STATE OF CONNECTICUT

AUDITORS' REPORT
BOARD OF TRUSTEES FOR
COMMUNITY-TECHNICAL COLLEGES
HOUSATONIC COMMUNITY COLLEGE
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

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

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We have examined the financial records of Housatonic Community College (College) for the fiscal years ended June 30, 2000 and 2001.

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

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

COMMENTS

FOREWORD:

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

As such, Housatonic Community College, located in Bridgeport, Connecticut, is one of 12 two-year institutions of higher education which collectively form the Connecticut Community College system. The Board of Trustees of Community-Technical Colleges and its System Office, located in Hartford, Connecticut, administer the 12 institutions.

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

Dr. Janis M. Wertz-Hadley served as President of the College during the audited period.

Recent Legislation:

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

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

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

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

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

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

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

Enrollment Statistics:

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

	Fall 1999	Spring 2000	Fall 2000	Spring 2001
Full-time students	781	703	861	812
Part-time students	3,056	3,046	3,041	3,085
Total enrollment	3,837	3,749	3,902	3,897

The average of Fall and Spring semesters' enrollment totaled 3,793 and 3,900 during the 1999-2000 and 2000-2001 fiscal years, respectively. The slight increase in these figures, amounting to roughly three percent, during the 2000-2001 fiscal year was due in part to a slowdown in the economy and to an increase in the number of high school graduates, according to a College official. Generally, when the economy deteriorates, community colleges experience an increase in enrollment as people seek to improve or develop new job skills or to pursue lower cost higher education.

RÉSUMÉ OF OPERATIONS:

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

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

General Fund:

General Fund receipts totaled $100 and $8,602 for the 1999-2000 and 2000-2001 fiscal years, respectively. Receipts were mostly made up of refunds of expenditures of budgeted accounts.

During the audited period, General Fund expenditures consisted entirely of personal services costs. Expenditures totaled $8,349,223 and $8,133,112 for the fiscal years ended June 30, 2000 and 2001, respectively, compared to $7,166,083 for the fiscal year ended June 30, 1999. These totals represented an increase of $1,183,140 (16.5 percent) and a decrease of $216,111 (2.6 percent), respectively, during the audited years.

The increase in expenditures during the 1999-2000 fiscal year was driven by salary increases consistent with collective bargaining agreements and by the hiring of additional staff members during the audited period. In addition, during the 1999-2000 fiscal year, the College, like most State agencies, prepared 27 biweekly employee payrolls, compared to 26 in the previous year. (The State pays most of its employees their annual salaries over 26.1 biweekly pay periods, in a cycle of 26 payments made each year for a ten-year period, with 27 payments made every eleventh year. The 1999-2000 fiscal year represented the eleventh year of the State's eleven-year payroll cycle.)

The slight decline in Fund expenditures during the 2000-2001 fiscal year was partly the result of a decrease in the amount of the College's General Fund appropriation during the 2000-2001 fiscal year. The College's Operating Fund, in turn, bore a larger share of the College's personal services expenditures. Furthermore, the College prepared 26 payrolls during the 2000-2001 fiscal year, compared to 27 during the previous year as noted above.

State Capital Projects:

Capital projects funds expenditures during the 1999-2000 and 2000-2001 fiscal years totaled $343,719 and $196,863, respectively.

These expenditures were made to cover the costs of equipment purchases during the period.

Operating Fund:

The College's operating revenues and expenditures (excluding personal services expenditures charged to the General Fund) are accounted for within the Operating Fund. Receipts of the Operating Fund consisted primarily of student tuition and fees received.

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

	Fiscal Year 1998-1999	Fiscal Year 1999-2000	Fiscal Year 2000-2001
Total Receipts	$7,490,024	$8,683,852	$8,240,818

Total Operating Fund receipts grew by $1,193,828 (15.9 percent) during the 1999-2000 fiscal year as compared to the 1998-1999 fiscal year. This increase resulted, in part, from an increase in student enrollment and an increase in grant program receipts received.

Fund receipts fell during the 2000-2001 fiscal year, mostly as a result of a change in the method used by the Community Colleges to report student financial aid-related tuition and fee revenues to the State Comptroller. During the 1998-1999 fiscal year and into the 1999-2000 fiscal year, the Community Colleges reported to the State Comptroller all student financial aid revenues recorded in their general ledgers, including both actual cash receipts received and non-cash, book entries of revenue recognized. This method had the effect of duplicating some receipts recorded on the State Comptroller's books. Effective during the 1999-2000 fiscal year, the Community Colleges, after consulting with the State Comptroller's Office, discontinued reporting to the State Comptroller the above non-cash transactions of tuition and fee revenues recorded in the Colleges' general ledgers. Therefore, during the 2000-2001 fiscal year, no such duplicate receipts were reported to the State Comptroller, which contributed to the decrease in Operating Fund receipts recorded by the State Comptroller in the 2000-2001 fiscal year relative to the prior year.

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

	In-State	**Out-of-State**	**N.E. Regional Program**
1998-1999	$ 1,608	$ 5,232	$ 2,412
1999-2000	1,608	5,232	2,412
2000-2001	1,680	5,232	2,520

As can be seen above, tuition rates remained unchanged during the 1998-1999 and 1999-2000 fiscal years. To meet rising costs, in May 2000, the Board of Trustees of Community-Technical Colleges approved an increase in tuition for all but out-of-State students during the 2000-2001 academic year.

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

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

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

	Fiscal Year 1998-1999	**Fiscal Year 1999-2000**	**Fiscal Year 2000-2001**
Personal Services	$1,593,470	$2,019,175	$2,870,374
Contractual Services	1,669,723	1,723,897	1,607,446
Commodities	401,535	387,794	450,864
Revenue Refunds	731,863	960,458	1,965,459
Sundry Charges	1,745,039	2,057,958	739,103
Equipment	66,333	111,101	564,519
Buildings, Improvements	-	236,175	93,175
Total Expenditures	$6,207,963	$7,496,558	$8,290,940

Expenditures were made up of costs associated with personal services, student financial assistance (included in the Revenue Refunds and Sundry Charges categories) and other College operating costs. Operating Fund expenditures increased by $1,288,595 (20.7 percent) and $794,382 (10.6 percent) during the 1999-2000 and 2000-2001 fiscal years, respectively, compared to the previous fiscal years.

The increase during the 1999-2000 fiscal year was due, in part, to rising personal services costs as the College hired additional staff members during the year. In addition, during the 1999-

2000 fiscal year, student financial aid disbursements rose as a result of increased student enrollment. We were also told that the amount of financial aid awarded to each eligible student increased during the 1999-2000 fiscal year, compared to the previous year.

The increase in Fund expenditures during the 2000-2001 fiscal year was also caused, in part, by a rise in personal services costs: The College hired additional staff members during the year to serve its growing student enrollment. Also, College equipment expenditures increased sharply during the year as the College purchased new, more powerful computers to accommodate the ongoing implementation of its automated information system. An increase in the number of College employees also contributed to the increase in equipment costs.

During the 2000-2001 fiscal year, the Fund's revenue refunds expenditures rose significantly, while sundry charges declined. The increase in revenue refunds expenditures reflects an increase in the amount of student financial assistance awarded during the year and an accompanying increase in the amount of aid refunded to students after the deduction of charges owed the College and the College bookstore. Furthermore, a change in the College's method of classifying certain expenditures also added to the increase in revenue refunds expenditures during the 2000-2001 fiscal year. During the 1999-2000 fiscal year, the College classified as sundry charges disbursements made to its bookstore in connection with financial aid student purchases. In the 2000-2001 fiscal year, the College classified these disbursements as revenue refunds.

Sundry charges decreased significantly during the 2000-2001 fiscal year, mostly as a result of a change in the method used by the Community Colleges to report student financial aid expenditures to the State Comptroller. During part of the 1999-2000 fiscal year, the Community Colleges reported to the State Comptroller all student financial aid expenditures recorded in their general ledgers, including both actual cash disbursements and non-cash, book entries of expenditures recognized (classified as Sundry Charges on the State Comptroller's records). This method had the effect of duplicating some expenditures recorded on the State Comptroller's books. Effective during the 1999-2000 fiscal year, the Community Colleges, after consulting with the State Comptroller's Office, discontinued reporting to the State Comptroller the above non-cash transactions of student financial aid expenditures recorded in the Colleges' general ledgers. Therefore, during the 2000-2001 fiscal year, no such duplicate expenditures were reported to the State Comptroller, which contributed to the decrease in Operating Fund revenue refunds expenditures recorded by the State Comptroller in the 2000-2001 fiscal year.

Grants – Tax-Exempt Proceeds Fund:

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

While there were no Fund receipts during the 1999-2000 fiscal year, Fund receipts totaled $35,000 during the 2000-2001 fiscal year.

Fund expenditures totaled $27,280 and $4,294 during the 1999-2000 and 2000-2001 fiscal years, respectively. Expenditures primarily consisted of costs to improve the campus building.

Fiduciary Funds:

Student Activity Fund:

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

Receipts, as presented in financial statements prepared by the College, totaled $56,287 and $78,830 in the respective audited years and primarily consisted of Student Activity fees assessed on students as well as income generated from various student organization activities. During the 2000-2001 fiscal year, receipts reported by the College increased by $22,543, compared to the previous year. This was in large part due to a College overstatement of receipts reported on its Student Activity Fund financial statements. On its Student Activity Fund statement of cash receipts and disbursements for the 2000-2001 fiscal year, the College misclassified some internal fund transfers as receipts. See the “Condition of Records” section of this report for further details on this and other financial reporting weaknesses noted.

Disbursements, according to financial statements prepared by the College, totaled $55,061 and $83,987 in the respective audited years, and were mostly made to cover the costs of student organizations and related activities. In the 2000-2001 fiscal year, reported disbursements rose by $28,329, compared to the previous fiscal year. As was the case with Fund receipts, this increase was mostly the result of a College misstatement of certain transactions on its financial statements. In this case, the College misclassified some internal fund transfers as disbursements. Again, this is further explained in the “Condition of Records” section of this report.

Institutional General Welfare Fund:

The Institutional General Welfare Fund operated under the provisions of Sections 4-56 through 4-58 of the General Statutes. The Fund was established to record the financial activities of any gifts, donations or bequests, including scholarships, made to benefit students of the College.

Receipts, as shown on financial statements prepared by the College, totaled $58,275 and $13,199 in the 1999-2000 and 2000-2001 fiscal years, respectively. During the audited years, receipts included scholarship monies received. In addition, during the 1999-2000 fiscal year, the fund was used as a clearing account for Federal student financial assistance loan checks received. Such checks were deposited into this fund, with amounts then allocated and disbursed among amounts owed the College, amounts owed the College bookstore and remaining balances owed to students. Receipts fell by $45,076 in the 2000-2001 fiscal year. This decrease was caused largely by a change in the College’s method of processing some Federal student aid funds received. In the 2000-2001 fiscal year, the College no longer used the Welfare Fund as a clearing account for Federal student aid checks received. Rather, during this year, the College received these funds electronically and processed them through the Operating Fund.

Financial statements prepared by the College reported disbursements which totaled $70,019 and $25,294 during the respective audited years. Disbursements included payments for scholarships and, during the 1999-2000 fiscal year, the above-mentioned distributions of student assistance funds to students. Disbursements decreased by $44,725 during the 2000-2001 fiscal year. As was the case with Fund receipts, this decrease primarily stemmed from a change in the College's method of processing certain Federal student aid receipts. In the 2000-2001 fiscal year, the College discontinued using the Welfare Fund as a clearing account for these funds. Instead, it used the Operating Fund to account for their receipt and disbursement.

Housatonic Community College Foundation, Inc.:

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

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

Audits of the books and accounts of the Foundation were performed by an independent certified public accounting firm for the years ended June 30, 2000 and 2001, in accordance with Section 4-37f, subsection (8) of the General Statutes. Corresponding audit reports expressed unqualified opinions on the Foundation's financial statements and indicated compliance, in all material respects, with Sections 4-37e through 4-37i of the General Statutes.

CONDITION OF RECORDS

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

Late Student Activity Fund Bank Deposits:

Criteria: The State Comptroller's *Accounting Procedures Manual* for Activity and Welfare Funds, in accordance with Section 4-32 of the General Statutes, requires that each State institution receiving cash receipts amounting to $500 or more and belonging to the Student Activity Fund to deposit these monies within 24 hours of receipt.

Condition: We tested a sample of receipts amounting to $1,782, which were associated with five revenue generating student events during the audited period, and found that in all five cases receipts were deposited late. In four of these cases, receipts totaling $1,180 appeared to have been deposited between three and nine days late. In one of these cases, receipts totaling $602 appeared to have been deposited more than two months (at least 72 workdays) late. In some cases, the degree of lateness was unclear, as related documentation prepared by students or student organization advisors lacked receipt dates. However, based on event activity reports prepared, it was clear that all deposits tested were late.

Effect: The College neither fully complied with the State Comptroller's *Accounting Procedures Manual* for Activity and Welfare Funds nor with Section 4-32 of the General Statutes. This weakened internal control over some Student Activity Fund receipts and increased the likelihood of their loss or theft.

Cause: In most of the cases tested, it was evident that student organizations delayed turning over event receipts to the College Business Office.

Recommendation: The College should take steps to ensure that student event receipts are deposited into the bank in a timely manner, as required by the State Comptroller's *Accounting Procedures Manual* for Activity and Welfare Funds, pursuant to Section 4-32 of the General Statutes. (See Recommendation 1.)

Agency Response: "On July 13, 2001, a new Coordinator of Student Life was hired which filled a long-standing vacancy. The primary function of this position is to coordinate all student activity functions, including addressing the timeliness of deposits. Also, in February of 2002 a new permanent Dean of Students was hired, following various interim deans over a two-year timeframe. Both individuals have been made aware of this problem and of the importance of solving it. As a result of these actions, the recommendations of the Auditors of Public Accounts should be addressed."

Accounts Receivable

Criteria: Prudent internal control procedures, including the requirements set by the State Library Public Records Administrator, provide that State agency records should be retained at least until audited. Specifically, the State Library's Public Records Administrator's records retention schedule requires that accounts receivable records be retained, at least, for three years, or until audited, whichever comes later.

Section 3-7 of the General Statutes provides that any State agency may write off uncollectible accounts receivable in the amount of $1,000 or less upon the authorization of the head of the agency. Furthermore, the Board of Trustees of Community-Technical Colleges has established procedures for the collection and write-off of student accounts receivable. These procedures require that at least three collection attempts be made for student accounts over $25 before an account is considered for write-off.

Condition: We were told that while the College regularly reconciled its accounts receivable subsidiary records with its accounts receivable control account records, it did not retain documentation of such reconciliations for the audited period.

Also, we tested ten student accounts receivable written off by the College during the audited period, all over $25, and found that in eight cases the College had only two letters on file requesting payment of balances due. The Board of Trustees of Community-Technical Colleges requires that at least three attempts at collection be made for past due accounts over $25. Furthermore, in one of these cases, the College wrote off a student account receivable prematurely. The College wrote off this receivable, totaling $80, some three weeks after the debtor sent the College a letter saying she would attempt to pay off the balance due. The student enclosed a partial payment with this letter.

Additionally, in June 2000, the College Business Office wrote off 81 student accounts receivable totaling $3,397 (each under $100) several days before obtaining written approval from the College President.

Effect: The College lacked an audit trail of evidence showing that it identified and examined differences, if any, between its accounts receivable subsidiary records and its accounts receivable control account records. Such differences could indicate an understatement or overstatement of amounts due the College. Also, the College did not conform to the records retention requirements set by the State Library Public Records

Administrator.

The premature write-off of delinquent accounts decreased the College's chances of collection of these past due accounts. It also demonstrated noncompliance with the Board of Trustees of Community-Technical Colleges' procedures.

The write off of accounts receivable before obtaining the President's written approval showed a lack of compliance with Section 3-7 of the General Statutes.

Cause: Existing College procedures were not adequate to ensure the College's compliance with accounts receivable records retention requirements and with accounts receivable collection and write-off requirements.

Recommendation: The College should retain documentation showing that it reconciles accounts receivable subsidiary account records with accounts receivable control account records, as required by the State Library Public Records Administrator. The College should also increase its delinquent accounts collection efforts and avoid the premature write-off of accounts receivable by following the Board of Trustees of Community-Technical Colleges' established procedures for the collection and write-off of student accounts receivable. (See Recommendation 2.)

Agency Response: "The college has instituted a system of retaining the accounts receivable reconciliation printouts as outlined by the State Library Public Records Administration. The college has also instituted measures to insure all students are billed the proper number of times before collection efforts and any write-offs take place. Measures have been instituted to address the issue of timeliness of write-offs. With these measures, the college should now be in compliance with the procedures established by the Board of Trustees of Community-Technical Colleges."

Bookstore Contract Bidding:

Background: During the audited period, the College contracted out its bookstore operations. The College provided a contractor space on campus from which to sell textbooks and other goods to the College community. In return, the bookstore contractor paid the College a commission based on sales revenue, with a minimum payment of $40,000 annually.

Criteria: Sound business practices require that significant revenue generating contracts be put out to bid to receive the most beneficial contract terms.

Condition: The College did not seek bids before renewing its original three-year bookstore contract, which expired on February 15, 2000. Furthermore, though the College's original bookstore contract provided for only two one-year extensions, the College chose to extend its original bookstore contract for a third year. In short, the College contracted with the same vendor for a six-year period, under the same contract terms, without seeking competitive bids from other vendors before renewing its original contract.

Effect: The College lacked assurance that it received the most beneficial contract terms, a situation which may have resulted in the College not maximizing its potential revenue.

Cause: A College official told us that the College chose to continue doing business with its current bookstore vendor, as the other Community College system colleges that contract out their bookstores also use this vendor.

Recommendation: The College should solicit bids for revenue generating operations, such as its bookstore, before contracting with vendors to run such operations. (See Recommendation 3.)

Agency Response: "The college has discussed this issue with the Auditors of Public Accounts and although currently there is no state legislation mandating the bidding of revenue contracts, the college does understand the auditor's position regarding this issue."

Auditors' Concluding Comments:
We did not state that State legal requirements compel the College to solicit bids before entering into revenue generating contracts. Rather, we believe that it makes good business sense to periodically seek out and evaluate proposals from alternative contractors before entering into such agreements.

Property Control:

Criteria: The State of Connecticut's *Property Control Manual*, under authority of Section 4-36 of the General Statutes, sets forth criteria and policies over assets owned or leased by a State agency. Requirements include, among other things, that capital equipment and certain other controllable items be recorded in property control records and that an annual report reflecting the total of physical inventory as of June 30, each year, be submitted to the State Comptroller.

Condition:

1. We tested 17 equipment items purchased during the audited period and found that 13 items (76 percent), amounting to $14,738, were not recorded in the latest inventory control records provided to us.

In addition, the College could not locate one of these items, a computer with a cost of $1,108.

2. We tested the accuracy of ten inventory control records and found that six equipment items recorded in these records, consisting primarily of computers and related hardware with a cost of $12,186, could not be located by College officials.

3. Equipment inventory control records were not up-to-date. During our review of property control, in June 2002, the latest equipment inventory control listing the College provided us was dated July 6, 2001.

4. Annual property inventory reports submitted to the State Comptroller were not completely accurate. Specifically, we noted that the reports filed for the 1999-2000 and 2000-2001 fiscal years did not include on the required lines the College's Student Activity Fund equipment totals of $19,179 and $22,307 as of June 30, 2000, and 2001. Also, equipment reported stolen during fiscal year 2000-2001 was not reported in the deletions column of the 2000-2001 fiscal year report. Further, the College, generally, did not report actual additions and deletions of property as required by the State Comptroller. Rather, the College reported net increases or decreases. Moreover, for some numbers reported, the College could not provide us with supporting documentation.

Effect: Internal control over equipment was weakened, and the College did not fully comply with the State of Connecticut's *Property Control Manual*.

Cause: Annual property inventory report weaknesses noted appeared to have been oversights. We were told that some equipment purchased during the audited period was not entered into the College's inventory control records since the College was in the process of making the transition to a new inventory control record keeping system. We were also told that, at times, College equipment is moved without informing the employee in charge of inventory control records.

Recommendation: The College should improve controls over its property by following the property control requirements set forth by the State Comptroller. (See Recommendation 4.)

Agency Response: "The college is now in its final stage of implementing the new Banner Fixed Asset Module. We are now in possession of our second listing of fixed assets, which was produced by an actual physical inventory performed by a private vendor. With this module in place and with this updated physical inventory listing, the college will resolve all outstanding equipment issues, including incorporating the equipment purchased from the local student activity fund. This new Banner Fixed Asset Module, along with the annual physical inventory, will now bring the college into compliance with the State of Connecticut's Property Control Manual."

Procurement:

Criteria: Section 10a-151b of the General Statutes requires the State's higher education institutions to base purchases, "when possible, on competitive bids or competitive negotiation." Subsection (b) of this Section provides specific requirements for higher education purchases estimated to exceed $50,000 in amount. Among these requirements is that competitive bids or proposals shall be solicited by public notice at least once in two or more publications and shall be posted on the Internet.

Sound internal control procedures require personal service agreements to be signed by appropriate College officials prior to the contract term.

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

The Community College system's *Agency Purchasing Policies* states, "purchases with a personal service contractor which exceed $3,000, and which are not covered by a master agreement, require Attorney General approval…."

Condition: The College entered into an agreement with a contractor to perform janitorial services on campus during the period January 6, 1997, through December 31, 1998, with an option for two one-year extensions. The College elected to take these extensions. In June 1999, the College set up a new agreement with this contractor, for another three-year period, covering January 1, 2001 through December 31, 2003. This last agreement amounted to $13,295 per month, or $478,620 for the entire three-year period. According to the College Business Manager, while the College did bid out its original agreement with this contractor, it did not bid out its new agreement for the period January 1, 2001 through December 31, 2003.

In addition, we tested ten personal service agreements set up by the College and noted the following weaknesses:

- In two cases, College officials signed approval of personal service agreements amounting to $16,324 either after the contractor began services or after the contractor completed services.
- In one case, the College did not obtain the required approval from the Attorney General's Office for a personal service agreement amounting to $4,500. In December 2000, the College processed a $4,500 payment to the contractor.
- In one case, the College entered into a contract amounting to $1,400 with a State employee to prepare and facilitate a seminar. However, the College did not award this contract in an open and competitive manner, as required by Section 1-84, subsection (i) of the General Statutes. In February 2000, the College processed a $1,400 payment to the vendor.
- In one case, the College entered into a contract with an individual to teach various management courses for the College's Business and Industry Services Department. The contract totaled $11,824 but was not put out to bid, as required by Section 10a-151b of the General Statutes. In January 2001, the College processed corresponding payments to this contractor.

Effect: The College did not fully comply with Section 10a-151b of the General Statutes. This decreased the College's chances of receiving the most favorable prices for services rendered. It may also raise questions about conflicts of interest in College business dealings.

Internal control over personal service agreements was weakened. Specifically, assurance was lessened that the terms of personal service agreements met the approval of the College administration prior to the performance of such contracts.

Not obtaining the Attorney General's Office approval of personal service agreements, when required, could increase the likelihood that such contracts are not in proper legal form. It also demonstrates noncompliance with Community College system policy.

In addition, the statutory requirement that contracts be awarded to State employees only through an "open and public process" is intended to prevent abuse. Lack of compliance raises questions as to the propriety of such transactions.

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

Recommendation: The College should take steps to ensure that its purchases are based on competitive bids or competitive negotiation when required by Section 10a-151b of the General Statutes. Furthermore, the College should improve both its controls and statutory compliance in connection with personal service agreements by ensuring that all such agreements are approved by appropriate officials in a timely manner and by meeting the requirements of Section 1-84 of the General Statutes with respect to the awarding of contracts to State employees. (See Recommendation 5.)

Agency Response: "The Dean of Administration, in conjunction with the Dean of Outreach Services, has implemented internal procedures for the Business Office that will address the Auditors of Public Accounts' concerns regarding timeliness of Personal Service Agreements. These internal procedures will also encompass the timeliness of approvals, including the Attorney General's Office, and awarding contracts to state employees. The Business Office has initiated additional internal procedures to address the issue of competitive bidding on all service contracts in order to be in compliance with the governing sections of the state statutes."

Time Cards for Part-time Lecturers:

Criteria: Sound internal control requires the preparation of time cards or equivalent documents, signed by the employee's supervisor, to support time worked during a particular pay period. Such records provide some assurance that an employee actually worked during the time period for which he or she was paid.

Condition: We were told that during the audited period and subsequently the College did not require Part-time Lecturers to prepare time cards supporting time worked during the winter and summer sessions. As a result, Part-time Lecturers did not prepare time cards during winter and summer sessions.

Effect: Though we were told that there was ongoing communication between the College's Evening Division, which monitors Part-time Lecturer budgets, and the Personnel/Payroll Department on the status of Part-time Lecturers, lack of time cards during winter and summer sessions decreased the assurance that such employees actually worked during the time period for which they were paid.

Cause: The College considered control procedures in place adequate.

Recommendation: The College should require the preparation of time cards for Part-time Lecturers during all sessions, including winter and summer sessions, during which such employees are employed at the College. (See Recommendation 6.)

Agency Response: "The college has developed and implemented a time and effort reporting system that documents all payroll costs for summer and intersession part time lecturers. The effective date of this implementation was the summer school session of 2002."

Financial Reporting Systems:

Criteria: Accurate financial statements are management tools that allow the assessment of the activity and financial status of certain funds. Furthermore, State agencies should report accurate figures to the State Comptroller to help ensure that the State Comptroller's records are accurate.

Condition:

1. The College did not but should have included relevant State Treasurer's Short-Term Investment Fund (STIF) balances on its balance sheets for its Student Activity Fund and its Welfare Fund during the audited period. On its Student Activity Fund and Welfare Fund balance sheets for June 30, 2000, the College excluded from assets reported year-end balances of monies held in STIF accounts totaling $72,165 and $24,448, respectively. Likewise, on its Student Activity Fund and Welfare Fund balance sheets for June 30, 2001, the College excluded from assets reported year-end balances of monies held in STIF accounts totaling $78,267 and $26,385, respectively.

2. The College overstated Student Activity Fund receipts and disbursements reported on its statement of cash receipts and disbursements for the 2000-01 fiscal year. Specifically, the College improperly classified intra-fund transfers, totaling $18,400, from its Student Activity Fund STIF account to its Student Activity Fund checking account as receipts of the Fund. It also misclassified transfers, amounting to $20,000, from its Student Activity Fund checking account to its Student Activity Fund STIF account as disbursements of the Fund.

3. On its annual GAAP reports, including balance sheets, submitted to the State Comptroller for the audited period, the College did not report the actual June 30 book balances for its Student Activity Fund and Welfare Fund checking accounts. Rather, it reported June 30 balances that included after the fact adjustments, mostly reflecting the College's subsequent voiding of old checks outstanding.

Effect: Some of the figures reported to the State Comptroller through the College's GAAP reporting forms were not accurate.

Cause: It appears that the College misinterpreted some of the State Comptroller's instructions for preparing GAAP reporting forms.

Resolution: A College official informed us that effective with the 2001-2002 fiscal year, the Community College system's Central Office has taken over responsibility for completing the State Comptroller's GAAP reporting forms for all Community Colleges, including the preparation of Student Activity Fund and Welfare Fund financial statements.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **Comply with Section 4-32 of the General Statutes by ensuring that all receipts received are accounted for and deposited promptly.** In our current audit, we noted weaknesses in the timeliness of deposit of student event receipts. We are, therefore, repeating this recommendation with modification, this time emphasizing the need to improve the timeliness of deposit of student event receipts. (See Recommendation 1.)

- **Maintain a cash receipts journal for Welfare Fund receipts that includes receipt amounts and related receipt dates, both to improve internal controls and to help ensure compliance with the prompt deposit requirements of Section 4-32 of the General Statutes.** The recommendation was implemented. Therefore, the recommendation is not being repeated.

- **Improve controls over property by following the property control requirements set forth by the State Comptroller.** Our current audit showed that controls over property still need improvement. Therefore, the recommendation is being repeated. (See Recommendation 4.)

- **Improve both controls and statutory compliance in connection with personal service agreements by ensuring that all such agreements are approved by appropriate officials in a timely manner and by meeting the requirements of Section 1-84 of the General Statutes with respect to the awarding of contracts to State employees.** We continue to find weaknesses in this area and have also noted a lack of compliance with bidding requirements. The recommendation is, therefore, being repeated with modification. (See Recommendation 5.)

- **Improve internal controls over Student Activity Fund expenditures by ensuring that adequate support documentation is obtained, evidencing that services for which payments were made were actually rendered.** Improvement was noted. The Recommendation is not being repeated.

- **The College should develop and implement a time and effort reporting system for documenting payroll costs associated with its Federal grant programs, as required by Office of Management and Budget Circular A-21.** The recommendation was implemented and is, therefore, not being repeated.

Current Audit Recommendations:

1. **The College should take steps to ensure that student event receipts are deposited into the bank in a timely manner, as required by the State Comptroller's *Accounting Procedures Manual* for Activity and Welfare Funds, pursuant to Section 4-32 of the General Statutes.**

   Comment:

   We tested a sample of receipts amounting to $1,782, which were associated with five revenue generating student events during the audited period, and found that in all five cases receipts were deposited late. Four of these deposits ranged from between three and nine days late; one deposit was more than two months late.

2. **The College should retain documentation showing that it reconciles accounts receivable subsidiary account records with accounts receivable control account records, as required by the State Library Public Records Administrator. The College should also increase its delinquent accounts collection efforts and avoid the premature write-off of accounts receivable by following the Board of Trustees of Community-Technical Colleges' established procedures for the collection and write-off of student accounts receivable.**

   Comment:

   The College did not retain documentation showing that it reconciled its accounts receivable subsidiary records with its accounts receivable control account records. Also, our test of ten student accounts receivable written off by the College during the audited period revealed that in eight cases the College had only two letters on file requesting payment of balances due. The Board of Trustees of Community-Technical Colleges requires that at least three attempts at collection be made for past due accounts over $25. Furthermore, in one of these cases, it appeared that the College wrote off a student account receivable prematurely. Additionally, in June 2000, the College Business Office wrote off some student accounts receivable several days before obtaining written approval from the College President.

3. **The College should solicit bids for revenue generating operations, such as its bookstore, before contracting with vendors to run such operations.**

   Comment:

   The College did not solicit bids before extending its original three-year bookstore contract, which expired in February 2000, for three one-year periods.

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

Comment:

Our tests revealed that a number of equipment items purchased during the audited period were not recorded in the latest inventory control records provided to us. In addition, the College could not locate one of these items, a computer with a cost of $1,108. Further, we tested ten College inventory control records and found that the College could not locate six equipment items that were recorded in these records. These items consisted primarily of computers and related hardware amounting to $12,186. Also, equipment inventory control records were not up-to-date. During our review of property control, in June 2002, the latest equipment inventory control listing the College provided us was dated July 6, 2001. Annual property inventory reports submitted to the State Comptroller were not completely accurate. Moreover, for some numbers reported, the College could not provide us with supporting documentation.

5. The College should take steps to ensure that its purchases are based on competitive bids or competitive negotiation when required by Section 10a-151b of the General Statutes. Furthermore, the College should improve both its controls and statutory compliance in connection with personal service agreements by ensuring that all such agreements are approved by appropriate officials in a timely manner and by meeting the requirements of Section 1-84 of the General Statutes with respect to the awarding of contracts to State employees.

Comment:

The College entered into a new agreement with its janitorial services contractor for an additional three-year period, covering January 1, 2001 through December 31, 2003. This agreement amounted to $13,295 per month, or $478,620 for the entire three-year period. The College did not bid out this agreement, as required by Section 10a-151b of the General Statutes. In addition, we tested ten personal service agreements set up by the College and noted the following weaknesses: In two cases, College officials signed approval of personal service agreements amounting to $16,324 either after the contractor began services or after the contractor completed services. In one case, the College did not obtain the required approval from the Attorney General's Office for a personal service agreement amounting to $4,500. In one case, the College entered into a contract amounting to $1,400 with a State employee to prepare and facilitate a seminar. However, the College did not award this contract in an open and competitive manner, as required by Section 1-84, subsection (i) of the General Statutes. In one case, the College entered into a contract with an individual to teach various management courses for the College's Business and Industry Services Department. The contract totaled $11,824 but was not put out to bid, as required by Section 10a-151b of the General Statutes.

6. The College should require the preparation of time cards for Part-time Lecturers during all sessions, including winter and summer sessions, during which such employees are employed at the College.

Comment:

During the audited period and subsequently, the College did not require Part-time Lecturers to prepare time cards supporting time worked during the winter and summer sessions. As a result, Part-time Lecturers did not prepare time cards during winter and summer sessions.

INDEPENDENT AUDITOR'S CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of Housatonic Community College for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the College's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the College's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the College are complied with, (2) the financial transactions of the College are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the College are safeguarded against loss or unauthorized use. The financial statement audits of Housatonic Community College 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 Housatonic Community College complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to Housatonic Community College is the responsibility of Housatonic Community College's management.

As part of obtaining reasonable assurance about whether the College complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the College's financial operations for the fiscal years ended June 30, 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 Housatonic Community College is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the College. In planning and performing our audit, we considered the College's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the College's financial operations in order to determine our auditing procedures for the purpose of evaluating Housatonic Community College's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the College's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the College's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the College's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: the College's weaknesses in controls over certain procurement matters, such as a lack of bidding for some contracts; and the College's weaknesses in controls over its equipment.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the College's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the entity being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the College's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable condition to be a material or significant weakness: the College's weaknesses in controls over its equipment.

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

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

CONCLUSION

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

Daniel F. Puklin
Associate Auditor

Approved:

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