visits, the number of old class accounts has been reduced from seventeen (17) to one (1) with a balance of less than $1,000 remaining in this account. We are in the process of liquidating this balance and closing out the account."

School-Affiliated Organizations:

Background: Most of the schools within the Vocational Technical School System have had what are commonly referred to as Parent–Faculty Organizations (PFOs) associated with them. These organizations are established to benefit the schools and their students. The nature of PFOs is such that they are informal entities, and not necessarily incorporated or recognized as charitable organizations. PFO levels of activity vary from year-to-year, depending on the interest of the students' parents.

Criteria: Although PFOs are not funded by the State, there exists sufficient nexus between the Vocational Technical Schools and the PFOs, such that the schools have a fiduciary duty to ensure PFO funds are managed in a manner consistent with pre-established objectives. Under the provisions of Section 4-37f of the General Statutes, entities such as these PFOs are regarded as "foundations" if certain requirements are met. The primary requirement being that the entity has received tax-exempt status under Internal Revenue Code Section 501(c)(3). Section 4-37f requires that such foundations obtain periodic financial audits, file annual financial statements with the Department, and enter into written agreements with the schools as to the usage of facilities and retention of records. In addition, Section 4-37h outlines procedures for foundation solicitations, and Section 4-37j requires that foundations establish policies for the investigation of mismanagement or misuse of funds.

Condition: We found that the Department did not comply with our prior audit recommendation to obtain an opinion from the Attorney General to support its position that PFOs should not be considered "foundations" with respect to requirements specified within Sections 4-37f through 4-37j of the General Statutes, despite agreeing to seek such an opinion. On the basis of an unwritten opinion from its own legal staff, the Department has reaffirmed its position that the laws governing "foundations" are not applicable to PFOs.

The issues of the relationship between the Vocational Technical Schools and the PFOs, and the question of the applicability of Sections 4-37f through 4-37j of the General Statutes to the PFOs have been the focal point of disagreement between the Auditors and the Department as a result of our three prior audits and our audit for the current audited period.

In its response to the audit recommendation in the Auditors' report for the 1998-1999 fiscal year, the Department agreed with the recommendation and indicated that "the Regional Vocational Technical School System's administration will take action to formalize guidelines for operating Parent-Faculty Organizations and utilize CGS 4-37f through 4-37j where applicable".

However, the Department reconsidered its position on the matter and, in its response to a draft audit recommendation that was submitted for inclusion in the Auditors' report for the 1999-2000 fiscal year, expressed a well-reasoned argument that questioned the applicability of the statutes cited above with respect to PFOs. As a result, a modified audit recommendation was included in the Auditors' report for the 1999-2000 fiscal year to specifically address the resolution of the disagreement between the Auditors and the Department relative to the applicability of Sections 4-37f through 4-37j of the General Statutes to the operation of the PFOs. In its written response, the Department agreed with this prior audit recommendation and indicated that it would obtain an opinion from the Attorney General to support its position that PFOs should not be considered "foundations". However, as noted earlier, the Department did not obtain, or otherwise seek, such an opinion from the Attorney General.

Effect: In the absence of a formal opinion from the Attorney General, uncertainty continues to exist with respect to the applicability of Sections 4-37f through 4-37j of the General Statutes to PFOs.

Cause: The Department revised its position on this matter, which included the decision not to seek a formal opinion from the Attorney General to support its position that PFOs are not "foundations", as defined within Section 4-37e of the General Statutes.

Recommendation: The Department should obtain an opinion from the Attorney General to support its position that Parent-Faculty Organizations should not be considered "foundations" with respect to requirements specified within Sections 4-37f through 4-37j of the General Statutes.
(See Recommendation 3.)

Agency Response: "We disagree with this finding. In the Vocational-Technical School System (VTSS), a PFO acts as an organization to structure a parental and staff communication, promote student activities and for the purpose of receiving private funds raised by solicitation of contribution, or other volunteer activity, and using such funds to support VTSS student programs.

The department did not seek a formal opinion from the Attorney General but sought a legal interpretation from its own Legal Affairs Office. It is the opinion of this Office that a PFO is not a foundation as described in CGS Section 4-37e(2) and therefore is not subject to the applicability of these Statutes. In fact, the department met with the Auditors of Public Accounts and clarified its position as to describing a PFO. A PFO for purposes of this finding has been defined as an "informal entity" whose "levels of activity vary from year to year depending on the interest of the student's parents." Section 4-37e(2) of the CGS states that the purpose of a foundation is to support and improve a state agency. This seems to outline a broader and more complicated scope of activity than what is characteristic of a PFO. The foremost purpose of a PFO is to promote parental involvement in school culture and to provide a vehicle to structure the communication among parents, faculty, administration, students and any other members with an interest in promoting an effective center for student learning.

In addition, a PFO is designed to provide support to the students through the provision of activities, and as the students come and go generally with a complete turnover in four years, so do the parents change. So at any time, the extant officers are serving the students currently enrolled and the terms of interest and involvement reflect the parental connection to their own children rather than a state agency. Further, equating an informal voluntary parent group with an entity whose governing board can draw salaries, rent offices from the agency it serves and engage in long term investment activities appears to be over-reaching and beyond the purpose of the statute.

The VTSS did issue guidelines to staff in order to clarify the limits of their role in PFO activities."

Equipment and Real Property Management:

Background: The Department reported approximately $229,000,000 in inventory at June 30, 2001, a majority of which represents Regional Vocational Technical School buildings and improvements ($171,000,000).

Criteria: Federal Regulation 34 CFR 80.20(b) requires that grantees maintain records which accurately identify the source and application of funds provided for grant activities and provide for complete disclosure of the financial results of financially assisted activities.

Section 4-36 of the General Statutes provides that each State agency shall establish and keep an inventory account in the form prescribed by the State Comptroller. Standards and procedures for recording and maintaining inventory records are set forth in the State of Connecticut's Property Control Manual, issued by the State Comptroller. State procedures require the maintenance of perpetual records of capital assets and the identification of the funding source of those assets purchased with Federal grant funds.

Condition: Our examination disclosed that the Department of Education's CO-59 Fixed Assets Reports for the fiscal years ended June 30, 2000 and 2001, were inaccurate because of errors in determining the value of its capital inventory reported for the two fiscal years. First, we determined that the Department reported an incorrect amount for the beginning balance for its real property inventory on its CO-59 Fixed Assets/Property Inventory Report for the fiscal year ended June 30, 2001. The beginning balance for the real property inventory was incorrect because the Department did not make the required adjustment to the reported ending balance for the fiscal year ended June 30, 2000, as recommended in our prior audit. From fiscal year 1994-1995 to 1997-1998, the Department capitalized approximately

$11,200,000 for one construction project on its CO-59 Fixed Assets/Property Inventory Report for the period ended June 30, 2000. It was further determined that nearly the same amount had also been reported as capitalized inventory by the Department of Public Works (DPW).

We also found that the Department did not implement procedures necessary to ascertain whether the reported amount for new additions or improvements to its real property was also being reported by the DPW. The Department has routinely included in its capitalized inventory construction expenditures reported to them in DPW's memoranda. It appears that such memoranda should only have been considered advisory in nature. As a result, there may be a substantial but as yet undetermined overstatement of capital inventory by the two agencies.

In addition, furnishings and equipment additions and deletions per the SAAAS records could not be identified and reconciled to the Department's inventory records. These findings are consistent with the results of our prior year review of equipment purchases from various non-major programs, which disclosed that the inventory records did not reflect the proper funding source of most items. The findings over the last three fiscal years indicate a continuing inadequacy in the controls over equipment purchased with State and Federal funds.

Effect: The values reported for both buildings and equipment on the CO-59 Fixed Assets/Property Inventory Report were not accurate and were not supported by the Department's inventory records.

Cause: The Department has not implemented the prior audit recommended corrective action to adjust the reported value of its real property inventory for the amounts that were also capitalized in the records of the DPW. The Department does not maintain its inventory records for real and personal property in compliance with the requirements of the State of Connecticut's Property Control Manual.

Recommendation: The Department should take steps to improve controls over its real and personal property to ensure that both the inventory records are maintained and the annual CO-59 Fixed Assets/Property Inventory Report is prepared in accordance with the requirements of the State of Connecticut's Property Control Manual. (See Recommendation 4.)

Agency Response: "The department agrees with this finding. In regards to the capitalized inventory issue, the department has referred the matter to the Office of Policy and Management (OPM) for clarification. OPM has directed the inquiry to the Office of the Comptroller, Policy Services Division, for resolution. Upon instruction from the Comptroller, the department will ensure that the value of capitalized inventory is reported as directed. Improvements to the controls over personal property have been instituted in addition to staff training and the phase in of a bar code tagging system."

Petty Cash Fund Travel Advances:

Criteria: The Comptroller's State Accounting Manual provides guidance to agencies regarding the administration of petty cash funds, including the requirement for timely return of employee travel advances.

Condition: Our examination disclosed that the required paperwork for travel advances was not received from employees within the five working day period established by the Comptroller. Our initial review of a random sample of five petty cash fund travel advances issued during the audited period disclosed that the paperwork for three of the advances was submitted from two to ten days late.

As a result of the exceptions noted in our initial review, we specifically selected the 11 outstanding travel advances as of December 31, 2001, for our expanded review. Our review of these outstanding travel advances, which represented reconciling items for the December 2001 month-end reconciliation of the petty cash fund checking account, disclosed that the required paperwork for eight, or 73 percent, of these travel advances was submitted from two to 105 days late. With respect to the three remaining outstanding petty cash travel advances, the required documentation had not yet been submitted to the Department, as of the date of our review in February 2002.

Effect: The Department is not in compliance with the Comptroller's petty cash fund guidelines.

Cause: The procedures to ensure the submissions of required paperwork upon return from travel were not being enforced.

Recommendation: The Department should improve its administration over the petty cash fund to ensure that employees comply with the Comptroller's policies for the timely submission of required documentation for travel advances. (See Recommendation 5.)

Agency Response: "We agree. The agency will continue to monitor late submissions of receipts by individuals and will suspend future advances to employees who are found to be non-compliant with agency guidelines. Additionally, agency procedures and records will be revised to require and capture the date receipts are returned to an employee's business office."

Accounts Payable Procedures for Other Expenditures:

Background: The Department receives infrastructure funding that is primarily used for the renovation and repair of its Vocational Technical Schools. Other bond funds are received for the acquisition of equipment for the Vocational Technical Schools. In addition, the Department operates an Enterprise Fund that is used to account for adult education programs and production activities in the Vocational Technical Schools. The supporting expenditure documents for these categories are processed through the Vocational Technical School System.

Criteria: The State of Connecticut's State Accounting Manual states that, "Agencies are responsible to ensure that uniform accounts payable procedures exist, supported by proper internal controls." "An agency employee must certify the accuracy and completeness of expenditure documents, determine that the payment has a receipt document and purchase order/contract and ensure that the payment is made from an original vendor invoice, not a statement."

Condition: Our test of the relevant supporting documentation for forty-three expenditure transactions, totaling $2,805,182, selected from the following categories of expenditures, disclosed a number of apparent exceptions relative to the processing of such transactions:

Infrastructure:

- Six payments were supported by copies of receiving reports that were not signed.
- Two sample payments were supported by copies of Project Completion Reports that were pre-signed. In addition, we found that five other Project Completion Reports, which were not in our test sample but were attached to the sample batch tested, were also noted to have been pre-signed.

- Three sample payments were supported by two pre-signed Certificates of Compliance.

Extension Fund:

- The equivalent of approximately two months rent for Practical Nurse Education Program facility space was paid in advance. In addition, one of these rental payments was reported in the wrong period.

Bond Funds:

- Five sample payments were supported by copies of the receiving reports.

Effect: Incorrect or duplicate payments may result when payments are not supported by original and complete documentation, such as but not limited to, approved invoices, signed receiving reports and purchase orders.

Cause: The Department's Vocational Technical School System does not consistently apply the Comptroller's requirements for payment processing.

Recommendation: The Department should take the necessary steps to ensure that it complies with the State of Connecticut's State Accounting Manual requirements for payment processing. (See Recommendation 6.)

Agency Response: "We agree with this finding and will immediately implement appropriate procedures to ensure consistent compliance with the State of Connecticut's State Accounting Manual."

GAAP Closing and Reporting Procedures:

Background: The GAAP Closing and Reporting procedures refer to the process employed by agencies to gather financial information to make adjustments and additions to the State's statutory accounting records. The purpose of those adjustments and additions is to produce the State's Comprehensive Annual Financial Report (CAFR) on a basis consistent with Generally Accepted Accounting Principles (GAAP).

Criteria: The State of Connecticut's State Accounting Manual and the State Comptroller's Generally Accepted Accounting Principles (GAAP) closing and reporting instructions to all State agencies specify the procedures and time frame for completing reporting forms.

Condition: Our review of the Department's GAAP Reporting for the fiscal year ended June 30, 2001, disclosed two significant omissions in the financial information provided to the State Comptroller. First, the amount of accounts payable reported was understated by $11,562,469. This identified omission occurred because the receipt dates on reimbursement grant payments from the Child Nutrition Cluster and the Child and Adult Care Food Program were not completed in accordance with the State Comptroller's instructions. For reimbursement grants, the receipt date should reflect the end of the billing period, which is the last day of the claim month. The

Department assigned receipt dates for the above reimbursement grants based upon the date paid rather than the "billing period".

In addition, the GAAP Reporting Form "Other Liabilities" was understated by $10,474,557. This identified understatement, or omission, resulted from an improper accrual for teachers' salaries. The Department employs ten-month teachers in its Regional Vocational Technical School System. While these teachers work the ten months of the school year, which ends in June, they are paid over a twelve-month period ending the following August.

The Department did not account for the amounts owed to these teachers as of June 30, 2001.

Effect: The State's GAAP basis financial statements could contain misstatements.

Cause: The Department did not follow the Comptroller's instructions in the preparation of its GAAP Reporting package.

Recommendation: The Department should implement procedures to ensure that all required financial information is identified and that its GAAP forms are prepared in accordance with the State Comptroller's instructions. (See Recommendation 7.)

Agency Response: "We agree with this finding. The receipt date on the Child Nutrition grant invoices should reflect the billing period instead of the date paid. The department has taken the corrective actions necessary to reflect the appropriate dates in accordance with the State Comptroller's instructions."

Compensatory Time Procedures and Records:

Background: The Central Office maintains official Payroll/Personnel records for all Department employees. Those records include the recording of compensatory time used by eligible employees.

Criteria: The Department of Administrative Services' (DAS) "Management Personnel Policy No. 80-1, as amended, Section 2"(MPP 80-1, Section 2) sets forth the criteria for the granting of compensatory time on behalf of Managerial and Confidential employees. The criteria for the granting of extra time off for extra time worked are: "the extra time worked must be authorized in advance by the Agency Head or his/her designee; the amount of extra time worked must be significant in terms of total and duration; the extra hours worked and compensatory time taken must be recorded on the appropriate time sheet; and, the compensatory time earned during the twelve months of the calendar year must be used by the end of the succeeding calendar year and cannot be carried forward."

In addition, the Department of Education has issued a written policy relative to compensatory time.

Condition: Our current review found deficiencies in the Department's calculation, approval, recording and usage of the compensatory time benefit for its employees. Our examination relative to 15 managerial, confidential and collective bargaining employees, who were granted and used compensatory time, revealed a lack of compliance with DAS' MPP No. 80-1, Section 2 guidelines and, where applicable, with the Department's written compensatory time policy, as follows:

- None of the 15 employees was authorized **in advance** to work the extra time by the Agency Head or his/her designee. This practice was contrary to both Department's written policy and the criteria set forth in the DAS' MPP 80-1, Section 2.
- Two of the employees, who were under collective bargaining agreements, were not eligible for compensatory time under their respective agreements. These employees were eligible for overtime pay for any extra time worked, not compensatory time. We found that one of the employees was granted compensatory time at straight time rather than paid overtime at a pay rate of one and one half times the straight time rate for the extra hours worked, as required by the collective bargaining agreement.
- Ten employees did not record the extra time worked on the appropriate time sheets, as required under the criteria set forth in the DAS' MPP 80-1, Section 2. As a result, we were unable to determine the period in which the extra time was worked and the actual amount of compensatory time granted for the extra work, with the effect that we could not verify the accrued compensatory time recorded for these employees.
- Seven employees, six managerial or confidential and one collective bargaining, received an accrual of compensatory time based on the application of a rate of one and one half times the number of extra hours worked. This practice appeared to be a departure from Department's written policy and contrary to the DAS' MPP 80-1, Section 2 guidelines relative to compensatory time. We also found that this practice of granting an accrual of compensatory time at one and one half times the number of extra hours worked was selectively communicated and was not promulgated throughout the Department. The effect was that only a relatively small number of employees within the Department were aware of and benefited from the practice. Due to the fact that extra time worked is not included on the employees' time sheets, we were not able to identify the total

number of other employees receiving the excess benefit or the amount of excess compensatory time granted as a result of this particular practice.

- In some instances compensatory time was granted to employees for extra time worked that in total and duration did not appear to meet the requirement for being considered "**significant"**, as set forth in the criteria under DAS' MPP 80-1, Section 2 policy. We noted that in some instances, extra time off was granted for as little as one hour or less of extra time worked in a day. In a memorandum dated December 28, 1983, which is still applicable, DAS explained that the intention of the term significant was "to insure that the extra time worked is above and beyond the time normally required for the position." As noted in DAS' memorandum, the term "**significant**" does not include the extra hour or so a manager might work in a day.

We reported this matter to the Governor and other State Officials in a letter dated April 1, 2002.

Effect: The Department is not in compliance with the established criteria/guidelines relative to compensatory time. In addition, excess or unearned compensatory time could be granted to and used by some employees.

Cause: The Department has not implemented the procedures that would ensure compliance with the Department of Administrative Services' guidelines for compensatory time, as set forth in its Management Personnel Policy No. 80-1, Section 2.

Recommendation: The Department should implement the internal control procedures necessary to ensure compliance with the Department of Administrative Services' Management Personnel Policy No. 80-1, Section 2 criteria relative to compensatory time. The Department should take the necessary steps to recover the costs associated with all excess or unearned compensatory time charged by its employees. (See Recommendation 8.)

Agency Response: "We agree with this finding. The department will review, rewrite and promulgate revised procedures necessary to ensure compliance with DAS policy. Further, the department will take the actions necessary to correct the attendance balances and recover the costs associated with the reporting of excess and unearned compensatory time."

Dual Employment:

Criteria: According to the Section 5-208a of the Connecticut General Statutes, no State employee who holds multiple job assignments should be compensated for services rendered to the same or more than one agency unless the duties performed do not conflict with the employee's primary position working hours. Per the Department of Administrative Services' (DAS) General Letter No. 204, the appointing authority of each agency or his/her designee must certify that the duties performed by an employee, who is compensated for rendering services to more than one agency, do not conflict with the employee's primary position working hours.

Condition: Our review of a sample of 20 dual employment employees disclosed that the required dual employment forms for ten, or 50 percent, of the employees were not on file. We also found that three, or 30 percent, of the ten dual employment forms that were available lacked the required approval dates.

Effect: The Department is not in compliance with the Section 5-208a of the General Statutes and the Dual Employment procedures set forth in the DAS' General Letter No. 204.

Cause: Lack of administrative oversight appears to be the reason for the identified condition.

Recommendation: The Department should comply with the requirements of Section 5-208a of the General Statutes and General Letter No. 204, to ensure that dual employment forms are obtained and properly completed for all employees who have multiple job assignments either within the Department or between the Department and other State agencies. (See Recommendation 9.)

Agency Response: "We agree with this finding. The department will reissue the dual employment procedures and increase its control over monitoring of dual employment activities by identifying department employees who are receiving more than one payroll check from different state agencies with the assistance of Central Payroll reports from the Office of the State Comptroller."

Federal Funds:

As part of our review of Federal programs administered by the Department, in accordance with our annual "Single Audit", we noted certain conditions other than those that were reportable within our Single Audit Report. Our concern over property control, as it affects Federal program compliance, is included within Recommendation 5. We also present the following:

National School Lunch/School Breakfast Programs – Meal Counts:

Criteria: To be eligible for Federal reimbursement, meals must be served to eligible children and must be supported by accurate meal counts and records indicating the number of meals served by category and type. For the above programs, meal count and claiming systems must comply with the requirements of 7 CFR sections 210.7, 210.8, 220.9

and 220.11, respectively.

Condition: Our test of meal counts for the month of February 2001 at five of the 18 Regional Technical Vocational Schools disclosed a number of under and over reported meal counts. Of the 21,966 full, reduced and free breakfast and lunch meals tested, we noted a total of 669 over and under counts for a 3.05 percent overall error rate.

Effect: The value of the over reporting of a net 279 meals resulted in over reimbursements from the Federal programs totaling $467.

Cause: The meal count reporting errors were primarily the result of clerical errors in the recording and posting of meal counts from the register tapes, compounded by an inadequate system for the verification of reported data, and the absence of a periodic management review.

Recommendation: The Regional Vocational Technical Schools should establish verification procedures for meal counts posted to the data collection system and management should periodically test check that the verification procedures are being applied. (See Recommendation 10.)

Agency Response: "The department agrees with this finding. The RVTSS is currently working to improve its ability to collect and monitor student data. The RVTSS Central Office Business Unit will examine each school's data verification procedures and recommendations for improvements will be implemented. In addition the School System will continue to explore the feasibility of implementing an automated point of sale system at each school. It should be noted that the cost to implement this type of automated system may prove to be prohibitive."

Cash Management – Cash Advances:

Criteria: Department of Treasury - Title 31 Part 205, Subpart B, states in part that cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out a program or project.

Condition: Our review disclosed instances in which the Department did not use all available refunds to limit its requests for advances of Federal funds to the minimum amounts needed.

Effect: Drawdowns of Federal funds could occur which are in excess of the minimum amounts needed and which are not timed to be in accord with the actual and immediate cash requirements of the State in carrying out the programs.

Cause: The Department's current procedures fail to ensure that all available refunds of expenditures are used in a timely fashion in order to limit the drawdown of Federal funds to the minimum amounts needed.

Recommendation: The Department should implement procedures to ensure compliance with all applicable Federal cash management regulations. (See Recommendation 11.)

Agency Response: "The department agrees with this finding. Although Title 31 Part 205 allows for administrative feasibility and furthermore allows for a $10,000 threshold in regards to CMIA covered Awards, the Agency will amend its Data Base to account for refunds received within one working day of a scheduled drawdown. Refunds received after this time frame will be considered for the next scheduled drawdown."

RECOMMENDATIONS

Our prior report contained eight recommendations. There has been satisfactory resolution of two of these recommendations. The six remaining recommendations have been repeated or restated to reflect current conditions. Five additional recommendations are being presented as a result of our current examination. One of these additional recommendations is due to our Statewide Single Audit review.

Prior Audit Recommendations:

1. **The Department should perform an analysis of the Vocational Education Extension Fund with the goal of aligning revenues with costs, and increasing revenues to the necessary levels required to support the costs of operating.**

   Our review disclosed that revenues of the Fund do not support "actual" expenses associated with operations. We are repeating this recommendation in modified form. (See Recommendation 1.)

2. **The Department should re-emphasize to its operating units the timely depositing and accounting requirements of Section 4-32 of the General Statutes.**

   The Department has substantially complied with the recommendation; therefore, the recommendation will not be repeated.

3. **As concerns student activity funds at the Vocational Technical Schools, the Department should diagnose the problems associated with the new accounting software system and take appropriate action. Procedures should be modified to effect a proper segregation of duties over cash. Cash that is not needed in the short term should be invested in interest bearing accounts.**

   Our reviews at five Regional Vocational Technical Schools disclosed that the schools had excess cash on hand that could have been deposited in an interest-bearing account. In addition, we found that procedures had not been established to ensure a proper and sufficient segregation of duties over Fund records and resources, and that 17 "old" class accounts, totaling $65,363, had not been closed out as required. Also, staff at one school could not account for $273 in student activity fund receipts. We are repeating this recommendation in modified form. (See Recommendation 2.)

4. **The Department should obtain an opinion from the Attorney General to support its position that PFO's should not be considered "foundations" with respect to requirements specified within Sections 4-37f through 4-37j of the General Statutes.**

   The Department did not implement the necessary corrective action to address this recommendation. This recommendation, therefore, will be repeated. (See Recommendation 3.)

5. **The Department should improve controls over property control and work with the Department of Public Works to ensure that all asset additions resulting from capital projects are properly reported.**

   Property control records and internal controls continue to be deficient. We are repeating our recommendation in a modified form. (See Recommendation 4.)

6. **Internal controls over receipts of Teachers' Certification fees should be improved to include the preparation of accountability reports.**

   We analyzed fee revenues and certificates issued and could not reconcile the two records. However, the Department has submitted a written request to the State Comptroller's Policy Services Division staff to seek its assistance in determining whether accountability reports are feasible and, if feasible, in designing such reports. In consideration of the fact that the Department has initiated corrective action to address this issue, we are not repeating this recommendation.

7. **Central Office payroll staff should require that all employee timesheets be signed/authorized by appropriate supervisors. Compensatory time records should be maintained and also approved by such supervisors.**

   Our review found that the Department has not followed established procedures with respect to the authorization, earning and use of compensatory time. This aspect of the prior audit recommendation will be repeated in a modified form. (See Recommendation 5.)

8. **The Department's Vocational Technical Schools participate in the Federal School Breakfast and Lunch programs. Those schools should establish verification procedures for meal counts posted to the data collection system and management should periodically test check that the verification procedures are being applied.**

   Our reviews at five Vocational Technical Schools revealed instances in which the Department continues to under and over report meal counts. As a result, this recommendation will be repeated. (See Recommendation 10.)

Current Audit Recommendations:

1. **The Department should take the necessary steps to ensure that the Vocational Education Extension Fund achieves self-sufficiency with the goal of matching all revenues with all costs allocable to the fund. In the event that such self-sufficiency can not be achieved, the Department should pursue the dissolution of the Vocational Education Extension Fund and the creation of a budgeted General Fund appropriation account to fund the cost of services currently provided through the Extension Fund.**

Comment:

The level of revenues realized by the Fund each fiscal year does not support the level of expenses incurred to operate it. As regards tuition charges, we noted that the rate of $100 charged for apprenticeship programs/courses was established in 1992 and has not kept pace with corresponding increases in costs.

2. **The Department should ensure that the Vocational Technical Schools' Student Activity Funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. Student Activity Fund operations should be modified to ensure a proper segregation of duties.**

Comment:

Our examination disclosed certain deficiencies concerning the record-keeping and administration of the Student Activity Funds. One school had excessive amounts in non-interest bearing accounts. Staff at another school could not account for $273 in fund receipts. The Student Activity Funds reviewed had accumulated 17 "old" class account balances that had not been closed out as required. For the five schools reviewed, it was determined that there were inadequate procedures for the segregation of duties for cash handling, recording, reporting and reconciling of Fund accounts.

3. **The Department should obtain an opinion from the Attorney General to support its position that Parent-Faculty Organizations should not be considered "foundations" with respect to requirements specified within Sections 4-37f through 4-37j of the General Statutes**.

Comment:

Under the provisions of Section 4-37f of the General Statutes, entities such as Parent-Faculty Organizations (PFOs) are regarded as "foundations" if certain requirements are met. The primary requirement being that the entity has received tax-exempt status under Internal Revenue Code Section 501 (c)(3). A number of these organizations have obtained that status, and there is no indication that the Department is verifying compliance with the applicable statutes. Rather, the Department has taken the position that PFOs are not "foundations", as defined within Section 4-37e of the General Statutes.

4. **The Department should take steps to improve controls over its real and personal property to ensure that both the inventory records are maintained and the annual CO-59 Fixed Assets/Property Inventory Report is prepared in accordance with the requirements of the State of Connecticut's Property Control Manual.**

Comment:

The value of certain Vocational Technical School capital projects completed and capitalized expenditures incurred were omitted from the Department's annual fixed assets report, prepared as of June 30, 2000 and 2001. The buildings and equipment values reported within the Department's annual fixed assets report were not accurate.

5. **The Department should improve its administration over the petty cash fund to ensure that employees comply with the Comptroller's policies for the timely submission of required documentation for travel advances.**

Comment:

Our examination revealed numerous instances in which the accounting for a petty cash fund travel advance was not received within the five working days after the employee's return to work, as required by the Comptroller's State Accounting Manual.

6. **The Department should take the necessary steps to ensure that it complies with the State of Connecticut's State Accounting Manual requirements for payment processing.**

Comment:

Our examination of expenditures related to the categories of infrastructure, bond or Enterprise Fund, which were processed through the Vocational Technical School System, revealed instances where the supporting documentation for the expenditures did not comply with the Comptroller's requirements for payment processing. We found instances where the supporting documentation for the expenditure, such as receiving report, Project Completion Report or Certificates of Completion Report, was either not signed or was pre-signed, or represented a facsimile rather than original documentation. We also identified instances where the Department paid in advance of the due date.

7. **The Department should implement procedures to ensure that all required financial information is identified and that its GAAP forms are prepared in accordance with the State Comptroller's instructions.**

Comment:

Our review found significant omissions in the accounts payable and other liabilities financial information provided to the State Comptroller for the purposes of year-end Generally Accepted Accounting Principles (GAAP) reporting. The Department's procedures were not sufficient to ensure that such items were identified and accurately included in the year-end reports to the Comptroller.

8. **The Department should implement the internal control procedures necessary to ensure compliance with the Department of Administrative Services' Management Personnel Policy No. 80-1, Section 2 criteria relative to compensatory time. The Department should take the necessary steps to recover the costs associated with all excess or unearned compensatory time charged by its employees.**

Comment:

Our examination relative to employee compensatory time revealed the following instances of noncompliance with the Department of Administrative Services' Policy guidelines on the granting and use of compensatory time: the granting of extra time off for extra time worked was not authorized in advance, some employees earned compensatory time at one and one half times the extra hours worked, which resulted in the accrual and use of unearned compensatory time, the extra time worked was not recorded on the appropriate time sheet, and compensatory time was granted for extra time worked that did not appear to be significant either in terms of total and duration.

9. **The Department should comply with the requirements of Section 5-208a of the General Statutes and General Letter No. 204, to ensure that dual employment forms are obtained and properly completed for all employees who have multiple job assignments either within the Department or between the Department and other State agencies.**

Comment:

Dual employment forms were not found or not properly completed for 13 out of 20 total sample cases. By law, no State employee who holds multiple positions should be compensated for services rendered to the same or more than one agency unless the duties performed do not conflict with the employee's primary position working hours.

10. **The Regional Vocational Technical Schools should establish verification procedures for meal counts posted to the data collection system and management should periodically test check that the verification procedures are being applied.**

Comment:

Our test of meal counts for the month of February 2001 at five of the 18 Regional Technical Vocational Schools found a number of under and over reported meal counts. Of the 21,966 full, reduced and free breakfast and lunch meals tested, we noted a total of 669 over and under counts for a 3.05 percent overall error rate. The value of the over reporting of a net 279 meals resulted in over reimbursements from the Federal programs totaling $467.

11. **The Department should implement procedures to ensure compliance with all applicable Federal cash management regulations.**

Comment:

It was determined that the Department did not use all available refunds to limit its requests for advances of Federal funds to the minimum amounts needed.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Education for the fiscal year ended June 30, 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 audit of the Department of Education for the fiscal year ended June 30, 2001, is included as a part of our Statewide Single Audit of the State of Connecticut for that fiscal year.

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 Department of Education 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 Department of Education is the responsibility of the Department of Education'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 year ended June 30, 2001, 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 Department of Education 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 Department of Education'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 satisfactory internal controls and records related to property control, the omission of certain year-end reportable accruals and liabilities, the lack of satisfactory internal controls and records related to the authorization for and use of compensatory time, the lack of compliance with the policies and procedures relative to payments processing, the lack of compliance with policies and procedures governing dual employment, and the lack of compliance with the provisions of Sections 4-37f through 4-37j of the General Statutes.

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 the following reportable conditions to be material or significant weaknesses: the lack of satisfactory internal controls and records related to the authorization for and use of compensatory time, and the lack of compliance with the policies and procedures relative to payments processing.

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

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the central office of the Department of Education and of the various divisions, bureaus, schools, and other units during the course of our examination.

Robert G. Koch
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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