STATE OF CONNECTICUT

AUDITORS' REPORT
BOARD OF TRUSTEES OF
COMMUNITY-TECHNICAL COLLEGES
GATEWAY COMMUNITY COLLEGE

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

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May 11, 2004

AUDITORS' REPORT
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GATEWAY COMMUNITY COLLEGE
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002

We have examined the financial records of Gateway Community College (College) for the fiscal years ended June 30, 2001 and 2002.

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:

Gateway Community College, comprising two campuses, one in New Haven and the other in North Haven, Connecticut, 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 and its System Office, located in Hartford, Connecticut, administer the 12 institutions.

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

Dr. Dorsey L. Kendrick served as President of the College during the audited period.

Recent Legislation:

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

Special Act 99-10 – Section 11 of this Act appropriated, for the 2000-2001 fiscal year, $2,199,964 of State General Fund money to the Community-Technical Colleges to be used to help support a tuition freeze. This Section became effective July 1, 1999.

Public Act 00-170 – Section 6 of this Act exempts college textbooks from the sales tax as of July 1, 2000. The exemption applies only to textbooks sold to students enrolled in higher education institutions. Qualifying textbooks must be required or recommended for a college or university course.

Public Act 01-141 – Section 1 of this Act extends by five years the period the Department of Higher Education shall deposit into the endowment fund for the Community-Technical College system grants to match a portion of endowment fund eligible gifts received. The Act sets the new period as the fiscal years ended June 30, 2000, to June 30, 2014.

Section 2 of this Act increased the annual limits of such grants for the fiscal years ended June 30, 2004 and 2005, from $4,000,000 to $5,000,000 and from $4,500,000 to $5,000,000, respectively. It also set the annual matching grant limit at $5,000,000 for the fiscal years ended June 30, 2006, to June 30, 2014.

These Sections of the Act took effect July 1, 2001.

Special Act 01-1 (enacted by the November 15, 2001, Special Session of the General Assembly) – Section 1 of this Act appropriated, for the 2001-2002 fiscal year, $2,236,923 of State General Fund money to the Community-Technical Colleges to be used to help support a tuition freeze. This Act was approved on November 20, 2001.

Public Act 02-107 – Section 1 of this Act changes from "activity fund" to "trustee account" the designation for funds used by State educational institutions (or welfare or medical agencies) for the benefit of employees, students, or clients of such institutions or agencies. Section 5 of the Act changes from "general welfare fund" to "account" the designation for accounts used for gifts, donations, or bequests made to the students or clients of any State educational, medical or welfare agency as a group, and for any corresponding unclaimed funds, and the interest on such funds.

This Act became effective July 1, 2002.

Public Act 02-126 – Section 6 of this Act provides that the Board of Trustees of Community-Technical Colleges shall waive the payment of tuition at any of the community-technical colleges for any State resident who is a dependent child or surviving spouse of a specified terrorist victim who was a Connecticut resident. This Section became effective June 7, 2002.

Public Act 02-140 – Section 2 of this Act allows constituent units of higher education, in the purchasing process, to accept electronic bids, proposals, or competitive quotations within a safe and secure electronic environment. The Act also bars such constituent units from refusing to consider bids, proposals, or quotations because they were not submitted electronically. This Section of the Act became effective July 1, 2002.

Enrollment Statistics:

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

	Fall 2000	Spring 2001	Fall 2001	Spring 2002
Full-time students	1,060	968	1,235	1,139
Part-time students	3,097	3,163	3,489	3,441
Total enrollment	4,157	4,131	4,724	4,580

The average of Fall and Spring semesters' enrollment totaled 4,144 and 4,652 during the 2000-2001 and 2001-2002 fiscal years, respectively. According to a College official, the increase in these figures, amounting to roughly 12 percent, during the 2001-2002 fiscal year was due in part to a slowdown in the State's economy during the audited years. Generally, when the economy deteriorates, community college enrollment increases as people seek to improve or develop new job skills or to pursue lower cost higher education. In addition, we were told that, the College increased its efforts to recruit students during the audited years.

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 $589 and $2,774 for the 2000-2001 and 2001-2002 fiscal years, respectively. Receipts were mostly made up of refunds of expenditures of budgeted accounts.

During the audited period, General Fund expenditures consisted entirely of personal services costs. Expenditures totaled $10,470,971 and $11,333,208 for the fiscal years ended June 30, 2001 and 2002, respectively, compared to $10,838,338 for the fiscal year ended June 30, 2000. These figures represented a decrease of $367,367 (3.4 percent) and an increase of $862,237 (8.2 percent), respectively, during the audited years.

The decrease in expenditures during the 2000-2001 fiscal year was the result of a decrease in the College's General Fund appropriation. In turn, in this year, the College's Operating Fund bore a larger share of personal services expenditures.

The increase in Fund expenditures during the 2001-2002 fiscal year was driven by salary increases consistent with collective bargaining agreements and by the hiring of additional employees.

State Capital Projects:

Capital projects funds expenditures during the 2000-2001 and 2001-2002 fiscal years totaled $47,989 and $731,188, respectively. These expenditures were primarily made to cover the costs of equipment purchases during the audited period.

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 received.

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

	Fiscal Year 1999-2000	Fiscal Year 2000-2001	Fiscal Year 2001-2002
Total Receipts	$8,290,943	$8,737,544	$9,932,015

Total reported Operating Fund receipts grew by $446,601 (5.4 percent) during the 2000-2001 fiscal year, compared to the 1999-2000 fiscal year. This increase was consistent with College increases in tuition rates and student enrollment during the 2000-2001 fiscal year.

Fund receipts rose by $1,194,471 (13.7 percent) during the 2001-2002 fiscal year, compared to the 2000-2001 fiscal year, a result in part of the increase in student enrollment during this year. 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.

	In-State	Out-of-State	N.E. Regional Program
1999-2000	$ 1,608	$ 5,232	$ 2,412
2000-2001	1,680	5,232	2,520
2001-2002	1,680	5,232	2,520

As can be seen above, tuition rates increased during the 2000-2001 fiscal year. To meet rising costs, in May 2000, the Board of Trustees of Community-Technical Colleges approved an increase in tuition for all but out-of-State students during the 2000-2001 academic year.

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 the

Community College system 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.

	Fiscal Year 1999-2000	Fiscal Year 2000-2001	Fiscal Year 2001-2002
Personal Services	$2,715,212	$3,509,839	$3,607,196
Contractual Services	2,734,113	2,935,750	2,668,067
Commodities	987,742	984,954	826,278
Revenue Refunds	1,219,947	2,027,369	2,244,634
Sundry Charges	981,913	664,384	388,571
Equipment and Other	125,590	113,014	198,675
Total Expenditures	$8,764,517	$10,235,310	$9,933,421

Expenditures were made up of costs associated with personal services, student financial assistance (included in the Revenue Refunds category) and other College operating costs. Recorded Operating Fund expenditures increased by $1,470,793 (16.8 percent) and decreased by $301,889 (2.9 percent) during the 2000-2001 and 2001-2002 fiscal years, respectively, compared to the previous fiscal years.

The increase during the 2000-2001 fiscal year was driven, in large part, by a reduction in the College's General Fund appropriation for personal services. The College's Operating Fund, in turn, shouldered a larger share of personal services costs. In addition, fueled by rising student enrollment, the amount of student financial aid disbursed increased during this year.

The decline in Fund expenditures during the 2001-2002 fiscal year resulted, in part, from a drop in employee fringe benefit costs, which made up most of the sundry charges category. Though College Operating Fund personal services expenditures increased in the 2001-2002 fiscal year compared to the 2000-2001 fiscal year, the composition of these expenditures changed. Such expenditures shifted from those to which higher fringe benefit rates applied to those to which lower rates applied. This change resulted in a significant decrease in College Operating Fund fringe benefit costs during the 2001-2002 fiscal year, contributing to the overall decline in College Operating Fund expenditures during this fiscal year.

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.

Fund receipts totaled $35,000 and $50,000 during the 2000-2001 and 2001-2002 fiscal years, respectively.

There were no Fund expenditures during the 2000-2001 fiscal year, while Fund expenditures totaling $79,500 during the 2001-2002 fiscal year were made primarily for campus repairs.

Fiduciary Funds:

After approval from the Office of the State Comptroller, the Board of Trustees of Community-Technical Colleges directed all of the 12 Connecticut Community Colleges to incorporate their Student Activity Fund and Institutional Welfare Fund accounts into their respective Operating Fund accounts, effective during the 2001-2002 fiscal year. Furthermore, effective during the 2001-2002 fiscal year, the Community Colleges no longer prepared separate financial statements for Student Activity and Institutional Welfare funds. Instead, the Board of Trustees produced financial statements for the Operating Fund as a whole. As such, the Student Activity and Institutional Welfare receipts and disbursements numbers included in this report were based on College financial statements for the 2000-2001 fiscal year and College accounting records for the 2001-2002 fiscal year

Student Activity Fund:

The Student Activity Fund, as established under Sections 4-52 through 4-55 of the General Statutes, was 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 totaled $70,368 and $72,132 in the respective audited years and primarily consisted of Student Activity fees assessed on students as well as income generated from various student organization activities.

Disbursements totaled $75,240 and $72,253 in the respective audited years. Disbursements were mostly for expenses of student organizations and related activities.

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 totaled $36,063 and $14,243 in the 2000-2001 and 2001-2002 fiscal years, respectively. During the 2000-2001 fiscal year, receipts consisted mostly of scholarship monies received from external sources and graduation fees received from students. During the 2001-2002 fiscal year, receipts were primarily made up of the above-mentioned graduation fees.

Disbursements totaled $32,868 and $14,043 in the 2000-2001 and 2001-2002 fiscal years, respectively. During the 2000-2001 fiscal year, disbursements consisted mostly of scholarship monies paid to students and payments for graduation ceremony expenses. During the 2001-2002 fiscal year, disbursements primarily comprised payments for graduation ceremony expenses.

The decrease in receipts and disbursements during the 2001-2002 fiscal year compared to the previous year was mostly the result of a change in the College's method of accounting for scholarship funds. In the 2000-2001 fiscal year, the College processed scholarship receipts and disbursements through its Institutional General Welfare Fund. In contrast, in the 2001-2002 fiscal year, the College processed such scholarship receipts and disbursements directly through student accounts within its Operating Fund, greatly reducing the level of receipts and disbursements recorded in its Welfare account.

Gateway Community College Foundation, Inc.:

Gateway Community College Foundation, Inc. (Foundation) is a private, not-for profit corporation established to secure contributions for the support, promotion and improvement of the educational activities of Gateway Community College.

Sections 4-37e through 4-37k of the General Statutes define and 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.

Audits of the books and accounts of the Foundation were performed by an independent certified public accounting firm for the years ended December 31, 2001, and 2002, as required by Section 4-37f, subsection (8) of the General Statutes. The College provided us with both of the corresponding audit reports. The audit report for the year ended December 31, 2001, indicated that the Foundation's financial statements presented fairly, in all material respects, the Foundation's financial position and its results of activities and cash flows for the period reviewed. The report further indicated compliance, in all material respects, with Sections 4-37e through 4-37i of the General Statutes. The audit report for the year ended December 31, 2002, expressed an unqualified opinion on the Foundation's financial statements and indicated compliance, in all material respects, with Sections 4-37e through 4-37i of the General Statutes except that the Foundation:

1. Did not comply with its investment and spending policy with respect to the asset allocation of its investments; and

2. Disbursed reimbursements totaling $2,039 without obtaining the written approval of the College President or, if required, the Chancellor of the Community College system.

Reported Foundation support and revenue totaled $94,829 and $273,279 for the years ended December 31, 2001, and 2002, respectively.

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.

Human Resources and Payroll Department Operations:

Criteria: The Board of Trustees of Community-Technical Colleges has established a policy for the payment of part-time Educational Assistants. This policy provides that the educational qualifications required for the position should drive the rate of pay for that position. The Board annually sets a series of hourly pay rates for part-time Educational Assistants, based on and corresponding with the educational qualifications required (e.g., Associate's degree, Bachelor's degree, Master's degree).

Sound internal control practices over payroll and human resources operations require a system of checks and balances that includes proper segregation of duties between the functions of authorizing and implementing payroll payment changes. Such control also calls for a system of supervisory review to monitor and document authorization for all payroll changes made.

Section 5-208a of the General Statutes requires, in cases where a State employee holds multiple job assignments within the same State agency, certification that the duties performed and hours worked are not in conflict with the employee's primary responsibilities to the agency and certification that there is no conflict of interest between or among the positions.

The Federal Office of Management and Budget Circular A-21 calls for the documented confirmation that personal services charges to a Federal 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.

Condition:

- During the audited period, the College paid a part-time Educational Assistant—whose job description called for a Bachelor's degree—the Master's degree pay rate ($19.85 per hour and $21.24 per hour during the 2000-2001 and 2001-2002 fiscal years, respectively). The Board of Trustees of Community-Technical Colleges' policy, however, specified that such employees should have been paid at the Bachelor's degree rate ($16.56 per hour and $17.72 per hour during the 2000-2001 and 2001-2002 fiscal years, respectively). Moreover, Human Resources Office documentation that we reviewed indicated that the employee held only a Bachelor's degree. Further, we found that the College set up Educational Assistant contracts with this employee for about a three-year period, covering July 2000 through June 2003, all at higher rates of pay (Master's degree rates) than the rates required by the Board of Trustees (Bachelor's degree rates). Though a College official claimed that this might have resulted from an agreement reached between the College and the employee's union, the College could not provide us with sufficient documentation to support this deviation from Board policy.

- We found a weak separation of duties with respect to authorizing and implementing pay changes for College classified employees. It was the College's practice to have the Payroll Officer implement payroll changes for classified employees without receiving documented approval from the Human Resources section. Furthermore, we were told that the Human Resources section did not review the State Comptroller's payroll change reports to ensure that all payroll changes made were properly authorized.

- We were told that Part-time Lecturer time card submission was weak during the audited period. Further, we found two cases where Part-time Lecturers did not submit to the Payroll section timecards supporting time worked. Also, we noted one case where the College could not provide us with a notice of appointment to support a payroll payment made to a Part-time Lecturer in May 2002.

- The College informed us that it did not complete dual employment documentation for College employees who also held secondary positions at the College. Section 5-208a of the General Statutes requires, in cases where a State employee holds multiple job assignments within the same State agency, certification that the duties performed and hours worked are not in conflict with the employee's primary responsibilities to the agency and that there is no conflict of interest between or among the positions.

- Though the College administered a Federal grant to which certain employee salaries were charged during the audited period, the College had no time and effort reporting system in place to support the propriety of such charges, as required by Federal OMB Circular A-21. We also noted this condition during our last audit of the College.

Effect:

- The College did not comply with the Board of Trustees of Community-Technical Colleges' policy on rates of pay for part-time Educational Assistants.
- A weak separation of duties between the functions of authorizing and implementing payroll pay changes increases the risk of payroll fraud and errors.
- Lack of time card submission for Part-time Lecturers decreased assurance that such employees actually worked during the time period for which they were paid.
- The College did not fully comply with Section 5-208a of the General Statutes, which requires, in cases where a State employee holds multiple job assignments within the same State agency, certification that the duties performed and hours worked are not in conflict with the employee's primary responsibilities to the agency and that there is no conflict of interest between or among the positions.
- The College did not comply with Federal OMB Circular A-21 with respect to the documentation of payroll costs charged to Federal programs. This decreases assurance that charges made to Federal programs actually applied to these programs.

Cause: Controls and procedures in place were not sufficient to prevent the above conditions from occurring.

Recommendation: The College should strengthen its internal control over its Payroll and Human Resources Department operations by: properly documenting any deviations from the Board of Trustees' policy on pay rates for Educational Assistants; improving its separation of duties between the functions of authorizing and implementing payroll changes for classified employees; increasing and documenting its supervisory review of all payroll changes made; and ensuring that all payroll payments made to Part-time Lecturers are supported by timecards and appointment notices. The College should also improve its compliance with the requirements of Section 5-208a of the General Statutes concerning the documentation needed for dual employment situations and should comply with the requirements of Federal Office of Management and Budget Circular A-21 by implementing a time and effort reporting system to better support its payroll charges to Federal programs. (See Recommendation 1.)

Agency Response: "The College will document deviations from the Board of Trustees' policy on pay rates for Educational Assistants. In October of 2003, the College implemented CORE CT which strengthened the separation of duties between Human Resources (Personnel and Payroll units), improved timecard reporting and the appointment notice process. The College will improve its compliance with requirements of Section 5-208a of the General Statutes concerning the documentation needed for dual employment situations. Due to the implementation of CORE CT, the College postponed its consideration of procedures that would document payroll costs associated with Federal Grant programs. The College will resume its development of these procedures."

Duplicate Vendor Payment:

Criteria: Sound business practices require that adequate controls be in place to prevent the duplicate payment of invoices, and that, if such overpayments occur, proper steps be taken to pursue their recovery.

Condition: We found that a vendor improperly billed the College twice for the same purchase. In March 2001, the College was billed $8,980 for the purchase of exercise equipment for the student government. In April 2001, the College paid this bill. In August 2001, the College was again billed $8,980 for the same equipment. In September 2001, the College processed payment for this invoice.

After we pointed out this overpayment to College officials, the College pursued collection. As of December 2003, no recovery has been made.

In a letter dated December 10, 2003, the College reported this matter to the State Attorney General's Office.

Effect: The College overpaid $8,980 for Student Activity account equipment purchased.

Cause: A vendor billed the College twice for the same purchase even after the College paid the vendor soon after receiving the first bill. It appears that this, combined with a change in the College's method of paying Student Activity bills, led to the overpayment.

During the audited period, the College changed its method of paying for invoices with student activity funds. During the 2000-2001 fiscal year and part of the next fiscal year, the College's Accounting section paid Student Activity Fund invoices through checks drawn on the College's Student Activity Fund checking account. In August 2001, the College, as directed by the Community Colleges' System Office, closed out its Student Activity Fund checking account and transferred the remaining balance of this account to its Operating Fund. From this point on, the College's Accounts Payable section began processing payments connected with Student Activity purchases. In April 2001, the vendor in question billed the College $8,980 for the above purchase; in April 2001, the College's Accounting section paid this bill. In August 2001, this vendor again billed the College $8,980 for the same purchase. This time, the College's Accounts Payable section processed payment for the bill.

Conclusion: As this appears to have been a unique situation, and we noted no other such overpayments during the audited period, we are not making a recommendation regarding this matter.

Personal Service Agreements:

While we noted improvement in the College's handling of personal service agreements, further attention is needed in this area.

Criteria: Sound business practices require that personal service agreement contracts accurately reflect the terms, especially the rates of payment, agreed upon by the parties involved. Further, related payments to such contractors should agree with contract terms.

Condition: We tested payments made during the audited period in connection with 11 of the College's personal service agreement contracts and noted the following exceptions:

In two cases, the College paid contractors higher rates of pay than the rates set in the respective written personal service agreements. The College paid one contractor $55 per hour for services performed; however, the rate recorded on the corresponding personal service agreement was $50 per hour. The College paid another contractor $29 per hour, while the rate recorded on the corresponding personal service agreement was $27 per hour. In both cases, College officials stated that the rates of pay recorded on the contracts were incorrect and that the College paid the contractors at the correct pay rates.

Effect: When contractors are paid at rates of pay that are not consistent with rates established in corresponding written contracts, it casts doubt on whether or not contractors are being paid correct amounts.

Cause: We were told that incorrect rates of pay were erroneously recorded in the personal service agreements in question. Evidently, controls in place were not strong enough to detect these errors.

Recommendation: The College should strengthen its internal control over personal service agreements by taking steps to ensure that rates of pay recorded in such contracts accurately reflect rates of pay agreed upon by the contracting parties. Furthermore, before processing payments to contractors under personal service agreements, the College should verify that amounts billed are consistent with rates of pay set in corresponding personal service agreements.
(See Recommendation 2.)

Agency Response: "The College will remind all Deans and Departmental Directors that modifications to personal service agreements must be documented by an authorized personal service agreement amendment. In addition, the College will review with its staff controls over personal service agreement accounts payables to ensure that the amounts billed are consistent with the rates of pay set forth in the corresponding personal service agreement."

Revenue Producing Agreements:

Background: During the audited period, the College contracted out its bookstore and cafeteria operations. The College provided a bookstore contractor space on campus from which to sell textbooks and other merchandise to the College community. In addition, the College provided a food service vendor space on campus to provide the College community with cafeteria and food vending machine services. In return, both the bookstore contractor and food services contractor paid the College commissions, based on their respective sales revenues.

Criteria: Sound business practices require that significant revenue generating contracts be put out to bid to receive the most beneficial contract terms. Such practices also require that written contracts, signed by both parties, be set up for these agreements.

Condition: In 1993, the College entered into a written agreement with a bookstore contractor covering the period January 1, 1993, through January 1, 1995. This contract was automatically self-renewing for one-year periods unless one of the parties provided 120 days written notice otherwise.

During the audited period--and since the contract's inception--the College let its original two-year bookstore contract renew without seeking competitive bids from other firms.

The College did, however, negotiate new and more favorable terms with its bookstore contractor, setting up an amendment to its original bookstore contract, effective January 1, 2003, through December 31, 2005. The terms of this amended agreement again automatically self-renew for one-year periods unless one of the parties provides 120 days written notice otherwise.

Furthermore, during the audited period, the College had a longstanding agreement with the firm providing its cafeteria and food vending machine operations. Our review of College records showed that this agreement dated back to at least 1994. A College official informed us that the College's original agreement with its food services contractor was set up under emergency circumstances, so the College did not seek competitive bids beforehand. The official also informed us that the College has not subsequently sought competitive bids for these services through the date of our examination of this matter in February 2003.

Furthermore, the College could not provide us with a written contract, signed by both parties, detailing the terms of its food services agreement. Instead, the College had on file other documentation of the contract terms, such as a purchase order and correspondence from the contractor, none of which was signed by both parties.

Effect: The College lacked assurance that it received the most beneficial contract terms, a situation which may have resulted in the College not maximizing its potential revenue. Also, in the case of the food services agreement, lack of a formal written contract reduced assurance that the terms of the agreement were approved by authorized representatives from each of the parties involved.

Cause: A College official told us that the College chose to continue doing business with its current bookstore and cafeteria vendors, because these contractors have consistently provided good service to the College community.

Recommendation: The College should solicit bids for revenue generating operations, such as its bookstore and cafeteria, before contracting with vendors to run such operations. The College should also ensure that all revenue-generating arrangements with independent contractors are spelled out in the form of a written contract signed by the parties involved. (See Recommendation 3.)

Agency Response: "The College entered into a written agreement signed by both parties to contract with a cafeteria vendor for the period of August 1, 2003 to July 31, 2006. This contract was awarded through an open and competitive bidding process. The College agrees that a competitive bidding process is desirable. It will review the terms and conditions of its bookstore vendor contract in conjunction with other bookstore contractual agreements system-wide prior to its expiration on December 31, 2005 to determine an appropriate course of action."

Student Event Revenue:

Criteria: The State Comptroller's *Accounting Procedures Manual* for Activity Funds and Welfare Funds provides the method to account for income derived from revenue producing social events. The Manual requires that prenumbered tickets be used, that ticket numbers issued, used and unused be properly accounted for and documented, and that all unsold tickets be promptly turned in to the Business Office. The Manual further requires that within ten business days after each social event, a financial report should be prepared itemizing the income and expenditures and showing the accountability of tickets.

Condition: We saw evidence indicating that, during the audited period, College student organizations held revenue-generating events, such as dances and trips. However, corresponding accountability reports or equivalent documentation identifying tickets issued, tickets sold, and total event receipts and disbursements were not prepared. Nor were unused tickets, if any, retained and turned in to the College Business Office.

A College official informed us that while receipts generated from student events are turned in to the College Business Office, associated documentation, such as unused tickets, is not forwarded to the Business Office. The official added that ticket and income and expenditure accountability reports are not prepared for such events.

Effect: Assurance was lessened that all income generated from student social events was properly forwarded to the College Business Office for bank deposit.

Cause: College officials did not recognize the internal control weakness associated with the above condition.

Recommendation: The College should improve internal control over revenue producing student events by strengthening accountability over corresponding tickets issued, tickets sold and tickets unsold, as detailed in the State Comptroller's *Accounting Procedures Manual* for Activity Funds and Welfare Funds. (See Recommendation 4.)

Agency Response: "The College will develop internal procedures to strengthen controls over revenue producing ticketed student events."

Tuition and Fee Waivers:

Compared to our last audit, we saw some improvement in the College's internal control over tuition and fee waivers granted. Nevertheless, further improvement is needed.

Criteria: Section 6.5.3 of the Board of Trustees of Community-Technical Colleges' *Policy Manual* provides for the waiver of tuition and certain fees at the Community Colleges for certain Community College system employees, their spouses and their dependents.

In addition, the Board of Trustees of Community-Technical Colleges' Employee Relations Memorandum #96-17, dated April 25, 1996, defines a dependent child for tuition waiver purposes as a child who the employee claimed as a dependent on his/her tax return.

Condition: As noted in our previous audit, during the audited period, the College's Human Resources Department (the department primarily charged with approving waivers) did not require College employees to submit tax returns as evidence of dependency or spousal status prior to its approving waivers for tuition and fees.

Rather, the Human Resources Department relied on other documentation, its observations or other evidence when deciding whether or not to approve such employee tuition waivers. These controls were not adequate.

Furthermore, we found a case where, for a Summer 2002 term course with charges amounting to $150, the College Business Office granted an employee tuition waiver to a student who claimed that she was a dependent of a College employee. This occurred even though a College employee with the authority to approve tuition waivers did not sign the College's employee tuition waiver form as certification that this student was eligible for a waiver. After we brought this case to the College's attention, the College later determined that this student, in fact, was not eligible for an employee dependent tuition waiver. In February 2003, the College collected restitution totaling $150 in connection with this case.

Effect: Internal control over employee tuition waivers granted was weak, resulting in the College granting a waiver to an ineligible person.

Cause: The College considered its controls over employee tuition waivers adequate. It was also believed that requesting employee tax returns would create employee relations problems.

Recommendation: The College should strengthen its internal control over employee tuition waivers granted for employee dependents or spouses by, among other things, requiring the submission of tax returns to verify eligibility for such waivers. (See Recommendation 5.)

Agency Response: "All policies and procedures relating to employee tuition waivers are in accordance with the Board of Trustees policy. Therefore, the College will forward this recommendation to the Board Office for their review and action."

Auditor's Concluding Comments:

Given the exceptions that we noted in tuition and fee waivers granted in both our previous and current audits of the College, we believe that implementing the measures described above is warranted and would help reduce the risk of granting tuition and fee waivers to ineligible recipients. Our recommendation is consistent with the Board of Trustees' policy, which states, "…the Board/College reserves the right to require submission of tax returns to substantiate a claim of spousal or dependent child status [with respect to tuition waivers]…."

Property Control:

We found significant improvement in the College's internal control over its equipment during the audited period. Additional improvement is, however, needed.

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.

Condition:

- We tested 15 equipment items purchased during the audited period, each with a cost of $1,000 or more, and found that four items (27 percent), amounting to $8,980, were not recorded in the College's inventory control records. In addition, six items were not tagged with State identification numbers.

- We tested the accuracy of ten inventory control records and found that two equipment items, amounting to $3,305, were recorded in these records even though the College no longer possessed the items.

Effect: Internal control over equipment was weakened, increasing the chance that loss or theft of equipment will go undetected. Also, the College did not fully comply with the State of Connecticut's *Property Control Manual*.

Cause: The College has told us that it is understaffed in the property control area.

Recommendation: The College should improve controls over its property by following the property control requirements set forth by the State Comptroller. (See Recommendation 6.)

Agency Response: "The Director of Finance, the Director of Information Technology, the Director of Facilities and other appropriate staff will review the College's internal control measures to continue to strengthen property control procedures."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **Improve internal controls over purchases by requiring that appropriate officials approve all purchase requisitions before goods or services are procured.** In our current audit, we noted significant improvement in this area. The recommendation, therefore, is not being repeated.

- **Comply with the State Comptroller's *Accounting Procedures Manual* for 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.** Our current audit showed improvement here: We noted no unallowable Student Activity or Welfare Fund expenditures; and the Student Activity expenditures that we tested were approved in student government meeting minutes. Therefore, the recommendation is not being repeated.

- **Improve controls over property by following the property control requirements set forth by the State Comptroller.** We noted significant improvement in the College's internal control over its property. In contrast to our last audit: Physical inventories of College equipment were completed during the audited period. Additionally, our test of equipment purchased during the audited period showed that most of the items tested were added to College inventory control records. However, further improvement is needed. Therefore, the recommendation is being repeated. (See Recommendation 6.)

- **Improve both 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.** For the current audited period, we noted improvement in personal service agreement internal control and compliance in certain areas. Specifically, our testing revealed: that College personal service agreements were, generally, approved in a timely manner; that there was signed certification that corresponding services were received; and that there was compliance with Section 1-84 of the General Statutes concerning the awarding of certain contracts to State employees in an open and public manner. However, continued improvement in internal control is needed in other areas. We tested 11 personal service agreements and found two cases where the College paid the contractor a rate of pay higher than the rate set in the corresponding personal service agreements. The recommendation is, therefore, being repeated, this time emphasizing that rates of pay stipulated in personal service agreements reflect amounts agreed upon and paid to contractors. (See Recommendation 2.)

- **Develop procedures to ensure the affiliated Foundation complies with statutory sections, especially Section 4-37f of the General Statutes, dealing with foundations.** Improvement was noted for the current audited period. The recommendation is not being repeated.

- **Develop and implement procedures that provide adequate internal controls for the billing and receipts functions related to Business and Industry Services Department courses.** We noted improvement during our current examination. The recommendation is, therefore, not being repeated.

- **Develop and implement a time and effort reporting system for documenting payroll costs associated with its Federal grant programs, as required by Office of Management and Budget Circular A-21.** The College did not implement the recommendation. Therefore, the recommendation is being repeated and incorporated into our broader recommendation on Human Resources and Payroll Department operations. (See Recommendation 1.)

- **Develop better controls over granting tuition and fee waivers to students.** During our current audit, we noted improvement in the College's internal control over tuition and fee waivers granted to senior citizens. However, internal control over such waivers granted to employees' dependent children and spouses remained weak. The recommendation is therefore being repeated with modification, now stressing the need for improved control over the granting of tuition and fee waivers to employee dependents and spouses. (See Recommendation 5.)

Current Audit Recommendations:

1. **The College should strengthen its internal control over its Human Resources and Payroll Department operations by: properly documenting any deviations from the Board of Trustees' policy on pay rates for Educational Assistants; improving its separation of duties between the functions of authorizing and implementing payroll changes for classified employees; increasing and documenting its supervisory review of all payroll changes made; and ensuring that all payroll payments made to Part-time Lecturers are supported by timecards and appointment notices. The College should also improve its compliance with the requirements of Section 5-208a of the General Statutes concerning the documentation needed for dual employment situations and should comply with the requirements of Federal Office of Management and Budget Circular A-21 by implementing a time and effort reporting system to better support its payroll charges to Federal programs.**

   Comment:

   During the audited period, the College paid a part-time Educational Assistant a higher rate of pay than the rate specified by the Board of Trustees of Community-Technical Colleges' policy. Further, we found that the College set up Educational Assistant contracts with this employee for about a three-year period, covering July 2000 through June 2003, all at higher rates of pay than the rates required by the Board of Trustees. The College could not provide us with sufficient documentation to support this deviation from Board policy. Also, we found a weak separation of duties with respect to authorizing and implementing pay changes for College classified employees. Furthermore, we were told that the Human Resources section did not review the State Comptroller's payroll change reports to ensure that all payroll changes made were properly authorized. Plus Part-time Lecturers did not always submit time cards supporting time worked to the Payroll section. Also, we noted one case where the College could not provide us with a notice of appointment to support a payroll payment made to a Part-time Lecturer in May 2002. Moreover, the College informed us that it did not complete dual employment documentation for College employees who also held secondary positions at the College, as required by Section 5-208a of the General Statutes. Further, though the College administered a Federal grant to which certain employee salaries were charged during the audited period, the College had no time and effort reporting system in place to support the propriety of such charges, as required by Federal OMB Circular A-21.

2. **The College should strengthen its internal control over personal service agreements by taking steps to ensure that rates of pay recorded in such contracts accurately reflect rates of pay agreed upon by the contracting parties. Furthermore, before processing payments to contractors under personal service agreements, the College should verify that amounts billed are consistent with rates of pay set in corresponding personal service agreements.**

Comment:

In two cases, the College paid contractors higher rates of pay than the rates set in the respective written personal service agreements. In both cases, College officials stated that the rates of pay recorded on the contracts were incorrect and that the College paid the contractors at the correct pay rates.

3. **The College should solicit bids for revenue generating operations, such as its bookstore and cafeteria, before contracting with vendors to run such operations. The College should also ensure that all revenue-generating arrangements with independent contractors are spelled out in the form of a written contract signed by the parties involved.**

Comment:

During the audited period, the College let its original two-year bookstore contract renew for one–year periods without seeking competitive bids from other firms. The College did, however, negotiate new and more favorable terms with its bookstore contractor, setting up an amendment to its original bookstore contract, effective January 1, 2003, through December 31, 2005. Furthermore, during the audited period, the College continued its longstanding agreement with the firm providing its cafeteria and food vending machine operations. However, a College official informed us, the College did not seek competitive bids for these services through the time of our examination of this matter in February 2003. Furthermore, the College could not provide us with a written contract, signed by both parties, detailing the terms of its food services agreement.

4. **The College should improve internal control over revenue producing student events by strengthening accountability over corresponding tickets issued, tickets sold and tickets unsold, as detailed in the State Comptroller's *Accounting Procedures Manual* for Activity Funds and Welfare Funds.**

Comment:

During the audited period, College student organizations held revenue-generating events, such as dances and trips. However, corresponding accountability reports or equivalent documentation identifying tickets issued, tickets sold, and total event receipts and disbursements were not prepared. Nor were unused tickets, if any, retained and turned in to the College Business Office.

5. **The College should strengthen its internal control over employee tuition waivers granted for employee dependents or spouses by, among other things, requiring the submission of tax returns to verify eligibility for such waivers.**

Comment:

As noted in our previous audit, during the current audited period, the College's Human Resources Department (the department primarily charged with approving waivers) did not require College employees to submit tax returns as evidence of dependency or spousal status prior to its approving waivers for tuition and fees. Furthermore, we found that, for a Summer 2002 term course with charges amounting to $150, the College Business Office granted an employee tuition waiver to a student who was not eligible for such a waiver.

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

Comment:

We tested 15 equipment items purchased during the audited period, each with a cost of $1,000 or more, and found that four items (27 percent), amounting to $8,980, were not recorded in the College's inventory control records. Six of these items were not tagged with State identification numbers. Also, we tested the accuracy of ten inventory control records and found that two equipment items, amounting to $3,305, were still recorded in these records even though the College no longer possessed the items.

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, 2001 and 2002. 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, 2001 and 2002, 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, 2001 and 2002, 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.

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 material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or failure 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 entity being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over the College's financial operations that we consider to be material or significant weaknesses.

However, we noted certain matters involving the internal control over the College's financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

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.

Daniel F. Puklin
Principal Auditor

Approved:

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