

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD OF TRUSTEES OF
COMMUNITY-TECHNICAL COLLEGES
GATEWAY COMMUNITY COLLEGE
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS
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October 30, 2001

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GATEWAY COMMUNITY COLLEGE
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

We have examined the financial records of Gateway Community College (College) for the fiscal years ended June 30, 1999 and 2000.

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

This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

On October 18, 1999, the Board of Trustees of Community-Technical Colleges (the Board) approved a resolution changing the names of the colleges within the Community-Technical College system from Community-Technical Colleges to Community Colleges. Accordingly, during the audited period, the former Gateway Community-Technical College changed its name to Gateway Community College. The Board's name remained unchanged.

As such, Gateway Community College, comprises two campuses, one located in New Haven and the other in North Haven, Connecticut. It is one of 12 two-year institutions of higher education which collectively form the Connecticut Community College system. The Board of Trustees of Community-Technical Colleges administers the 12 institutions.

The College operates primarily under the provisions contained in Sections 10a-71 through 10a-80 of the General Statutes.

During the audited years the College administration was undergoing a period of transition, with Dr. Diana Van Der Ploeg serving as President through August 27, 1998. From August 28, 1998 through July 27, 1999, Dr. Kathleen Crabill served as Acting President. From July 28, 1999 through August 15, 1999, the position of President was vacant. Dr. Dorsey L. Kendrick served as President from August 16, 1999, through the end of the audited period and subsequently.

Recent Legislation:

The following notable legislation took effect during or near the audited period:

Public Act 98-252 – Effective July 1, 1998, Section 48 of this act amended Section 10a-8b of the General Statutes, requiring the amount the Department of Higher Education annually transfers to the individual higher education constituent units' endowment funds from the Higher Education State Matching Grant Fund to be certified based on agreed upon procedures developed by an independent certified public accountant or, upon request, by the Auditors of Public Accounts to determine statutory compliance. Further, effective July 1, 1998, Section 50 of this act allowed the carry forward to future years of gifts eligible for State Endowment Fund matching funds not included in the total certified by the Chairman of the Board of Trustees each February 15.

Special Act 98-6 – Effective May 19, 1998, Section 1 of this act amended Section 11 of Special Act 97-21, appropriating, for the 1998-1999 fiscal year, \$1,149,000 of State General Fund money to the Regional Community-Technical Colleges to be used to help support a tuition freeze.

Public Act 99-285 – Effective July 1, 1999, Section 7 of this act amended Section 10a-77a of the General Statutes to allow for the administration of the Community-Technical College endowment fund by a nonprofit entity so that interest on State bonds used to set up the fund can be Federally tax free. Section 7 further required these endowment fund monies to be held in a trust fund. It also required endowment fund eligible gifts to be deposited into a permanent endowment fund in the appropriate college foundation. In addition, it required that a share of the endowment fund matching grants for the Community-Technical Colleges, and a portion of the earnings on these grants, be transferred annually to such endowment funds.

Section 11, subsection (b) of this act, also effective July 1, 1999, amended Section 10a-151b of the General Statutes to allow constituent units of public higher education to make purchases based on competitive negotiation as well as competitive bidding. Section 11 also increased the minimum cost of purchases that must be advertised from \$25,000 to \$50,000 and requires that purchases costing \$50,000 or less, rather than \$25,000 or less, be made in the open market and be based, when possible, on at least three competitive bids. It also increased the threshold below which purchases can be made without competitive bidding or negotiation to \$10,000 or less rather than \$2,000 or less.

Special Act 99-10 – Effective July 1, 1999, Section 1 of this act appropriated, for the 1999-2000 fiscal year, \$2,199,964 of State General Fund money to the Regional Community-Technical Colleges to be used to help support a tuition freeze.

Enrollment Statistics:

Enrollment statistics compiled by the College showed the following enrollment of full-time and part-time students during the two audited years:

	<u>Fall 1998</u>	<u>Spring 1999</u>	<u>Fall 1999</u>	<u>Spring 2000</u>
Full-time students	949	851	1,025	937
Part-time students	<u>3,032</u>	<u>2,958</u>	<u>3,126</u>	<u>2,987</u>
Total enrollment	<u>3,981</u>	<u>3,809</u>	<u>4,151</u>	<u>3,924</u>

Enrollment increased in the Fall and Spring semesters during the 1999-2000 fiscal year, compared to those semesters during the previous fiscal year. We were told the College took steps to increase student recruitment and retention efforts, including the hiring of an enrollment manager.

RÉSUMÉ OF OPERATIONS:

During the audited period, operations of the College were primarily supported by appropriations from the State's General Fund and by tuition and fees credited to the Regional Community-Technical Colleges' Operating Fund.

This report also covers the operations of the College's two fiduciary funds, the Student Activity Fund and the Institutional General Welfare Fund.

General Fund:

General Fund receipts totaled \$3,373 and \$16,628 for the fiscal years ended June 30, 1999 and 2000, respectively. Receipts consisted primarily of refunds of expenditures of budgeted accounts.

During the audited period, General Fund expenditures consisted of personal services costs. Expenditures totaled \$9,838,108 and \$10,838,338 for the fiscal years ended June 30, 1999 and 2000, respectively, compared to \$9,306,914 for the fiscal year ended June 30, 1998. These totals represented increases of \$531,194 (5.7 percent) and \$1,000,230 (10.2 percent), respectively, during the audited years. The increases appear to have been mostly the result of salary increases in accordance with collective bargaining agreements. Additionally, for the fiscal year ended June 30, 2000, an increase in the number of College staff members resulted in higher personal services costs.

State Capital Projects:

Capital projects funds expenditures during the fiscal years ended June 30, 1999 and 2000, totaled \$566,366 and \$408,003, respectively.

Expenditures during the audited period were made primarily for the purchase of equipment.

Operating Fund:

The College's operating revenues and expenditures (excluding personal services expenditures charged to the General Fund) are accounted for within the Operating Fund.

Receipts of the Operating Fund consisted primarily of student tuition and fees and Federal and other student financial assistance monies received.

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

	<u>Fiscal Year</u> <u>1997-1998</u>	<u>Fiscal Year</u> <u>1998-1999</u>	<u>Fiscal Year</u> <u>1999-2000</u>
Total Receipts	<u>\$7,847,376</u>	<u>\$9,136,670</u>	<u>\$8,290,943</u>

Total Operating Fund receipts increased, \$1,289,294 (or 16 percent), in the 1998-1999 fiscal year as compared to the 1997-1998 fiscal year although enrollment decreased.

The increase in the 1998-1999 fiscal year was due in part to the Community Colleges' implementation of procedures to report to the State Comptroller student financial aid-related tuition and fee revenues recorded on the Colleges' general ledgers pending actual receipts received from Federal, State and private sources. Previously, the Community Colleges only reported actual student financial aid receipts to the State Comptroller.

Fund receipts fell during the 1999-2000 fiscal year, mostly as a result of a change in the method used by the Community Colleges to report student financial aid-related tuition and fee revenues to the State Comptroller. During the 1999-2000 fiscal year, the Community Colleges, after consulting with the State Comptroller's Office, reverted to the method they used for reporting receipts to the State Comptroller during the 1997-1998 fiscal year. That is, during the 1999-2000 fiscal year, the Colleges discontinued reporting to the State Comptroller internal, non-cash transactions of financial aid-related tuition and fee revenues recorded in the Colleges' general ledgers. (However, during the 1999-2000 fiscal year as in the 1997-1998 and 1998-1999 fiscal years, the Colleges continued to report to the State Comptroller actual cash receipts of monies received from Federal, State and private student financial aid sources.)

Operating Fund receipts consisted in large part of student tuition payments received. Tuition charges are fixed by the Board of Trustees. The following summary shows annual tuition charges for full-time students during the audited fiscal years and the previous fiscal year.

	<u>In-State</u>	<u>Out-of-State</u>	<u>N.E. Regional Program</u>
1997-1998	\$ 1,608	\$ 5,232	\$ 2,412
1998-1999	1,608	5,232	2,412
1999-2000	1,608	5,232	2,412

As can be seen above, tuition rates remained unchanged during the audited period. In

December 1997, the Board of Trustees of Community-Technical Colleges, in an attempt to further eliminate barriers to higher education, approved a freeze of tuition and fees at the State's 12 community colleges. The freeze remained in effect throughout the audited period, supported by special appropriations granted by the State Legislature to offset rising College costs.

In accordance with Section 10a-67 of the General Statutes, the Board of Trustees of Community-Technical Colleges sets tuition amounts for nonresident students enrolled in Community-Technical Colleges through the New England Regional Student Program at an amount one and one-half that of in-State tuition.

Tuition for part-time students is charged on a prorated basis according to the number of credit hours for which a student registers.

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

	<u>Fiscal Year</u> <u>1997-1998</u>	<u>Fiscal Year</u> <u>1998-1999</u>	<u>Fiscal Year</u> <u>1999-2000</u>
Personal Services	\$1,260,794	\$2,083,017	\$2,715,212
Contractual Services	2,186,562	2,246,883	2,734,113
Commodities	514,812	655,420	987,742
Revenue Refunds	230,848	1,050,727	1,219,947
Sundry Charges	2,329,798	2,841,325	981,913
Equipment and Other	<u>231,663</u>	<u>677,747</u>	<u>125,590</u>
Total Expenditures	<u>\$6,754,477</u>	<u>\$9,555,119</u>	<u>\$8,764,517</u>

Expenditures were made up of costs associated with personal services, student financial assistance (included in the Sundry Charges category) and other College operating costs. Operating Fund expenditures increased by \$2,800,642 (41 percent) during the 1998-1999 fiscal year, compared to the previous fiscal year. The increase in Personal Services during the 1998-1999 fiscal year was due, in part, to increases in retirements and salaries as specified by collective bargaining agreements. Then total expenditures decreased by of \$790,602 (8 percent) during the 1999-2000 fiscal year, compared to the 1998-1999 fiscal year. During the 1998-1999 fiscal year, increases in the categories of Sundry Charges and Revenue Refunds were noted as compared to the previous year, primarily due to a coding change. In the 1998-1999 fiscal year, the Community Colleges began to code as Revenue Refunds disbursements to students for student financial assistance amounts awarded in excess of the amounts the students owed the Colleges. Previously, such transactions were coded as Sundry Charges.

Fund expenditures fell during the 1999-2000 fiscal year, mostly as a result of a change in the method used by the Community Colleges to report student financial aid expenditures to the State Comptroller. During the 1998-1999 fiscal year, the Community Colleges reported to the State Comptroller all student financial aid expenditures recorded in their general ledgers, including both actual cash disbursements of financial aid checks paid to students and internal, non-cash transactions (coded as Sundry Charges on the State Comptroller's records) of amounts charged to their general ledger student financial aid accounts pending amounts receivable from

Federal, State and private financial aid sources. This method had the effect of duplicating some expenditures. Effective during the 1999-2000 fiscal year, the Community Colleges, after consulting with the State Comptroller's Office, discontinued reporting to the State Comptroller the above internal, non-cash transactions of charges to the Colleges' general ledger student financial aid accounts. (However, during the 1999-2000 fiscal year, the Colleges continued to report to the State Comptroller actual cash disbursements of student financial assistance checks paid to students.)

Grants – Tax-Exempt Proceeds Fund:

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

There were no fund receipts recorded by the State Comptroller during the audit period. In the 1999-2000 fiscal year, the Board of Trustees of Community-Technical College's provided the College with allotments totaling \$63,500. Expenditures of \$63,500 were noted in the 1999-2000 fiscal year and were primarily related to building maintenance.

Fiduciary Funds:

Student Activity Fund:

The Student Activity Fund, as established under Sections 4-52 through 4-55 of the General Statutes, is used for the benefit of students. Section 4-54 of the General Statutes provides for the student control of activity funds under specific conditions. During the audited period, the student government managed the Student Activity Fund subject to the supervision of the College administration.

Receipts, as presented in financial statements prepared by the College, totaled \$50,491 and \$87,269 in the 1998-1999 and 1999-2000 fiscal years, respectively. During the audited years receipts primarily consisted of the Student Activity fees assessed on students as well as income generated from various student organization activities.

Disbursements, according to financial statements prepared by the College, totaled \$27,693 and \$56,747 in the 1998-1999 and 1999-2000 fiscal years, respectively. Disbursements were mostly made to cover the costs of student organizations related activities. In the 1999-2000 fiscal year, disbursements increased by \$29,054 compared to the previous fiscal year. This increase was the result of an increase in student activity events during the 1999-2000 fiscal year as compared to the prior year. During the 1998-1999 fiscal year, the Student Activities Office was going through a period of transition and not as many student activities events were planned.

Institutional General Welfare Fund:

The Institutional General Welfare Fund operated under the provisions of Sections 4-56 through 4-58 of the General Statutes. The fund was established to record the financial activities

of any gifts, donations or bequests, including scholarships made to benefit students of the College.

Receipts, as shown on financial statements prepared by the College, totaled \$145,656 and \$49,359 in the 1998-1999 and 1999-2000 fiscal years, respectively. During the audited years, receipts included scholarship monies and graduation fees received. In addition, during the 1998-1999 fiscal year the fund was used as a clearing account for Federal, State and private student assistance checks received and checks requiring joint endorsement by the student and the College. Such checks were deposited into this fund, with amounts later allocated and disbursed among amounts owed the College, amounts owed the College bookstore and remaining balances owed to students. Receipts decreased by \$96,297 during the 1999-2000 fiscal year, compared to the previous year, mostly because the Welfare Fund was no longer used as a clearing account for Federal, State and private student assistance checks. Instead, during the 1999-2000 fiscal year, these checks were processed through the Operating Fund.

Financial statements prepared by the College reported disbursements which totaled \$153,340 and \$60,509 in the 1998-1999 and 1999-2000 fiscal years, respectively. Disbursements included payments for scholarships, graduation expenses and the distribution of the above mentioned Federal, State and private student assistance checks received. During the 1999-2000 fiscal year, disbursements decreased by \$92,831, mostly because the Welfare Fund was no longer used as a clearing account for Federal, State and private student assistance checks. As noted above, during the 1999-2000 fiscal year, these checks were processed through the Operating Fund.

Gateway Community College Foundation, Inc.:

Gateway Community College Foundation, Inc. (the Foundation) is a private corporation established to secure contributions from private sources for the purposes of support, promotion and improvement of the educational activities of Gateway Community College.

Sections 4-37e through 4-37j of the General Statutes set requirements for organizations such as the Foundation. The requirements include and deal with the annual filing of an updated list of board members with the State agency for which the foundation was set up, financial record keeping and reporting in accordance with generally accepted accounting principles, financial statement and audit report criteria, written agreements concerning use of facilities and resources, compensation of State officers or employees and the State agency's responsibilities with respect to foundations.

An audit of the books and accounts of the Foundation was performed by an independent certified public accounting firm for the year ended December 31, 1998, in accordance with Section 4-37f, subsection (8), of the General Statutes. The report gave an unqualified opinion on the Foundation's financial statements but did not address compliance with Sections 4-37e through 4-37i of the General Statutes, as required by Section 4-37f, subsection (8). This deficiency concerning Foundation statutory compliance is detailed in the following sections of this report titled "Condition of Records" and "Recommendations."

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to conduct a program evaluation as part of their routine audits of public and quasi-public agencies.

In this engagement, we selected to review whether or not the College was effectively carrying out the requirements of Section 10a-77, subsection (d) (3) of the General Statutes, which provides, among other things, that the Board of Trustees of Community-Technical Colleges shall waive the payment of tuition at any of the Community Colleges for any Connecticut resident 62 years of age or older.

In addition, we reviewed the College's granting of tuition and fee waivers to dependent children of employees. Section 6.3 of the Board of Trustees of Community-Technical Colleges' *Policy Manual* provides, among other things, the waiver of tuition and fees at all Community Colleges for dependent children of certain full-time employees of the Connecticut Community College System.

Criteria: Section 10a-77, subsection (d) (3) of the General Statutes, provides, among other things, that the Board of Trustees of Community-Technical Colleges shall waive the payment of tuition at any of the Community Colleges for any Connecticut resident 62 years of age or older. Section 6.3 of the Board of Trustees of Community-Technical Colleges' *Policy Manual* states, pursuant to Section 10a-77 of the General Statutes, that tuition and fees of Connecticut residents 62 years of age or over shall be waived at all Community Colleges provided appropriate evidence of age is presented. Furthermore, the College's catalog states, proof of age must be submitted to the Admissions Office to obtain such waivers.

Section 6.3 of the Board of Trustees of Community-Technical Colleges' *Policy Manual* provides, among other things, the waiver of tuition and fees at all Community Colleges for dependent children of certain full-time employees of the Connecticut Community College System. The Board of Trustees of Community-Technical Colleges' Employee Relations Memorandum #96-17, dated April 25, 1996, defines a dependent child as a child who the employee claimed as a dependent on his/her last tax return. Also, the College's Employee Waiver Form requires the employee to certify that the child is a dependent on his/her last tax return and puts the employee on notice that the Board/College reserves the right to require submission of tax returns to substantiate a claim of spousal or dependent child status, and that false reporting of such status may be cause for disciplinary action against the employee.

Condition: The College does not request evidence to verify age or residency status for those students applying for a waiver of tuition and fees based on age. Therefore, for all senior citizens' waivers granted we

could not determine with certainty if they were proper. We found three cases, in the amounts of \$252, \$263 and \$272, respectively, where senior citizens' tuition and fee waivers were granted to individuals who didn't appear to be eligible. Based on the dates of birth recorded on the documents reviewed, it appeared that these students were under 62 years old at the beginning of the semester.

A College employee requested and was granted a tuition and fee waiver for a student on the grounds that the student was a dependent child of the employee. A waiver of \$476 for the Fall 2000 semester was granted to the student. After our inquiry into this waiver, the Director of Human Resources informed us that the employee informed her that the student in question was not a dependent as defined by Employee Relations Memorandum #96-17.

Effect: It appears that ineligible waivers of tuition and fees were granted to students who did not meet age or employee dependency status requirements.

Also, the College did not fully comply with Section 10a-77, subsection (d) (3) of the General Statutes with respect to the waiver of tuition for Connecticut residents 62 years of age or older. Nor did the College fully comply with Section 6.3 of the Board of Trustees of Community-Technical Colleges' *Policy Manual* concerning the waiver of tuition and fees for dependent children of certain full-time employees of the Connecticut Community College system.

Cause: Officials from the Admissions, Records and Business Offices, all of which take part in processing of senior citizens' waivers, told us that they thought that the verification process was being done by one of the other above-named offices.

College officials told us they only certify on the Employee Waiver Form that the employee is an employee of the College and rely on the employee's honesty when requesting waivers for those listed as a dependent.

Recommendation: The College should develop better controls over granting tuition and fee waivers to students. (See Recommendation 8.)

Agency Response: "The College recognizes the necessity of complying with Section 10a-77 subsection (d) (3) of the General Statutes with respect to waivers for residents 62 years of age and older, and Section 6.3 of the Board's policy manual on waivers for dependents of employees. To insure compliance the President has directed the Admissions staff to obtain verification of age and residency status and make note of it on a separate form. The President has directed the Human

Resources Department staff to obtain verification of dependency status by obtaining IRS documentation from the employee.”

CONDITION OF RECORDS

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

Procurement:

- Criteria:* Adequate internal controls include obtaining administrative approvals for goods or services to be purchased prior to placing orders.
- Condition:* We tested 25 expenditures during the audited period and found 11 did not have administrative approval indicated until after the order or service date. In one of the 25 cases tested, no administrative approval was indicated at all. College officials indicated that subsequent approval of expenditures has been a common practice for certain departments.
- Effect:* Internal controls over purchases were weakened. Specifically, items or services may have been purchased which may not have met with the approval of administrators had they been notified beforehand.
- Cause:* Certain departments have indicated to the Purchasing Office that they often require items too quickly to obtain approvals prior to placing orders.
- Recommendation:* The College should improve internal controls over purchases by requiring that appropriate officials approve all purchase requisitions before goods or services are procured. (See Recommendation 1.)
- Agency Response:* “The College will remind all Deans and Department Supervisors of the necessity to obtain all appropriate signatures before goods and services are procured. The Purchasing Department will closely monitor this procedure and alert the Dean of Administration of any irregularities.”

Welfare and Student Activity Funds Expenditures:

- Criteria:* The State Comptroller’s *Accounting Procedures Manual Activity and Welfare Funds*, Section IV, C. 2, states that the following is considered an unauthorized expenditure and will not be made from the Welfare Fund: “salaries for services that are the responsibility of the institution or agency.”
- The State Comptroller’s *Accounting Procedures Manual Activity and Welfare Funds*, Section V, E. 4, states that copies of the minutes of all meetings held by the student organization must be on file in the

institution office and available for audit. These minutes must clearly indicate all action taken by the group, particularly those concerning financial matters.

Condition: The College paid five students a total of \$320 in Welfare Fund monies for registration support services during the Spring 2000 registration.

We tested eight Student Activity Fund expenditures during the audited period and found the eight expenditures related to events were not documented in the student organization minutes of meetings prior to the event taking place. That is, the minutes of meetings did not document the approval and original allocation of funds for the event. The minutes of meetings only documented the request to process the expenditure after the event took place.

Effect: The above condition resulted in noncompliance with the State Comptroller's *Accounting Procedures Manual Activity and Welfare Funds*, Section IV, C. 2, concerning unauthorized expenditures.

The above condition resulted in noncompliance with the State Comptroller's *Accounting Procedures Manual Activity and Welfare Funds*, Section V, E. 4, which requires student organization minutes to clearly indicate all actions taken by the group, particularly those concerning financial matters.

Cause: A College official told us he thought it would be an acceptable way to spend the interest accrued in the Welfare Fund account.

Controls were not in place to document all financial actions concerning student events in the minutes of student organization meetings.

Recommendation: The College should comply with the State Comptroller's *Accounting Procedures Manual Activity and Welfare Funds*, regarding unauthorized Welfare Fund expenditures and the documenting in the minutes of student organization meetings financial actions for events related to the Student Activity Fund. (See Recommendation 2.)

Agency Response: "The College will pay for any student workers it employs from its Operating Fund and not from the Welfare Fund. Also, the College is currently searching for a Director of Student Activities and when the individual is hired the need to document approval for student government financial actions will be emphasized. The Purchasing Department will monitor this process as it receives requisitions for goods and services from Student Government."

Inventory Control:

Criteria: The State of Connecticut's *Property Control Manual*, under authority of Section 4-36 of the General Statutes, sets forth criteria and policies over assets owned or leased by a State agency. Requirements include, among other things, that capital equipment and certain other controllable items be recorded in property control records, that a complete physical inventory of all property be taken at the end of the fiscal year, that an annual report reflecting the total of physical inventory as of June 30, each year, be submitted to the State Comptroller, and that a separate perpetual inventory be maintained for all stores and supplies if the estimated value of the entire inventory is over \$1,000.

Condition:

1. No complete physical inventory was taken during the audited period. A complete physical inventory was taken in March 1996 and more recently in October 2000.
2. No new equipment purchased during the audited period was recorded in the College's permanent inventory control records. This condition was noted in our last two audits.
3. A perpetual inventory system was not in place for stores and supplies. The amount reported for stores and supplies on the CO-59 Property Inventory Report was an estimated value.

Effect: Internal controls over equipment and supplies were weakened, and the State of Connecticut's *Property Control Manual* was not fully complied with.

Cause: College officials told us that the above conditions were due to staff shortages in this area.

Recommendation: The College should improve controls over its property by following the property control requirements set forth by the State Comptroller. (See Recommendation 3.)

Agency Response: "The College will strengthen inventory and property controls through increased attention to keeping it current and making sure that all new inventory is recorded immediately."

Personal Service Agreements:

Criteria: Sound internal control procedures require personal service agreements to be signed by appropriate College officials prior to the contract term, and that necessary agreement amendments be approved prior to the contractor performing related work. Adequate internal controls also include verifying the receipt of services and reviewing contract terms prior to making payments.

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

Condition:

We tested ten personal service agreement contracts entered into during the audited period and found that three had services rendered prior to approval by College officials. In two of the ten cases tested, contracts were amended to higher dollar limits after services already exceeded the original contract limit. Additionally, two payments were made on one contract with no certification for receipt of services, and two contracts included payments made on invoices for a higher hourly rate than the agreement specified.

Three agreements- in the amounts of \$500, \$3,840, and \$2,400- were made with current State employees. In treating the individuals as independent contractors, the College was required to follow an award process meeting the standards set forth in Section 1-84 of the General Statutes. That is, these contacts should have been awarded through an “open and public process.” They were not, according to a College official.

Effect:

Internal controls over personal service agreements were weakened. Specifically, assurance was lessened that the terms of personal service agreements met the approval of the College administration prior to the performance of such contractual services. Additionally, assurance that services were, in fact, provided and correct payments were made was lessened.

Further, the College was not in compliance with Section 1-84, Subsection (i) of the General Statutes, which requires that contracts with State employees in the amount of one hundred dollars or more be awarded through an “open and public process.”

Cause:

Evidently, controls in place were not effective in obtaining timely approvals of personal service agreements, verifying documentation to acknowledge receipt of services, or ensuring invoices agreed with contract terms prior to making payments.

In addition, it appears that College officials were not aware of the requirements of Section 1-84 of the General Statutes concerning the award of contracts to State employees.

Recommendation: The College should improve both its controls and statutory compliance related to personal service agreements by ensuring all such agreements and their amendments are approved by appropriate officials in a timely manner, receipt of services is verified and contract terms are reviewed prior to payments being made, and the requirements of Section 1-84 of the General Statutes with respect to the awarding of contracts to State employees are met. (See Recommendation 4.)

Agency Response: “The College will improve controls over personal service agreements by requiring that the appropriate officials approve such contracts before the services are rendered. In addition, we will comply with the General Statutes concerning the awarding of contracts to State employees. All Deans and Department Directors will be reminded of the proper procedures for awarding a Personal Service Agreement.”

Foundation Statutory Compliance:

Criteria: Statutory provisions governing foundations affiliated with State agencies are included in Sections 4-37e through 4-37j of the General Statutes. Section 4-37f, subsection (8) provides that foundation audit reports include audit opinions which address conformance with the provisions of Sections 4-37e through 4-37i.

Condition: We noted the following exception in connection with the College’s affiliated Foundation audit report prepared by independent auditors for the year ended December 31, 1998: There was no audit opinion addressing compliance with Section 4-37e through 4-37i of the General Statutes, as required by Section 4-37f, subsection (8).

Effect: The Foundation did not fully comply with the requirements of the statutes.

Cause: The Foundation neglected to inform the independent auditors of the requirement concerning the audit opinion.

Recommendation: The College should develop procedures to ensure its affiliated Foundation complies with statutory sections, especially Section 4-37f of the General Statutes, dealing with foundations. (See Recommendation 5.)

Agency Response: “The College’s Office of Research and Development will ensure that the audit letter of engagement between the foundation and a CPA firm includes the requirement that the audit will comply with Section 4-37f subsection (8) of the General Statutes.”

Controls Over the Business and Industry Services Department:

Background: The College's Business and Industry Services Department (B&I), part of the Statewide Community College Business and Industry network, primarily designs and delivers credit and non-credit training programs, on a contract basis, for businesses and other organizations. Our review of this department disclosed the following areas of concern.

Criteria: Sound internal control over revenue-generating operations includes adequate recordkeeping, the approval of contracts before services are rendered and proper segregation of duties.

Condition: We noted the following conditions during the audited period:

1. Student registration data for Business and Industry Services Department courses for which the College was under contract with firms or other outside organizations were, at times, entered into registration records after courses began or even after their conclusion.
2. Contracts between the College and other organizations to run B&I courses were, at times, approved by appropriate College and other officials after these courses had already begun. Likewise, necessary revisions to contracts were not always made before the services were provided, and the Business Office did not always receive contracts from B&I in a timely manner for billing verifications.
3. B&I directly received some payments at the North Haven campus and then forwarded those to the Business Office at Long Wharf, a procedure which delayed the Business Office recording cash receipts received.

Effect:

1. The timely entry of registration data is necessary to account for student charges and to ensure the proper billing of students or other parties for courses taken. The late entries may have delayed billings and understated receivable and revenue records.
2. Obtaining approvals and revisions on contracts after courses had started caused the College to incur obligations without a clear agreement on terms and conditions. Additionally, delays in providing approved contracts to the Business Office impede the Office's awareness of courses and contract terms, possibly preventing or deferring accurate billings.
3. B&I's direct receipt of payments at the North Haven campus shows a poor segregation of duties and may delay the Business Office from promptly recording and depositing cash receipts.

- Cause:*
1. We were told that the Banner system, the College's automated information system, does not easily accommodate B&I courses due to their structure and student makeup. These courses often include a more transient population with lump sum payments made to the College regardless of class size. These factors can make it difficult to determine enrollment before classes begin. Additionally, the Director of Credit Free Learning indicated that the Records Office has not taken over course registration as he requested. Although we were told the controls to ensure timely completion of registrations (including a contract file checklist) were implemented during the latter part of the audit period, documentation provided to us revealed some instructors still did not turn in class registrations promptly, holding up the billing process.
 2. During our previous audit we were told that clients do not always respond rapidly to requests for contract signatures but that B&I believed it was better to provide services with contracts pending than to risk losing customers by not meeting their timeframe requirements. Although B&I instituted controls in the current audit period – including a file checklist – requiring signed commitments prior to training, the controls appear to be ineffective as contracts and revisions are still not always provided to the Business Office in advance of classes.
 3. Controls are not in place to ensure all payments are sent directly to the Business Office at Long Wharf. We were told that B&I attempts to ensure this always happens, but one B&I memo contradicts this and the Business Office maintains that the problem persists.

Recommendation: The College should develop and implement procedures that provide adequate internal controls for the billing and receipts functions related to Business and Industry Services Department courses. (See Recommendation 6.)

Agency Response: “The President has reorganized the reporting structure for B&I, so that it now reports to the Associate Dean of Learning. This was done to provide more focused leadership in an effort to increase program revenue as well as more procedural accountability to eliminate items that were cited. We anticipate these organization changes will have a positive effect upon the B&I operations.”

Time and Effort Reporting:

Criteria: The Federal Office of Management and Budget Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements between the Federal government and educational institutions. Under this Circular, the method of

distributing payroll charges must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. To accomplish this, institutional records must adequately document that payroll expenditures posted to an account were actually incurred in the course of carrying out the program accounted for in the account.

According to Circular A-21, to confirm that charges to a program represent a reasonable estimate of the work performed by the employee for the benefit of the program during the period, an acceptable method of documentation includes the use of statements signed by the employee, principal investigator, or responsible official(s), using suitable means of verification that the work was performed. For professorial and professional staff, the statements must be prepared each academic term, but no less frequently than every six months.

- Condition:* During the audited period, the College received and administered a Federal grant to which payroll expenditures were charged. However, the College did not have a time and effort reporting system, as required by the Office of Management and Budget Circular A-21. The Circular provides that where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents qualify as records for this purpose, provided that they meet the requirements outlined in the Circular. The College's payroll documents did not provide a signed certification that the employee's payroll expenditures were charged to the activities/programs on which the employee actually worked.
- Effect:* The College did not fully comply with the Office of Management and Budget Circular A-21 requirements concerning the documentation of payroll distribution costs.
- Cause:* College officials were unfamiliar with this requirement.
- Recommendation:* The College should develop and implement a time and effort reporting system for documenting payroll costs associated with its Federal grant programs, as required by the Office of Management and Budget Circular A-21. (See Recommendation 7.)
- Agency Response:* "The College will develop procedures that will serve to document payroll costs associated with any Federal grant program."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- Follow property control requirements set forth by the State Comptroller. The recommendation was not implemented and is being repeated. (See Recommendation 3.)
- Improve controls over personal service agreements by taking steps to ensure that these contracts are approved by appropriate officials in a timely manner. The recommendation was not implemented and is being repeated. (See Recommendation 4.)
- Establish procedures to assure its affiliated Foundation complies with statutory sections, especially Sections 4-37f and 4-37g of the General Statutes, dealing with foundations. The recommendation was partially satisfied, but will be repeated with modifications. (See Recommendation 5.)
- Improve internal controls over the Business and Industry Services Department operations. The recommendation was not implemented and is being repeated. (See Recommendation 6.)

Current Audit Recommendations:

- 1. The College should improve internal controls over purchases by requiring that appropriate officials approve all purchase requisitions before goods or services are procured.**

Comment:

We tested 25 expenditures during the audited period and found 11 did not have administrative approval until after the order or service date. In one of the 25 cases tested, no administrative approval was indicated at all.

- 2. The College should comply with the State Comptroller's *Accounting Procedures Manual Activity and Welfare Funds*, regarding unauthorized Welfare Fund expenditures and the documenting in the minutes of student organization meetings financial actions for events related to the Student Activity Fund.**

Comment:

The College paid five students a total of \$320 in Welfare Fund monies for registration support services during the Spring 2000 registration. Also, we tested eight Student Activity Fund expenditures during the audited period and found the eight expenditures related to events were not documented in the minutes of student organization meetings prior to the event taking place. That is, the minutes of meetings did not document the approval and original allocation of funds for the event. The minutes of meetings only documented the request to process the expenditure after

the event took place.

- 3. The College should improve controls over its property by following the property control requirements set forth by the State Comptroller.**

Comment:

No physical inventory of College equipment was taken during the audited period. No new equipment purchased during the audited period was recorded in the College's permanent inventory control records. In addition, a perpetual inventory system was not in place for stores and supplies during the audited period.

- 4. The College should improve both its controls and statutory compliance related to personal service agreements by ensuring all such agreements and their amendments are approved by appropriate officials in a timely manner, receipt of services is verified and contract terms are reviewed prior to payments being made, and the requirements of Section 1-84 of the General Statutes with respect to the awarding of contracts to State employees are met.**

Comment:

We tested ten personal service agreement contracts entered into during the audited period and found that three had services rendered prior to approval by College officials and two had services rendered exceeding the contractual dollar amounts before College officials approved amendments to increase the limit. Additionally, two payments were made on one contract with no certification for receipt of services, and two contracts included payments made on invoices for a higher hourly rate than the agreement specified. Three agreements - in the amounts of \$500, \$3,840, and \$2,400 - were made with current State employees. In treating these individuals as independent contractors, the College was required to follow an award process meeting the standards set forth in Section 1-84 of the General Statutes. That is, these contracts should have been awarded through an "open and public process."

- 5. The College should develop procedures to ensure its affiliated Foundation complies with statutory sections, especially Section 4-37f of the General Statutes, dealing with foundations.**

Comment:

We noted the following exception in connection with the College's affiliated Foundation audit report prepared by independent auditors for the year ended December 31, 1998: There was no audit opinion addressing compliance with Section 4-37e through 4-37i of the General Statutes, as required by Section 4-37f, subsection (8).

- 6. The College should develop and implement procedures that provide adequate internal controls for the billing and receipts functions related to Business and Industry Services Department courses.**

Comment:

We noted the following conditions during the audited period: Student registration data for Business and Industry Services Department (B&I) courses for which the College was under contract with firms or other outside organizations were, at times, entered into registration records after courses began or even after their conclusion. Contracts between the College and other organizations to run B&I courses were, at times, approved by appropriate College and other officials after these courses had already begun. Likewise, necessary revisions to contracts were not always made before the services were provided, and the Business Office did not always receive contracts in a timely manner for billing verifications. B&I directly received some payments at the North Haven campus and then forwarded those to the Business Office at Long Wharf, a procedure which delayed the Business Office recording cash receipts received.

- 7. The College should develop and implement a time and effort reporting system for documenting payroll costs associated with its Federal grant programs, as required by the Office of Management and Budget Circular A-21.**

Comment:

During the audited period, the College did not have a time and effort reporting system for documenting payroll costs associated with Federal grant programs. That is, for employees whose payroll costs were funded by Federal grant programs, the College's payroll documents did not provide signed certification that the employee's payroll expenditures were charged to the program(s) on which the employee actually worked.

- 8. The College should develop better controls over granting tuition and fee waivers to students.**

Comment:

The College does not request evidence to verify age or residency status for those students applying for a waiver of tuition and fees based on the age of 62 years old or over. Therefore, for all senior citizens waivers granted we could not determine with certainty if they were proper. We found three cases (\$252, \$263 and \$272) in tuition and fee waivers granted, where, based on the date of birth listed on the documents reviewed, it appears the student was not 62 years old at the beginning of the semester. Also, a College employee requested and was granted a tuition and fee waiver for a student on the grounds that the student was a dependent child of the employee. A waiver of \$476 for the Fall 2000 semester was granted to the student. After our inquiry into this waiver, the Director of Human Resources informed us that the

employee informed her that the student in question was not a dependent as defined by Employee Relations Memorandum #96-17.

INDEPENDENT AUDITOR'S CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of Gateway Community College for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the College's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the College's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the College are complied with, (2) the financial transactions of the College are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the College are safeguarded against loss or unauthorized use. The financial statement audits of Gateway Community College for the fiscal years ended June 30, 1999 and 2000, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

As part of obtaining reasonable assurance about whether the College 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 College's financial operations for the fiscal years ended June 30, 1999 and 2000, 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 Gateway Community College 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

College. In planning and performing our audit, we considered the College's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the College's financial operations in order to determine our auditing procedures for the purpose of evaluating Gateway Community College'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 College'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 College's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the College'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: incurring obligations for personal services prior to formal approval of contractual terms; weaknesses in controls over property; weaknesses in controls and statutory compliance in connection with personal service agreements; inadequate controls over the Business and Industry Department; and weaknesses in controls over granting student tuition and fee waivers.

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 College's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the College 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 College'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 condition to be a material or significant weakness: the College's weaknesses in controls over property.

We also noted other matters involving internal control over the College's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Gateway Community College during the course of our examination.

Joseph P. D'Andrea
Auditor 2

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts