STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF HIGHER EDUCATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003

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

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August 6, 2004

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

We have examined the financial records of the Department of Higher Education for the fiscal years ended June 30, 2002 and 2003. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification, which follow.

Financial statement presentation and auditing are performed 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, reviewing and commenting 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, 2003, membership of the Board of Governors was as follows:

Albert B. Vertefeuille; Chairman	Joan B. Kemler
Harry H. Penner Jr.; Vice-Chairman	Robert D. Lane
William A. Bevacqua	Alice V. Meyer
Dorothea E. Brennan	Frank W. Ridley
Leonard S. Cohen	Patricia M. Vissepo

As of June 30, 2003, the Board had one vacancy. James H. Bates and Dorothy B. Leib also served as Board members during the audited period.

Section 10a-5 of the General Statutes provides for the appointment of a Commissioner of Higher Education. Valerie F. Lewis was appointed Commissioner November 15, 2000, and served in that capacity through the audited period.

Recent Legislation:

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

Public Act 02-1, Section 127, of the May 2002 Special Session of the General Assembly, effective July 1, 2002, amended Section 10a-22q of the General Statutes. This Act changed the allowable transfer balance of the private occupational school student protection account after each annual determination of the balance, from six percent of the annual net tuition income of schools that make payments to the account, to $2,500,000, to be transferred to a nonlapsing account within the General Fund. This Act also amended Section 10a-22u of the General Statutes, by adding the clause that after disbursements are made, if the resources of the private occupational school student protection account exceed $2,500,000, then no additional school assessments shall be made.

Public Act 02-7, Section 8, of the May 2002 Special Session of the General Assembly, effective July 1, 2002, amended Section 10a-164a of the General Statutes, by deleting the grants provided for educational expenses that could be used for students enrolled at the Charter Oak State College and attending a public institution of higher education. It added a provision that the Board of Governors of Higher Education shall request an appropriation to the Department of Higher Education of an amount equal to the amount set aside by the Charter Oak State College in the previous fiscal year for fee waivers. However, such request is not to exceed 15 percent of the tuition and fees paid in the previous year. The Department of Higher Education shall then appropriate the amount to Charter Oak State College to be used to provide grants for educational expenses to residents of the State who demonstrate financial need and whom are matriculated in a degree program at Charter Oak. Awards are not to exceed a student's calculated financial need based on a needs analysis system approved by the United States Department of Education. The Act also amended Section 10a-22b of the General Statutes, by requiring attendance requirements under Section 10-22d for institutional accreditation. Further, the Act provided that effective during fiscal year June 30, 2003, the Department of Higher Education shall evaluate the benefits to the State of continued participation in the New England Board of Higher Education.

Public Act 03-1, effective July 1, 2003, notwithstanding the provisions of Section 10a-22u of the General Statutes, amends the amount of funds available for expenditure by the Department of Higher Education from the student protection account to $206,000 and $216,000 for the fiscal years ending June 30, 2004 and 2005, respectively. The Act also amended the amount appropriated to the Department of Higher Education for the fiscal years ending June 30, 2004 and 2005, by reallocating $100,000 from the Minority Advancement Program to the Saturday Academy. Further, the Act provided that the amount of $85,000 appropriated to the Department of Higher Education for the fiscal year ending June 30, 2003, for the National Service Act shall not lapse, and will be available for expenditure for the fiscal year ending June 30, 2004.

Public Act 03-6 of the June 30, 2003 Special Session of the General Assembly required that $70,000, which was appropriated to the Department of Higher Education for the Minority Advancement Program, be transferred to Other Expenses to be used during the fiscal year ending June 30, 2004, for an international initiative in Germany. The Act also allowed for the transfer of $100,000 from the Reserve for Salary Adjustment to the Department of Higher Education's personal services category to support one additional position within the Department.

Public Act 03-15 required that $124,279 appropriated to the Department of Higher Education for the Minority Advancement Program be transferred to the Department of Social Services.

Public Act 03-142 established a Connecticut Career Ladder Advisory Committee, effective October 1, 2003, to promote the creation of new career ladder programs and the enhancement of existing career ladder programs for occupations in this State with a projected workforce shortage. The advisory committee should meet at least bimonthly and each member shall serve two-year terms without compensation. The committee will consist of thirteen members selected or assigned with some stipulations.

Public Act 03-170, effective July 1, 2003, amends Section 10a-170h of the General Statutes, to require the Commissioners of Education and Higher Education to distribute 60 percent of awards for the scholarship loan program equally among applicants who reside in the State's five (no longer six) congressional districts. The balance is awarded on a statewide basis.

RÉSUMÉ OF OPERATIONS

General Fund:

General Fund receipts totaled $7,627,116 and $10,080,117 during the fiscal years ended June 30, 2002 and 2003, 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, 2001, 2002 and 2003 follows:

	2000-2001	2001-2002	2002-2003
Federal aid receivable collections	$5,555,864	$5,285,295	$5,285,224
Refunds of expenditures	148,499	89,915	216,292
Refunds of prior year expenditures	75,159	118,468	168,273
Federal Grants - Restricted	579,019	970,511	781,613
Grants - Other than Federal	343,368	1,145,798	3,606,012
Miscellaneous receipts	20,195	17,129	22,703
Total Receipts	**$6,722,104**	**$7,627,116**	**$10,080,117**

Total receipts increased over the audited period primarily because of additional Federal grants. During the 2001-2002 fiscal year the increase was attributable to participation in five new grant programs. During the 2002-2003 fiscal year the increase was attributable to a one-time transfer of State matching funds into an interest-bearing account. Deposits to the Private Occupational School Student Protection Account totaled $148,993 and $97,654, during the fiscal years ended June 30, 2002 and 2003, respectively. These receipts were deposited as Grants – Other than Federal.

General Fund expenditures totaled $69,522,886 and $54,531,442 during the fiscal years ended June 30, 2002 and 2003, respectively. A comparative summary of General Fund expenditures from Department appropriations for the fiscal years under review and the preceding fiscal year follows:

	2000-2001	2001-2002	2002-2003
Personal services	$ 2,437,030	$ 2,476,927	$ 2,559,313
Contractual services	980,483	2,395,434	686,058
Commodities	37,013	32,343	27,463
Grants	54,682,255	57,783,944	44,236,444
Capital outlay	6,735	7,780	1,804
Total Budgeted Accounts	58,143,516	62,696,428	47,511,082
Restricted Appropriations	6,607,750	6,826,458	7,020,360
Totals	**$64,751,266**	**$69,522,886**	**$54,531,442**

Expenditures from budgeted appropriations fluctuated significantly during the audited period, primarily due to State Aid Grant payments. The increase and corresponding decrease of "contractual services" expenditures during the fiscal years ended June 30, 2002 and 2003, was primarily due to a one-time increase in outside consulting service contracts. More specifically, three consultants were contracted with for three separate initiatives totaling $1,480,660. Grant expenditures increased by $3,101,689, or 5.7 percent, in the 2001-2002 fiscal year, and declined by $13,547,500, or 23.4 percent, in the 2002-2003 fiscal year. The decline was primarily due to the discontinuance of funding for Higher Education State Matching Grants, and a decline in funding for some of the more significant grant programs as presented below:

	2001-2002	2002-2003
Independent College Student Grant program	$18,763,829	$15,885,089
Aid for Public College Students program	$19,759,261	$17,539,728
Higher Education State Matching Grants	$ 8,727,652	-
Capitol Scholarship program	$ 5,505,865	$ 5,236,114
Minority Advancement program	$ 3,233,610	$ 2,291,729

Expenditures for the Higher Education State Matching Grant Fund are made in the form of grant payments to State colleges and universities in matching amounts to private donations to those institutions.

Restricted account activity during the audited years consisted primarily of the administration of Federal grant programs. Expenditures for the AmeriCorps Federal program totaled $2,449,707 and $1,712,820, for the 2001-2002 and 2002-2003 fiscal years, respectively. Expenditures for the GEAR UP Federal program totaled $1,801,381 and $1,764,305, for the 2001-2002 and 2002-2003 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 $114,777 and $198,135, respectively, during the 2001-2002 and 2002-2003 fiscal years. The Endowed Chair Investment Fund had a fund balance of $5,184,848 as of June 30, 2003.

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 $52,469 and $75,338 during the 2001-2002 and 2002-2003 fiscal years, respectively. Disbursements from the Academic Scholarship Loan Program Fund totaled $1,722 and $3,023 during the 2001-2002 and 2002-2003 fiscal years, respectively. These expenditures consisted of loan servicing and administrative expenses.

The Academic Scholarship Loan Program Fund had a fund balance of $496,700 as of June 30, 2003. 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, 2003, the total amount of loans and interest receivable was $175,836. Out of this amount, the Department lists $17,198 as being in default and uncollectible, and $36,505 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. There were no receipts to or disbursements from the Teacher Incentive Loan Program Fund during the 2001-2002 and 2002-2003 fiscal years.

The Teacher Incentive Loan Program Fund had a fund balance of $61,099 as of June 30, 2003. 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 $1,099 as of June 30, 2003, which represented amounts that are expected to be forgiven as the services are completed.

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 cease operations. 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 $148,993 and $97,654 during the 2001-2002 and 2002-2003 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 $191,430 and $195,409 during the 2001-2002 and 2002-2003 fiscal years, respectively. In addition, during the 2002-2003 fiscal year a transfer of $1,000,000 was made from the account to the General Fund, as prescribed by Public Act 02-1, Section 40, of the May 2002 Special Session of the General Assembly. The account had a cash balance of $2,413,163 as of June 30, 2003.

Capital Equipment Purchase Fund:

Equipment purchases from the Capital Equipment Purchase Fund totaled $12,057 and $4,782 during the 2001-2002 and 2002-2003 fiscal years, respectively. These purchases consisted principally of office and electronic data processing equipment.

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected Agency operations. Our review consisted of examining operations and goals of the Connecticut Aid to Charter Oak Program and the Alternate Route to Certification (ARC) Program.

The Connecticut Aid to Charter Oak Program is a new program which provides grants for educational expenses to recipients residing in the State. Program expenditures totaled $22,500, for the fiscal year ended June 30, 2003.

The Alternate Route to Certification (ARC) Program provides an accelerated academic program to prepare and certify prospective teachers for elementary and secondary schools. There were approximately 750 students that participated in the program during the audited period. Receipts from participating students totaled $1,011,457 and $1,139,265, for the fiscal years ended June 30, 2002 and 2003, respectively. Expenditures of the program were $1,521,449 and $1,304,890, for the same two fiscal years. The decrease in expenditures during the 2002-2003 fiscal year is due to the fact that the Department purchased a significant amount of equipment, and had an additional staff member dedicated to the program during the 2001-2002 fiscal year. In addition, a program site was reduced during the 2002-2003 fiscal year.

Audit Objectives:

The objectives of our review were to evaluate the operations of the above programs as well as to determine if academic benchmarks of the programs, regarding the student population served, were being met.

Finding – Alternate Route to Certification (ARC) Program:

Program/Academic Documentation:

Background: The Department maintains records for all students that participate in the Alternate Route to Certification (ARC) Program to document participation in the program and to confirm that academic requirements have been met.

Criteria: Maintaining comprehensive academic records for students participating in an academic program provides assurance that academic requirements have been met.

Condition: Our test check of student files disclosed that:

- Of 20 participating student records tested, eight, or 40 percent, did not have certain documents on file. In total, there were 22 documents missing for these eight individuals.
- For this same review, we noted that 23 documents were not date-stamped to verify receipt of such.
- The application fee for one applicant was not received.

Effect: Incomplete student records provide a greater likelihood that certain academic requirements will not be met and so identified.

Cause: The Department does not utilize a checklist or some other control record to ensure that all required documents are received and filed.

Recommendation: The Department should utilize a checklist or some other record to track the collection of required documents within student files for those students participating in the Alternative Route to Certification Program, and date-stamp the documents as they are received. (See Recommendation 1.)

Agency Response: "This past fall, the new ARC director discovered that the contents of ARC student files varied from student to student. Thus, work on the following series of procedures has been implemented within the past six months to correct this situation:

- More defined procedures and forms that faculty now must use in analyzing applications for admission.
- More defined procedures and forms that faculty now must use when candidates for the program are interviewed.
- Assigned the Site Director the responsibility to assure that all required forms from faculty are received and transmitted to the ARC Office.
- A checklist has been developed for each student's permanent file to assure that all required documents are included in each file."

We also noted some inconsistencies regarding the allocation of salary charges to the ARC program which is presented within Recommendation 4 in the "Condition of Records" and "Recommendations" sections of this report.

CONDITION OF RECORDS

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

Expenditures – Inaccurate Receipt Dates:

Background: In order to charge an expenditure against a specific Department appropriation, a receipt date is entered to identify the proper fiscal year that the expenditure was incurred.

Criteria: Pursuant to Section 4-97 of the General Statutes, "No appropriation or part thereof shall be used for any other purpose than that for which it was made unless transferred or revised as provided in section 4-87." Appropriations are made for specific purposes/uses for specific fiscal years through the Budget Act.

Condition: Our test check of expenditures disclosed that:

- Services totaling $1,329 that were provided in April through June 2002, were recorded as having been received in July 2002, and charged against the 2002-2003 fiscal year Department appropriation.
- The Department made an $11,835 pre-payment for a copier lease in June 2003. The payment represented amounts to be due for the period of July 1, 2003 through July 31, 2004.

Effect: Appropriations were not used for the proper periods for which they were established in the two instances presented above.

Cause: As regards the $1,329 in services provided, we could not determine whether the miscoding was intentional or due to a clerical error. The lease pre-payment was made to avoid future payments on the copier as it was deemed to be inoperable.

Recommendation: Department staff should ensure that correct receipt dates are entered on invoices to ensure that the appropriate fiscal year of an appropriation is recognized. (See Recommendation 2.)

Agency Response: "Department staff will continue to be diligent to ensure that correct receipt dates are entered on invoices.

With regard to the pre-payment of a copier lease, the Department concurs that the lease on the color printer was paid off ahead of schedule. The decision was made after careful planning and consideration of the printing needs of the department and the budget forecasts for the next several years. The color printer in question was antiquated and was breaking down frequently (more than once a week). We were losing significant amounts of staff time in tending the machine – a staff member literally had to sit in the copy room to clear paper jams whenever a printing job was sent. In addition, the Department was informed that the University of Connecticut print shop was eliminating its draft color printing service which we had used to print several of our major annual publications at very reasonable rates. To send these reports out to a professional printing service would have been seven times the cost. In order to bring these publications in-house and meet the other printing demands of Department programs such as the Alternate Route to Certification and Germany exchange, we needed a reliable, fast and cost-effective alterative. In addition, the Department could not afford two lease payments. Lastly, the old copier cost the Department $.18 per copy, compared to just $.10 with the new copier. Over the next four years, we estimate a savings of over $67,000."

Expenditures – Purchasing Card Program:

Background: The Office of the State Comptroller implemented a Purchasing Card Program that allows certain Department employees to purchase certain commodities with an assigned State charge card.

Criteria: The Office of the State Comptroller established an "Agency Purchasing Card Manual" which prescribes certain internal controls and procedures that must be in place in order to participate in the program. Department staff are required to retain receipts, and to maintain a purchasing log. The log is to be signed by the employees making purchases as well as their direct supervisors.

Condition: We reviewed purchasing logs for 39 employees that had purchased 152 items. The review disclosed that 19 of the 152 transactions, or 12.5 percent, did not have a proper receipt on file. Of the 39 purchasing logs reviewed, three, or 7.7 percent, were not signed by the employees, and 21, or 53.8 percent, were not signed by supervisors.

Effect: A lack of adherence to internal control procedures creates an environment whereby the misuse of purchasing cards may occur and not be detected by Department management.

Cause: A cause for these conditions was not determined, other than improper oversight.

Recommendation: Department staff need to improve efforts to ensure that receipts are retained for all purchasing card purchases, and that purchasing logs are signed by each employee and their respective supervisors. (See Recommendation 3.)

Agency Response: "DHE staff believes the receipts in question were associated with out-of-state travel charges. Although the Travel Authorizations were enclosed, the airline ticket and hotel confirmation receipts were not. However, receipts for all non-travel purchase transactions were enclosed. DHE staff will continue to ensure that receipts for all purchasing card purchases including out of state travel are retained in the appropriate envelopes.

The Department's internal procedures state that the Director of Internal Administration will review and sign the employee envelopes. If there are inconsistencies or questionable transactions the Director will discuss them with the Cardholders' supervisor. A review of the two years of envelopes revealed that the logs were signed for all other months. Signing of the 6/10/01 and 6/10/03 were probably overlooked during the frenzy of the end of year activities. More care will be taken to assure each envelope is reviewed and signed."

Expenditure Miscodings:

Background: The State Comptroller has developed a chart of accounts within the State Accounting Manual to classify expenditures made by major type and specific categories within each type.

Criteria: The proper classification of expenditures provides a more accurate degree of financial reporting as amounts are aggregated and classified within financial statements and/or schedules prepared for the Department and the State as a whole.

Condition: Our review disclosed the following examples of expenditure miscoding:

- Salary payments in the amount of $42,220 were coded as longevity payments.
- A $124,463 transfer of a grant to another State agency was coded as a transfer to an outside non-State grantee.
- Three payments totaling $27,500 for facility usage/rent were coded as "fees for outside professional services."
- An advertising expense of $1,278 was coded as "printing and binding."
- Our review of the "Alternate Route to Certification" (ARC) Program disclosed that an employee that has ARC program duties which account for 50 percent of his time, is not charged to the program. We also noted that a temporary staff member, contracted to perform program duties, was not charged to the program as well.

Effect: Financial statements, reports and/or schedules prepared from Department expenditure information were inaccurate to the degree presented above. It should be noted that the amounts are immaterial in relation to any financial statement, schedule or analysis that may have been prepared for the Department as a whole.

Cause:	A cause for the conditions was not determined.
Recommendation:	Department staff should take greater care to ensure that expenditures are coded to the appropriate accounts established by the State Comptroller within the State Accounting Manual. (See Recommendation 4.)
Agency Response:	"Department staff will take greater care to ensure that expenditures are coded to the appropriate accounts. Regarding the last bullet, one of the employees in question is a temporary who, during the time in question, provided agency-wide clerical support in addition to support for the ARC program. As in the past, we made the choice to charge this temporary service to our general fund accounts, and, therefore, do not agree that this was an expenditure miscoding. This year, however, the temporary is providing support almost exclusively to ARC and is being charged there. The second employee, our grants manager, reports to the Associate Commissioner for Programs and Student Services and has broad responsibilities across the agency for grants administration, particularly in the preparation of PSAs and the like. His time commitment to agency programs varies throughout the year, and may vary from year to year depending on program needs."

Minority Advancement Program - Grant Expenditure Reporting:

Background:	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 that 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 and that "in-kind" or matching contribution resources must be reported on.
Condition:	Our review disclosed 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.

Our review disclosed that $55,263 of unexpended funds from the 2001-2002 fiscal year, and $86,117 from the 2002-2003 fiscal year, had not been refunded to the Department.

We also noted deficiencies concerning monitoring records. More specifically, the recording of receipt dates of final expenditure reports from grantees was often lacking, and information presented within such records was not updated in a timely manner.

Effect: The lack of adherence to internal controls over monitoring records increases the likelihood that inappropriate uses of grant funds may occur and not be detected by management.

No assurance may be provided that "in-kind" contribution requirements are being met by grantees.

Unexpended State resources are not being returned to the Department in a timely manner.

Cause: The Department is not following-up on non-complying grantees to a satisfactory degree.

Recommendation: The Department of Higher Education should adhere to established internal controls, and improve efforts to follow-up on grantees that are not complying with the Statement of Assurances that they must provide. (See Recommendation 5.)

Agency Response: "We acknowledge that unexpended funds under the Minority Advancement Program (MAP) have frequently not been returned to the Department in the timely manner specified in the grant programs' Statement of Assurances. We had accepted institutions' declarations that it was often impossible for them to comply with the established deadlines, for a variety of reasons. However, with the advent of the Core-CT transfer invoice billing component, the Department will be proactive in billing the applicable institutions. We are confident that these new procedures will allow us to record and transfer unexpended funds in timely and efficient manners.

Concerning the monitoring of expenditures reports and matching grant requirement compliance, although a review and assessment procedure had been established within the Office of Educational Opportunity, that process proved to be inadequate. Additional internal controls are being established to integrate the monitoring of grant allocations, payments and expenditures. As an additional safeguard, documentation of the review and assessment procedure within the Office of Educational Opportunity will be confirmed bi-annually by the Department's Associate Commissioner for Student

Programs and Services."

Cash Receipts – Untimely Deposit:

Background: The Department deposits receipts from a number of sources including educational facilities.

Criteria: Pursuant to Section 4-32 of the General Statutes, a Department that receives an amount of $500 or more must deposit such amount within 24 hours, unless an exception has been granted by the State Treasurer.

Condition: Our test check of cash receipts disclosed that a $75,000 receipt from an educational facility in July 2001 was deposited 48 hours after receipt.

Effect: The prompt deposit requirement prescribed within Section 4-32 of the General Statutes was, therefore, violated.

Cause: A cause for this exception was not determined. This appeared to be an isolated exception.

Recommendation: The Department of Higher Education should ensure that cash receipts exceeding $500 are deposited promptly, in accordance with Section 4-32 of the General Statutes. (See Recommendation 6.)

Agency Response: "The Department acknowledges that during July 2001 a $75,000 check was deposited 48 hours after receipt, not within 24 hours as prescribed by Section 4-32 of the General Statutes. As stated in "Cause" above, this was an isolated incident. Department staff is aware of the statute and deposits are made on a daily basis as needed."

Cash Receipts – Department Reconciliation:

Background: The Department maintains a cash receipt log and records cash receipts within the log as they are received.

Criteria: The reconciliation of cash receipt records maintained by Departments with State Comptroller deposit/receipt records, is a good business practice that enhances internal control over cash receipts/revenue.

Condition: Our review disclosed that the agency discontinued the practice of reconciling its receipt records with those of the State Comptroller in August 2002.

Effect: The lack of cash receipt reconciliations increases the likelihood that the accountability of receipts may be compromised and would not be detected by management in a timely manner.

Cause: A lack of staff resources was identified as a reason that the reconciliation process was discontinued.

Recommendation: The Department of Higher Education should re-establish its procedure of reconciling its cash receipt records with those of the State Comptroller. (See Recommendation 7.)

Agency Response: "The Department agrees that the reconciliation of cash receipt records during the 2002-2003 fiscal year was not performed on a regular basis. Department staff will pursue a reconciliation process under the new Core accounting system."

Private Occupational School Student Protection Account:

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, which is used to refund tuition to students of those schools that cease operations. 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: Good business practice and the State Accounting Manual provides that revenue accountability reports be prepared which compare amounts actually received with monies that should be accounted for.

Section 10a-22q of the General Statutes specifies that if the balance in the Student Protection Account is more than $2,500,000, the State Treasurer shall transfer three-fourths of the annually accrued interest to a Private Occupational School Student Benefit Account.

Condition: The Department did not prepare accountability reports for account receipts for the 2001-2002 and 2002-2003 fiscal years.

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. During the 2001-2002 and 2002-2003 fiscal years, the Student Protection Account received $114,486 and $55,042, respectively, in interest income.

Effect: The lack of accountability over cash receipts increases the likelihood that an error or loss may occur and not be detected by Department management.

The Department is not in compliance 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 preparation of accountability reports for account receipts was discontinued during the 2001-2002 fiscal year due to a staff retirement.

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 prepare accountability reports over account receipts, and 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 8.)

Agency Response: "On April 14, 2003, an informal response from the Attorney General's Office indicated "the mature schools (those who have paid 24 quarters prior to October 1, 1987) don't have to pay again unless the June 30, 2003 balance in the protection account is below five (5) percent of the school's annual net tuition income.

Since the resumption of payment did not begin until the quarter ending 9/30/03 with payments totaling $73,233, the Department decided to postpone seeking legislation. Due to the many unknown variables affecting the student protection account, net tuition revenue, payments, number of schools paying into account, administrative costs, state reductions, etc. there was no way to project balances and percentages that drive the creation of a student benefit account. By postponing legislation, the Department believes there will be an opportunity to create legislation that will accurately represent the use of the student protection account. This will provide a more accurate forecast of the student protection fund account balance and the percentage of account balance to net tuition. If the fund does not recover sufficiently to implement the statute, then legislation deleting a student benefit account would be more appropriate than trying to create regulations to clarify a student benefit account which will never exist. The Department proposes to monitor the variables in the student protection account over a full year before developing the necessary proposed legislation.
Accountability Revenue Report:

The Department has been working since the summer of 2003 to create a data base support system for all required reports in the private occupational school area. This will include the accountability revenue report. All reports will be linked to a program that notifies staff of impending reports. The elements of the report will be linked to the agency's cash receipts system that captures all revenues for the private occupational school area. The accountability report tracks estimated revenues with actual revenue from the following income sources: annual fees, renewal fees, application fees (initial and new branches) and out of state permit fees. The linkage between estimated and actual fees will provide an accurate calculation of the report as well as a timely completion of the report at the end of each fiscal year.

All revenue generated from annual fees, renewal fees, application fees and out of state permits are deposited directly into the general fund. The student protection account is a separate account that only reflects income from the student protection account payments or money from a demand of a letter of credit. There is no correlation between the two accounts."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The accountability measures developed by the Higher Education Coordinating Council should be refined to provide greater comparability** Our current review disclosed marked improvement and we are not repeating this 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.** Our current review disclosed that conditions continued through the audited period. We are repeating our concerns in Recommendation 5.

- **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.** Our current review disclosed that certain conditions continue to exist. We are repeating our finding in modified form as Recommendation 8.

- **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.** Our current review disclosed that the Department did make efforts to seek legislative changes in response to our finding. As such, we are not repeating our finding, but we do suggest that the Department continue to seek such changes.

Current Audit Recommendations:

1. **The Department should utilize a checklist or some other record to track the collection of required documents within student files for those students participating in the Alternative Route to Certification Program, and date-stamp the documents as they are received.**

   Comment:

   Our review of program files disclosed that documents were often missing and/or had not been date-stamped. We also noted that the application fee for one applicant was not received.

2. **Department staff should ensure that correct receipt dates are entered on invoices to ensure that the appropriate fiscal year of an appropriation is recognized.**

   Comment:

   Our test check of expenditures disclosed that services provided in the 2001-2002 fiscal year were recorded as having been received in the 2002-2003 fiscal year. We also noted that the Department made a pre-payment in June 2003 for amounts due for the period of July 1, 2003 through July 31, 2004.

3. **Department staff need to improve efforts to ensure that receipts are retained for all purchasing card purchases, and that purchasing logs are signed by each employee and their respective supervisors.**

   Comment:

   Our review of purchasing disclosed that 12.5 percent did not have a proper receipt on file, 7.7 percent were not signed by the employees, and 53.8 percent were not signed by supervisors.

4. **Department staff should take greater care to ensure that expenditures are coded to the appropriate accounts established by the State Comptroller within the State Accounting Manual.**

   Comment:

   Our review of expenditure transactions disclosed a number of expenditure miscodings. We also noted that certain personal services charges were not charged to a program in relation to the employees' actual efforts.

5. **The Department of Higher Education should adhere to established internal controls, and improve efforts to follow-up on grantees that are not complying with the Statement of Assurances that they must provide.**

   Comment:

   Our review of the Minority Advancement Program disclosed 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. It was also noted that some unexpended amounts had not been refunded to the Department.

6. **The Department of Higher Education should ensure that cash receipts exceeding $500 are deposited promptly, in accordance with Section 4-32 of the General Statutes.**

   Comment:

   Our test check of cash receipts disclosed that a $75,000 receipt from an educational facility in July 2001 was deposited 48 hours after receipt.

7. **The Department of Higher Education should re-establish its procedure of reconciling its cash receipt records with those of the State Comptroller.**

   Comment:

   Our review disclosed that the agency discontinued the practice of reconciling its receipt records with those of the State Comptroller in August 2002.

8. **The Department should prepare accountability reports over account receipts, and 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.**

   Comment:

   The Department did not prepare accountability reports for account receipts for the 2001-2002 and 2002-2003 fiscal years.

   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 2001-2002 and 2002-2003 State fiscal years, the Student Protection Account received $114,486 and $55,042, respectively, in interest income.

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, 2002 and 2003. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Higher Education for the fiscal years ended June 30, 2002 and 2003, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with 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, 2002 and 2003, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the 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 and contracts and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Department'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 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. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we did note certain matters involving internal control over the Department's financial operations and 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.

John A. Rasimas
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts