STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF HIGHER EDUCATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

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

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October 4, 2002

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

We have examined the financial records of the Department of Higher Education for the fiscal years ended June 30, 2000 and 2001. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification, which follow.

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

COMMENTS

FOREWORD:

The Department of Higher Education, which serves as the administrative arm of the Board of Governors for Higher Education, operates, generally, under Sections 10a-1 through 10a-55c and 10a-161 through 10a-171 of the General Statutes.

The Board of Governors for Higher Education appoints the Commissioner of Higher Education in accordance with Section 10a-5 of the General Statutes. In accordance with Section 10a-6 of the General Statutes, the Board of Governors for Higher Education is also responsible for establishing a Statewide policy for Connecticut's system of public higher education. This responsibility includes: establishing a master plan for higher education and postsecondary education, establishing Statewide tuition and financial aid policies, the preparation of consolidated budgets, the review and comment on operating and capital expenditure requests from constituent units of the higher education system, the licensure and accreditation of higher education institutions, and the continued development and maintenance of a central higher education information system.

Board of Governors and Officials:

The Board of Governors for Higher Education consists of eleven members appointed pursuant to Section 10a-2 of the General Statutes. Seven members of the Board are appointed by the Governor and the remaining four by designated members of the General Assembly. The President Pro Tempore of the Senate, Minority Leader of the Senate, Speaker of the House of Representatives and Minority Leader of the House of Representatives each appoint one member to the Board.

As of June 30, 2001, membership of the Board of Governors was as follows:

James H. Bates
William A. Bevacqua
Dorothea E. Brennan
Leonard S. Cohen
Joan B. Kemler
Dorothy B. Leib, M.D.
Alice V. Meyer
Harry H. Penner Jr.
Albert B. Vertefeuille
Patricia M. Vissepo

As of June 30, 2001, the Board had one vacancy; Frank W. Ridley was appointed to the Board in September 2001. Lile R. Gibbons also served as a Board member during the audited period.

In addition, pursuant to Section 10a-2 of the General Statutes, the Board of Governors is to elect a chairperson from its membership. Alice V. Meyer served as chairperson until November 17, 1999, when Albert B. Vertefeuille was elected chairperson. He continued to serve in that capacity through the rest of the audited period.

Section 10a-5 of the General Statutes provides for the appointment of a Commissioner of Higher Education. Valerie F. Lewis served as Interim Commissioner of the Department of Higher Education from June 1, 1999, until November 15, 2000, when she was appointed Commissioner. She continued to serve in that capacity through the audited period.

Recent Legislation:

The Public Acts shown below either became effective or were passed during the audited period and significantly affected the operations of the Department of Higher Education.

Public Act 00-187, effective July 1, 2000, amended Section 10a-20a subsection (c) of the General Statutes by increasing the limits on grants from the Endowed Chair Investment Fund for the University of Connecticut, and the State University system from $750,000 to $1,000,000.

Public Act 00-187 establishes an information technology scholarship pilot program, an information technology loan reimbursement pilot program, and appoints the Commissioner of Higher Education as a member of the Commission for Educational Technology and requires the Board of Governors of Higher Education to work with the State Board of Education and the Department of Information Technology to establish a Connecticut Education Network, which will electronically link all of the educational institutions in the State. The Connecticut Education Network will include a Connecticut Digital Library, which will be jointly administered by the Department of Higher Education and the State Library.

Public Act 00-187 also required the Department of Higher Education, working with the State Fire Marshal, to jointly study the need for changes in the State Fire Code for college dormitories. A report on that study was to be submitted to specified committees of the General Assembly by January 1, 2001.

Public Act 00-220, effective July 1, 2000, eliminated the 50-person cap on the number of minority students receiving grants from the Minority Teacher Incentive Program. It further amended Section 10a-6b of the General Statutes by adding the requirement that each constituent unit of higher education submit an accountability report to the Commissioner of Higher Education by January 1, 2001. The Commissioner is to compile and consolidate such reports and submit an accountability report to the Education Committee of the General Assembly by February 1, 2001. The report is to cover the entire higher education system of the State and each constituent unit and include the accountability measures previously developed and approved under this Section.

Public Act 00-220 also added the requirement that the Commissioner of the Department of Higher Education, with the concurrence of the Higher Education Coordinating Council, develop a prototype accountability report that will include those accountability measures developed and approved under Section 10a-6b. The prototype report was to be submitted to the Education Committee of the General Assembly by October 1, 2000.

In addition, Public Act 00-220 requires the Board of Governors for Higher Education, jointly with the Department of Economic and Community Development to conduct an educational and economic impact analysis of the planned relocation of Three Rivers Community-Technical College. The Board of Governors is to forward its findings to the Board of Trustees for the Community-Technical Colleges and the State Bond Commission.

Public Act 01-89, effective July 1, 2001, amended Section 10a-39 of the General Statutes by requiring the Board of Governors for Higher Education to increase the annual appropriation request for the Connecticut Independent College Student Grant program from 17 to 25 percent of the General Fund spending for each full time equivalent University of Connecticut and State University student for appropriations made for the fiscal year ending June 30, 2004, and each fiscal year thereafter.

Public Act 01-141, effective July 1, 2001, amended various sections of the General Statutes by extending the State commitment to the Endowment Fund for the Community-Technical College System, the Endowment Fund for the Connecticut State University System, the Endowment Fund for the University of Connecticut and the Endowment Fund for the Charter Oak State College to June 30, 2014. Public Act 01-141 also amended the General Statutes by increasing some of the annual matching grant limits for such endowment fund donations, limiting the maximum commitment to the Endowment Fund for the Community-Technical College System to $39,500,000, limiting the maximum commitment to the Endowment Fund for the University of Connecticut to $177,500,000, limiting the maximum commitment to the Endowment Fund for the Charter Oak State College to $900,000 and, effective October 1, 2001, and with certain restrictions, making donations to the foundations of individual Connecticut State University universities retroactively eligible for State matching grants.

Public Act 01-173, Section 52, effective July 1, 2001, amended Section 10a-6b of the General Statutes, by requiring each constituent unit of higher education to submit, on January 1, of each year, annual accountability reports to the Commissioner of Higher Education. The Commissioner is to annually compile and consolidate such reports and submit a consolidated accountability report for the State system of higher education to the Education Committee of the General Assembly by February 1, of each year. Section 37 of that same Public Act also reduced, from five percent to two percent, the share of funds in the Minority Teacher Incentive Program that can be used for program administration, promotion, and recruitment and retention activities. This provision became effective on July 6, 2001.

RÉSUMÉ OF OPERATIONS

General Fund:

General Fund receipts totaled $4,409,020 and $6,722,104 during the fiscal years ended June 30, 2000 and 2001, respectively. Receipts during the audited period consisted mainly of Federal grants and deposits to the Private Occupational School Student Protection Account. A summary of General Fund receipts for the fiscal years ended June 30, 1999, 2000 and 2001 follows:

	1998-1999	1999-2000	2000-2001
Federal aid receivable collections	$4,032,239	$3,168,782	$5,555,864
Refunds of expenditures	97,872	159,453	148,499
Refunds of prior year expenditures	35,803	93,569	75,159
Federal Grants - Restricted	722,205	710,802	579,019
Grants - Other than Federal	274,844	261,100	343,368
Miscellaneous receipts	13,088	15,314	20,195
Total Receipts	**$5,176,051**	**$4,409,020**	**$6,722,104**

Total receipts increased over the audited period primarily because of additional Federal aid receivables. The Department participated in several Federal grant programs. The two most significant Federal grant programs were the Connecticut Commission on National and Community Service (AmeriCorps) program, funded by the Corporation for National Service; and the Gaining Early Awareness and Readiness for University Programs (GEAR UP) program funded by the U.S. Department of Education.

General Fund expenditures totaled $57,718,517 and $64,751,266 during the fiscal years ended June 30, 2000 and 2001, respectively. A comparative summary of General Fund expenditures from Department appropriations for the fiscal years under review and the preceding fiscal year follows:

	1998-1999	1999-2000	2000-2001
Personal services	$ 2,184,654	$ 2,531,421	$ 2,437,030
Contractual services	681,527	956,852	980,483
Commodities	32,811	39,050	37,013
Grants	35,253,652	49,933,365	54,682,255
Capital outlay	28,655	38,195	6,735
Total Budgeted Accounts	38,181,299	53,498,883	58,143,516
Restricted Appropriations	4,949,956	4,219,634	6,607,750
Totals	**$43,131,255**	**$57,718,517**	**$64,751,266**

Expenditures from budgeted appropriations changed significantly during the audited period, primarily from increases in payments of State Aid Grants. Grant expenditures increased by $14,679,713 or 42 percent, in the 1999-2000 fiscal year, as compared to the previous fiscal year; and by $4,748,890 or 10 percent in the 2000-2001 fiscal year as compared to the 1999-2000 fiscal year. These expenditures primarily involved grants to colleges for distribution to eligible students. A listing of the most significant student aid programs and total expenditures for the fiscal years audited follows:

	1999-2000	2000-2001
Independent College Student Grant program	$16,949,378	$18,776,929
Aid for Public College Students program	$14,552,940	$19,759,261
Capitol Scholarship program	$ 5,246,248	$ 5,317,010
Minority Advancement program	$ 3,093,045	$ 2,374,497

Expenditures for the Higher Education State Matching Grant Fund program totaled $8,622,229 and $6,392,821 for the 1999-2000 and 2000-2001 fiscal years, respectively. This program makes grant payments to State colleges and universities in matching amounts to private donations to those institutions. In the 2000-2001 fiscal year two new programs, the Statewide Digital Library and the Information Technology Scholarship Program were introduced, expenditures for the 2000-2001 fiscal year for those programs totaled $997,894, and $683,206, respectively.

Personal services expenditures increased from the 1998-1999 fiscal year to the 1999-2000 fiscal year, primarily due to an increase in staffing from 40 full time employees as of June 30, 1999 to 46 full time employees as of June 30, 2000. During the same period, the number of part time employees increased from five to six. The number of full time and part time employees as of June 30, 2001 was 47 and 5, respectively. Also adding to the total personal services expenditures in 1999-2000 fiscal year was a severance package paid to the retiring Commissioner.

Contractual services expenditures for both budgeted accounts and restricted appropriations increased by $296,426 during the 1999-2000 fiscal year, and further increased by $964,680 during the 2000-2001 fiscal year, reflecting changes in the amount of fees for outside consulting services paid during the audited period. The increases were primarily the result of the contracts with service providers that were charged to the State matching share of the GEAR UP Federal program.

Restricted account activity during the audited years consisted mainly of the administration of Federal grant programs. Expenditures for the AmeriCorps Federal program totaled $1,428,918 and $2,169,298 for the 1999-2000 and 2000-2001 fiscal years, respectively. Expenditures for the GEAR UP Federal program totaled $177,249 and $1,892,399 for the 1999-2000 and 2000-2001 fiscal years, respectively.

Endowed Chair Investment Fund:

The Department, under Section 10a-20a of the General Statutes, administers a fiduciary fund for endowed chairs at the University of Connecticut, the University of Connecticut Health Center, and the State University System. The distribution of earnings from the Fund to the various chairs totaled $157,133 and $232,411, respectively, during the 1999-2000 and 2000-2001 fiscal years. The Endowed Chair Investment Fund had a fund balance of $4,763,201 as of June 30, 2001. The Governor William A. O'Neill Endowed Chair in Public Policy was added during the audited period; it received initial funding of $1,000,000 in State appropriations.

Academic Scholarship Loan Program Fund:

The Academic Scholarship Loan Program Fund was established under the provisions of Section 10a-163a of the General Statutes. Receipts from loan repayments totaled $76,954 and $39,064 during the 1999-2000 and 2000-2001 fiscal years, respectively. Disbursements from the Academic Scholarship Loan Program Fund totaled $3,503 and $175 during the 1999-2000 and 2000-2001 fiscal years, respectively. These expenditures consisted of loan servicing and administrative expenses.

The Academic Scholarship Loan Program Fund had a fund balance of $488,638 as of June 30, 2001. Loans from the Fund are forgiven if the recipients perform certain teaching services as provided by Section 10a-170i of the General Statutes. As of June 30, 2001, the total amount of loans and interest receivable was $307,866. Out of this amount, the Department lists $45,430 as being in default and uncollectible, and $130,132 as deferred, due to the student being in hardship or in the process of fulfilling the requirement for teaching service.

Teacher Incentive Loan Program Fund:

The Teacher Incentive Loan Program Fund was established under Section 10a-163a of the General Statutes. Receipts of the Fund totaled $2,408 and $2,173 during the 1999-2000 and 2000-2001 fiscal years, respectively, and consisted of loan repayments. There were no disbursements from the Teacher Incentive Loan Program Fund during the 1999-2000 and 2000-2001 fiscal years.

The Teacher Incentive Loan Program Fund had a fund balance of $61,099 as of June 30, 2001. Loans from the Fund are forgiven if the recipients perform certain teaching services as provided by Section 10a-163 subsection (f) of the General Statutes. The total amount of loans receivable was $4,770 as of June 30, 2001, with $3,671 listed as being in default.

Private Occupational School Student Protection Account:

The Private Occupational School Student Protection Account is established by Section 10a-22u of the General Statutes and is administered by the Commissioner of Higher Education. It was established to maintain a reserve of resources to refund tuition paid by students to schools that subsequently become insolvent or ceased operation. In accordance with Section 10a-22u subsection (a) of the General Statutes, the account is also assessed for the personnel and administrative expenditures for the oversight and registration of private occupational schools.

Cash receipts of the account totaled $207,992 and $248,070 during the 1999-2000 and 2000-2001 fiscal years, respectively, and consisted of assessments to the schools and interest earned. Disbursements from the account, primarily for the administrative expenses of registering private occupational schools, totaled $174,630 and $175,628 during the 1999-2000 and 2000-2001 fiscal years, respectively. The account had a cash balance of $3,553,353 as of June 30, 2001.

Capital Equipment Purchase Fund:

Equipment purchases from the Capital Equipment Purchase Fund totaled $19,901 and $32,139 during the 1999-2000 and 2000-2001 fiscal years, respectively. These purchases consisted mainly of office and electronic data processing equipment.

PROGRAM EVALUATION:

Our audit included a program evaluation of the Department's implementation of new accountability measures. The new measures were required by the General Assembly as a result of the passage of Public Acts 99-285, 00-220 and 01-173. These public acts were codified in the General Statutes as Section 10a-6a, which establishes the Higher Education Coordinating Council, and requires the Council to develop accountability measures for higher education; and Section 10a-6b, which requires the Board of Trustees for Higher Education to review and approve the measures, and requires the Department of Higher Education and each constituent unit of higher education to apply those measures, and for the Commissioner of Higher Education to report on them.

The development of new accountability measures began in 1998 when the Board of Trustees for Higher Education established a Performance Measures Task Force. This was an effort to progress beyond the biennial institutional assessments that have been required, since 1992, by Section 10a-156 of the General Statutes. Until its repeal in July 2000, Section 10a-156 required each public institution of higher education to implement a process of institutional assessment and continuous improvement, and; biennially report on the progress of institutional assessment and institutional improvements as a result of such assessment to the Commissioner of Higher Education and the General Assembly. Those reports were based on the constituent unit level of higher education, rather than by individual institutions. The introduction of new accountability measures was designed to introduce a set of more understandable and more effective measures and goals for both the General Assembly and constituent units alike.

Based on the work of the Task Force, the Board of Governors for Higher Education introduced a performance based investment strategy in its 1999-2001 biennial budget recommendations for the constituent units of higher education. It proposed that an investment in additional funds of up to five percent of annual appropriations be set aside for specific performance linked initiatives. The Governor did not adopt this proposal for the budget. Out of that proposal, however, grew the requirements established by Public Act 99-285.

Public Act 99-285, required the Commissioner of Higher Education to report to the General Assembly with recommendations: 1. For any statutory changes needed for assessing the constituent units and public institutions of higher education based on the accountability measures; 2. To clarify and streamline planning and accountability reporting requirements for such units; 3. Concerning goals, actions to achieve such goals, and analysis of performance; 4. For any options to revise budgeting policies and programs to meet accountability goals and measures created. This report was required to be submitted by February 1, 2000.

The accountability measures developed were to be used by the Department of Higher Education and each constituent unit of higher education in assessing the progress toward meeting the following goals specifically detailed in Section 10a-6b of the General Statutes:

1. To enhance student learning and promote academic excellence;
2. To join with elementary and secondary schools to improve teaching and learning at all levels;
3. To ensure access to and affordability of higher education;
4. To promote the economic development of the State to help business and industry sustain strong economic growth;
5. To respond to the needs and problems of society;
6. To ensure the efficient use of resources.

Public Act 00-220 required the implementation of the proposed accountability measures; it required the Department of Higher Education to, by October 1, 2000, submit to the General Assembly a prototype accountability report. It required each constituent unit of higher education to submit an accountability report to the Commissioner of Higher Education by January 1, 2001. It also required the Commissioner to compile and consolidate those reports and submit an accountability report that covers the entire higher education system of the State and each constituent unit to the Education Committee of the General Assembly by February 1, 2001. The report was to cover the entire higher education system of the State and each constituent unit and include the accountability measures previously developed and approved under this Section. Public Act 01-173 made the preparation and submission of these reports an annual requirement effective as of July 1, 2001.

Our audit reviewed the accountability measures developed and the reports that were prepared. We found all of the required reports were prepared and submitted on time as required by statute. Because of difficulties with the collection of certain data, some of the proposed measures were substituted, dropped, or will not be reported on until future years. Our review primarily focused on three of the six goals - "to enhance student learning," - "to ensure access to and affordability of higher education," and - "to ensure the efficient use of resources." We compared the selected goals with measures used in other States and between the levels of constituent units of higher education within the State. Our review of these goals and the corresponding system measures found they addressed the intent and requirements of the Statute. However, we did observe that some of the measures needed refinement.

For example, we noted that the goal of "to enhance student learning" appeared to be the most difficult to quantify. Each of the constituent units was granted a differing measure; generally one that we believe is not easily quantified. For example, at the University of Connecticut - "demonstrating written communications and quantitative analysis skills" was selected; however, it was not reported on using specific data. At the Connecticut State University System it was the "percent of graduates that reported the curriculum enhanced general education skills," and at the Community Technical Colleges it was the total number of graduates.

At the Connecticut State University System, graduation rates for transfer students from the Community Technical Colleges are not included as a measure for the goal of "to enhance student learning," although the University of Connecticut did report them. Also, student performance on licensure and certification exams is used as a measure for that same goal at the University of Connecticut, the Community Technical Colleges, and at peer institutions; however, at the Connecticut State University System, it was listed as an "using external assessment feedback to improve curricula" measure that also included program accreditation for the goal of "improving teaching and learning at all levels" which addresses primary and secondary school education.

As another example we found that, under the goal of "to ensure access to and affordability of higher education," the amount of financial aid available and the level of minority enrollment was measured in different ways at different constituent units, and non-degree / non-credit enrollment was a measure for the access and affordability goal at the University of Connecticut, not reported at all for the Connecticut State University System, and listed as a measure for the goal of responsiveness to societal needs at the Community Technical Colleges.

The goal of "to ensure the efficient use of resources" appeared to be the least problematic for which to develop measures. However, as noted above, the accountability measures could have been made more comparable among all constituent units, and with peer institutions. We found that the Community Technical Colleges did not report retention rates or graduation rates at all, under any of the established goals. We believe that it should be included as a basic measure of performance and service. A similar condition was noted with the reporting of the ratio of administrators to staff, it was included as an accountability measure at the University of Connecticut, but not by any other constituent unit.

We believe that, even given the different and distinct missions that each constituent unit of the State's higher education system has, more common and comparable accountability measures could be employed. We noted some of the accountability measures addressing student satisfaction, employer satisfaction, access and affordability and resource efficiency, could be reported on a consistent basis and could be comparable across all constituent units and with peer institutions. Our research of similar efforts made by other States found performance measures that were applied directly across the State's entire system of public higher education. They served to provide information on the relative effectiveness of each component; and were such basic measures as class size, student/faculty ratio, and accreditation of programs or the placement rates of graduates. Including these kinds of measures would facilitate comparisons with the selected peer institutions.

A uniform survey of student satisfaction in the areas of student learning and financial assistance covering the entire system of higher education could be included. The level of student satisfaction in the area of facilities infrastructure or instructor availability could also be considered as a potential measure. Also, we noted that other States used the number of courses taught by full time, rather than part time faculty or graduate assistants as a measure. In the area of helping to address the goal to improve primary and secondary education, we believe an accountability measure linking retention and graduation rates of college students to the secondary school they came from could also be considered.

Our review of other States also found that such measures were used in the application of performance based funding, in which goals attainment would direct resource allocation decisions. As an example, the State of South Carolina has developed a performance-funding plan with two components - 1. A determination of financial need based on what the institution with a similar size and programs of study should receive nationally as compared to comparable institutions; 2. A performance rating that is based on a set of quality indicators. The performance rating score is used as a factor to determine if an institution is entitled to a greater or lesser share of its financial need. This plan is not used for determining the entire higher education budget, but rather requests for available supplementary appropriations. As noted above, a similar proposal was made for the Connecticut budget, but it was not adopted. As the measures described above develop over time, they could be used to implement some type of performance based budgeting that would provide incentives for improvement.

The application of such performance measures in a complex environment is by necessity a difficult and continuing process, and it appears that further work will need to be done. Goals and measures will be refined over time, and some measures will be deleted and replaced with more effective ones. We noted as data is collected over time, year-to-year comparisons could be developed to provide trend lines. The potential advantages resulting from applying accountability measures would be worth the work necessary. This follows a trend that has been established in all levels of education, and in government.

Our review of the new accountability measures leads us to conclude that the Department is moving in the direction of achieving the desired results established by the General Assembly and is implementing the program in an effective manner. However, we are recommending some improvements, because, as noted above, some accountability measures appear to be applied inconsistently. We recognize the effort made, and encourage the further refinement of these accountability measures.

Refinement of Accountability Measures:

Criteria: Accountability measures should be based on common and familiar criteria, reported on a consistent basis and directly comparable with peer institutions of other States. In addition, some measures could and should be directly comparable within each constituent unit of the State's higher education system.

Condition: Our review of the accountability measures developed under Section 10a-6a Subsection (b) of the General Statutes found that some of the accountability measures that addressed student satisfaction, employer satisfaction, access and affordability and resource efficiency were not reported on a consistent basis across all constituent units and readily comparable with peer institutions.

Effect: Data resulting from the application of these measures was not directly and readily comparable. As a result, the effectiveness of such measures was reduced.

Cause: Each of the constituent units of the State's system of higher education developed their own accountability measures. The developers of the measures indicated that because of the special and distinct missions that each constituent unit of the State's higher education system has, they would be using comparable or "peer" institutions that have similar missions and characteristics.

Recommendation: The accountability measures developed by the Higher Education Coordinating Council should be refined to provide greater comparability. (See Recommendation 1.)

Agency Response: "The Department agrees with the overall recommendation of refining at least a portion of the measures to provide greater comparability. However, we must emphasize the importance of recognizing and reporting on the different roles and missions of each of our constituent units of higher education. In fact, the Department has been working over the last two months to restructure a set of ten common core measures that will be reported by all institutions across the system in the February 2003 report. As approved by the Board of Governors at the June 19, 2002 meeting, these ten measures will be defined, measured and reported consistently. Over the next several months, each constituent unit has been charged with streamlining their "mission specific" measures to hone in on those that are most critical and which provide the best evidence of their unique performance against the six state goals. At the same time, the Department is reviewing and revising the overall system measures to ensure that they adequately capture performance at a statewide level.

With regard to some of the specific comments made about issues of consistency and comparability, the Department offers the following comments:

- We agree with the statements that at least some level of performance-based funding would provide an excellent incentive for improving performance on the state's priority goals

- About 35 percent of the measures for the University of Connecticut, Connecticut State University and Community-Technical College system are or will be compared to peer institutions using consistent definitions and measurement. Examples include: Real Price to Students, Real Cost to Students, Graduate Rates, Retention Rates, and Research Funding

- In addition, each institution has or will be identifying performance improvement targets

- For many measures, five-years of baseline information has been reported (or will be reported). It is the Department's goal to have at least five-years of data, wherever possible, with annual updates to allow both year-to-year and trend analysis

- Our discussions and interactions with other states indicated that they face similar problems of data consistency and comparability. The Department will continue to stay current with developments in other states, and share from our experiences, as well.

- Presently, there are no national standards or commonly accepted surveys for assessing student or employer satisfaction. This seriously impedes Connecticut's ability to compare satisfaction results with that of peer institutions. Should these types of outcome assessment tools be developed in the future, the Department would certainly take advantage of them, assuming funding to do so is appropriated.

- Since our constituent units serve different types of students with varying levels of college-level preparedness, expectations and personal goals, it may be desirable and more meaningful to have variations in student satisfaction surveys and, to some degree, employer satisfaction surveys."

CONDITION OF RECORDS

Minority Advancement Program - Grant Expenditure Reporting:

The Department administers the Minority Advancement Program, which provides grants to institutions of higher education to develop and implement pre-college, college transition, and college admission and retention programs for low income minority students. Our review of the records pertaining to this program found errors of an administrative nature.

Criteria: The Statement of Assurances for the program, agreed to by grantees, states that the grantees will submit interim and final expenditure reports within specified periods.

The Statement of Assurances also states that program funding is based on a one-year grant; and all unexpended funds must be returned to the Department with the final expenditure report. It also states that all goods and services paid for utilizing grant funds must be received within the program year.

Condition: Our review found that some of the expenditure reports submitted by grantees did not indicate the amount of matching funds expended by the grantee or the "in-kind" contributions of the grantee. We tested 14 interim or final expenditure reports from five different grantees; we found that six of the 14 reports did not have the amount of matching funds included. In two cases we were able to determine matching information from final program reports.

One of the grantees tested did not return unexpended grant funds received during the 2000-2001 fiscal year. The grantee had received permission from the Department to apply $6,821 in unexpended grant funds to expenditures from prior years in order to cover program expenditures that were in excess of grant receipts for those years. The expenditure report submitted by the grantee did not reflect this change.

Effect: Because the expenditure reports were not complete, our audit could not readily determine if institutions participating in the program met its matching requirements.

By allowing a grantee to apply funds from one program year's grant to previous program years the Department was not in compliance with its own program requirements. In addition, because the expenditure reports did not indicate that transfer, misleading financial reporting and inaccuracies in accounting records resulted.

Cause: The Department accepted expenditure reports from the grantee institutions even though they were not properly completed.

The Department granted permission to a grantee institution to apply program funds from the 2000-2001 fiscal year to previous fiscal years to avoid requiring the return of those funds.

Recommendation: The Department should require grantee institutions to completely prepare grant expenditure reports, and it should not accept reports with missing information. In addition, the Department should adhere to its requirements regarding unexpended grant funds. (See Recommendation 2.)

Agency Response: "The Department of Higher Education acknowledges that its review of expenditure reports submitted by Minority Advancement Program (MAP) recipients has not been thorough enough. To remedy this situation, the Department has established new procedures that will formalize its reception and internal review of expenditure reports and all other MAP accountability reports as well. Additionally, a new policy, an amendment to the Minority Advancement Program guidelines, will require the internal assessment of the degree to which grantees comply with the Minority Advancement Program accountability measures, to ensure that the Department adheres to its requirements regarding unexpended grant funds and other grant oversight measures already established."

Private Occupational School Student Protection Account:

Our review of the Department's operation of its Private Occupational School Student Protection Account disclosed a condition of noncompliance with State statutes.

Background: Private occupational schools operating in the State must be authorized to do so by the Department of Higher Education. They are also required to contribute to a Private Occupational School Student Protection Account, to be used to refund tuition to students of such a school that ceases operation. State statutes also provide for a Private Occupational School Student Benefit Account, which was originally authorized in 1985, but never implemented. The proceeds of the Student Benefit Account were to be used to award financial aid grants to private occupational school students.

Criteria: Section 10a-22u of the General Statutes requires the Department to assess each private occupational school an amount equal to one half of one percent of the net tuition received each quarter from state residents enrolled in such schools. Section 10a-22w provides that if the balance in the Student Protection Account is more than six percent of annual tuition income of the schools that make payment to the Account, schools that began payments to the Account on or before October 1, 1987, shall cease further payments, until the balance in the Account falls below five percent of net annual tuition income. Schools that began payments to the Account after October 1, 1987, are required to continue contributions for a period of time equal to the number of calendar quarters from October 1, 1987, to the date on which the account first equaled six percent.

Section 10a-22q of the General Statutes specifies that if the balance in the Student Protection Account is more than six percent of annual tuition income of the schools that make payment to the Account, the State Treasurer shall transfer three fourths of the annually accrued interest to a Private Occupational School Student Benefit Account.

Condition: The Department does not assess contributions from those schools that have either already contributed $10,000 to the Student Protection Account or have been authorized to operate more than five years, unless the total balance in the Account is less than the statutory maximum of six percent. The Department does this in reference to Section 10a-22c of the General Statutes, which requires a $10,000 letter of credit, payable to the Student Protection Account to be filed by an individual new school, which is returned after $10,000 has been deposited in the Student Protection Account or five years from the date of initial approval.

In addition, the Department has determined that it will not assess contributions for all of the schools, if the balance of the Account exceeds six percent of net tuition income for all of the schools.

Neither the Department of Higher Education, nor the State Treasurer, has made any effort to establish and fund the Private Occupational School Student Benefit Account. In the 1999-2000 and 2000-2001 State fiscal years, the Student Protection Account received $189,563 and $224,077, respectively, in interest income.

Effect: The Department does not comply with the provisions of Section 10a-22w of the General Statutes, which specifies the criteria for schools to be allowed to cease contributions.

The Department also does not comply with Section 10a-22q of the General Statutes, which requires the Department to transfer a portion of the accrued interest to the Private Occupational School Student Benefit Account.

Cause: The Department explained that it was following a procedure previously established when the administration of private occupational schools was the responsibility of the State Department of Education.

The Department considered implementing the Student Benefit Account many years ago but decided that with the constant growth in the number of schools, and the continuing need for further reserves, it was not able to do so.

Recommendation: The Department should comply with the statutory requirements regarding the operation of the Private Occupational School Student Protection Account and the Student Benefit Account. If necessary, it should seek legislation to amend those requirements, so that the Student Benefit Account can be established. (See Recommendation 3.)

Agency Response: “The Department does annually assess contributions to the Student Protection Account in order to evaluate whether the fund has reached statutory conditions necessary to implement a Student Benefit Account.

Our process for fund review is as follows: At the beginning of each fiscal year, the balance of the student protection fund and interest totals as determined by the Treasurer are entered into Excel files, the statutory administrative allowance permitted under Section 10a-22u of the General Statutes is subtracted, the net tuition income is entered as calculated based on private occupational schools data and a determination is made as to whether the 6 percent level has been reached in the fund.

We note that the extensive 1998 State audit of the Student Protection Account [Program Evaluation of the Auditors of Public Accounts *Auditors' Report - Department of Higher Education for the Fiscal Years Ended June 30, 1998 and 1999*, which covered the review and monitoring of such schools] showed the Department was in compliance with the Statutes governing private occupational schools, including those covering the Student Benefit Account.

However, despite these facts, we concur with the recommendation precisely because in no year have conditions for creation of a Student Benefit Account been met. Further, because the fund's interest is depleted annually for administrative expenses, the balance will never be sufficient to have real impact as student financial aid. Hence, we will consider how the statutes could be modified in light of these conditions."

Unfunded and Unimplemented Statutory Requirements:

Our review of the Connecticut General Statutes applicable to the Department of Higher Education found a number of statutory requirements establishing new programs that were enacted by the General Assembly but never funded or implemented, or were discontinued without eliminating the requirement.

Criteria:

Public Act 94-6, effective July 1, 1994, and codified as Section 10a-17b of the General Statutes, allows the Department to administer, within the limits of available appropriations, a Help and Opportunity to Pursue Education program (HOPE), to assist agencies or organizations which encourage and provide tutoring to primary and secondary school students to enroll in postsecondary education.

Public Act 87-408, effective October 1, 1987, and codified as Section 10a-25n of the General Statutes, establishes, within the limits of available appropriations, a High Technology Doctoral Fellowship Program.

Public Act 88-252, effective October 1, 1988, and codified as Section 10a-48a of the General Statutes, establishes within the Department of Higher Education a Student Community Service Fellowship Program. For each year funds are appropriated, the Department is to provide fellowships to help develop community service leadership and activities for students at institutions of higher education in the State.

Public Act 86-297, effective October 1, 1986, and codified as Section 10a-54 of the General Statutes, requires the establishment, within available appropriations, of a program at State institutions of higher education to increase accessibility and provide support services for students with disabilities.

Public Act 81-157, effective October 1, 1981, amended Section 10a-161 of the General Statutes and established a seven member Advisory Committee on Student Financial Assistance Matters.

Public Act 94-180, effective July 1, 1994, and codified as Section 10a-161b Subsection (a) of the General Statutes, established the Student Financial Aid Information Council. It was to consist of 17 members. Subsection (b) of Section 10a-161b of the General Statutes states that, the Council shall develop procedures to improve student financial aid policy and increase resources, develop methods to improve financial aid awareness, and coordinate financial aid delivery.

Public Act 88-207, effective October 1, 1988, and codified as Section 10a-162a of the General Statutes, requires the Board of Governors for Higher Education to administer a scholarship program for nursing education within the State, and a program for the forgiveness of loans provided by the State to residents for nursing education.

Public Act 77-530, effective October 1, 1977, and codified as Section 10a-167 of the General Statutes, establishes a scholarship fund for Vietnam era veterans.

Public Act 83-6, effective October 1, 1983, and codified as Section 10a-170a of the General Statutes, requires the establishment of a High Technology Graduate Assistantship Program within the Department of Higher Education.

Condition: Our review found that the Department never implemented some of the programs listed above, although the statutory requirements for the programs were established many years ago. Others were discontinued because of a lack of continued funding. The Department considered many of the programs to be an optional requirement because they were established on the basis of available funding.

Our review found that the function of the Help and Opportunity to Pursue Education (HOPE) program was duplicated by more recent innovations, such as the Federal GEAR-UP program and Connecticut College Awareness and Preparation Program (ConnCAP).

In respect to the Advisory Committee on Student Financial Assistance Matters, we were advised that the Committee has not met in years. There was difficulty getting enough members to attend to make a quorum, and a meeting schedule has not been produced in years. Members whose appointments have lapsed were not replaced, and there was no other evidence of Committee activity for the past several years.

In respect to the Student Financial Aid Council, we found that the last meeting was in March 1998. The Council has been inactive since that date.

Our review also found that the scholarship fund for Vietnam era veterans was funded from 1977 to 1988; since that date the program has been inactive.

Effect: The statutorily required programs were never implemented or were no longer funded. There are expectations as to the programs and services to be provided by the Department of Higher Education that are not met. The statutory mandates in existence may not reflect the present priorities and mission of the Department.

Cause: The statutory language establishing many of the statutorily required programs included the stipulation "within available appropriations," and the Department did not have the resources to implement or continue these programs. In the case of the Advisory Committee on Student Financial Assistance Matters, and the Student Financial Aid Council, the cause appears to be a lack of interest on the part of appointed members.

Recommendation: The Department should seek legislation to amend the General Statutes to eliminate the statutory requirements applicable to those programs that are inactive or were never implemented. (See Recommendation 4.)

Agency Response: "The Department of Higher Education agrees with the auditor's recommendation regarding statutory programs that were never implemented or are now inactive, though by our review of records we show five of the nine as having been at one time funded and/or implemented. The Department will seek to repeal these sections of the statutes in the 2003 legislature."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

No audit recommendations resulted from our previous review.

Current Audit Recommendations:

1. **The accountability measures developed by the Higher Education Coordinating Council should be refined to provide greater comparability.**

   Comment:

   Our review found that some of the accountability measures addressing student satisfaction, employer satisfaction, access and affordability and resource efficiency, could be more comparable across all constituent units and with peer institutions.

2. **The Department should require grantee institutions to completely prepare grant expenditure reports, and it should not accept reports with missing information. In addition, the Department should adhere to its requirements regarding unexpended grant funds.**

   Comment:

   Expenditure reports for the Minority Advancement Program should properly reflect actual grant expenditures, and surplus grant funds should not be retroactively applied to expenditures from prior years.

3. **The Department should comply with the statutory requirements regarding the Private Occupational School Student Protection Account and the Student Benefit Account. If necessary, it should seek legislation to amend those requirements, so that the Student Benefit Account can be established.**

   Comment:

   The Department does not comply with the provisions of Section 10a-22w of the General Statutes, which specifies the criteria for schools to be allowed to cease contributions. Also, the Department does not comply with Section 10a-22q of the General Statutes, which requires the Department to transfer a portion of the accrued interest to a Private Occupational School Student Benefit Account.

4. **The Department should seek legislation to amend the General Statutes to eliminate the statutory requirements applicable to those programs that are inactive or were never implemented.**

   Comment:

   The statutory requirements in existence may not reflect the present priorities and mission of the Department of Higher Education.

INDEPENDENT AUDITORS' CERTIFICATION

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

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Higher Education complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Higher Education is the responsibility of the Department of Higher Education's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Higher Education is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Higher Education's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: Grantee institutions were not required to completely prepare grant expenditure reports. The Department allowed a grantee to apply unexpended program funds to previous fiscal years.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that neither of the reportable conditions described above is a material or significant weakness.

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

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

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the Department of Higher Education during this examination.

Matthew Rugens
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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