STATE OF CONNECTICUT

AUDITORS' REPORT
BOARD OF TRUSTEES FOR
COMMUNITY-TECHNICAL COLLEGES
HOUSATONIC COMMUNITY-TECHNICAL COLLEGE
FOR THE FISCAL YEARS ENDED JUNE 30, 1998 AND 1999

AUDITORS OF PUBLIC ACCOUNTS
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April 27, 2001

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We have examined the financial records of Housatonic Community-Technical College (College) for the fiscal years ended June 30, 1998 and 1999.

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 for Community-Technical Colleges approved a resolution changing the names of the colleges within the Community-Technical College system from Community-Technical Colleges to Community Colleges. As this report covers a time period before that change occurred, we will refer to the subject college as Housatonic Community-Technical College and not Housatonic Community College, its present name.

As such, Housatonic Community-Technical College, located in Bridgeport, Connecticut, is one of twelve two-year institutions of higher education which collectively form the Connecticut Community-Technical College system. The Board of Trustees for Community-Technical Colleges administers the 12 institutions.

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

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

Recent Legislation:

The following notable legislation took effect during the audited period:

Public Act 97-293 – Effective July 1, 1997, Section 3 of this act requires the Board of Trustees of the Community-Technical Colleges to establish a permanent Endowment Fund to encourage donations from the private sector. The net earnings on the endowment principal are dedicated and made available to the Community-Technical Colleges for scholarships and programmatic enhancements. Section 1 creates a Higher Education State Matching Grant Fund, administered by the Department of Higher Education, to match one half of the private funds raised for those endowment funds. Section 3 establishes the annual maximum State grant commitment for the Community –Technical Colleges for the fiscal years through fiscal year 2008 – 2009.

Enrollment Statistics:

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

	Fall 1997	Spring 1998	Fall 1998	Spring 1999
Full-time students	636	613	739	672
Part-time students	2,655	2,652	2,812	2,869
Total enrollment	3,291	3,265	3,551	3,541

The average of Fall and Spring semesters' enrollment during the 1998-1999 fiscal year increased by some eight percent, compared to the previous fiscal year. According to the College's Institutional Research Department, this can be mostly attributed to the College's move to its new campus in January 1997 and the enduring publicity the new campus has generated.

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 $522 for the fiscal year ended June 30, 1998, and were made up of refunds of expenditures of budgeted accounts. There were no General Fund receipts for the fiscal year ended June 30, 1999.

During the audited period, General Fund expenditures consisted entirely of personal services costs. Expenditures totaled $6,329,779 and $7,166,083 for the fiscal years ended June 30, 1998 and 1999, respectively, compared to $5,822,218 for the fiscal year ended June 30, 1997. These totals represented increases of $507,561 (8.7 percent) and $836,304 (13.2 percent), respectively, during the audited years. The increases appear to have been mostly the result of increases in the number of College staff members hired to meet the needs of the College's growing student enrollment but were also the result of salary increases in accordance with collective bargaining agreements.

State Capital Projects:

Capital projects funds expenditures during the fiscal years ended June 30, 1998 and 1999, totaled $660,319 and $274,941, respectively.

Expenditures during the audited period were made for the development of the College's campus facilities and also for the purchase of equipment.

Expenditures were significantly higher during the 1997-1998 fiscal year, compared to the subsequent year. In the 1997-1998 fiscal year, the College was still incurring building development costs associated with the move to its new campus in January 1997.

Operating Fund:

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

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

	Fiscal Year 1996-1997	Fiscal Year 1997-1998	Fiscal Year 1998-1999
Tuition in-State	$1,807,332	$3,419,972	$1,015
Tuition out-of-State	86,323	124,366	-
Operating Fund Receipts	-	526,853	4,998,745
Federal Aid	811,482	1,985,182	1,897,895
Private Donations	358,220	412,652	560,085
Educational Extension	424,940	117,837	19,069
Auxiliary Services	366,843	831,873	8,681
Refunds of Expenditures	5,397	7,360	4,534
Other	77	189	-
Total Receipts	$3,860,614	$7,426,284	$7,490,024

Total Operating Fund receipts increased sharply, some $3,500,000 (or 92.4 percent), in the 1997-1998 fiscal year as compared to the 1996-1997 fiscal year, a result in part from an increase in student enrollment and increases in tuition and fee rates during the 1997-1998 fiscal year. Also, as noted in our last audit report, due to a delay in processing Spring 1997 semester student financial aid payments, the College did not draw down Federal funds for the Spring 1997 semester student aid awards until the next fiscal year (the 1997-1998 fiscal year). Therefore, the total of College Operating Fund receipts during the 1997-1998 fiscal year was distorted, as it included receipts pertaining to the previous fiscal year. In addition, the level of certain categories of Operating Fund receipts, most notably Tuition in-State, Tuition out-of-State, Educational Extension and Auxiliary Services, fluctuated during the audited years, mostly as a result of a coding change. In the fourth quarter of the 1997-1998 fiscal year, the College began to code, among other things, tuition and fees received using the more generic category, "Operating Fund Receipts."

As can be seen above, 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
1996-1997	$ 1,560	$ 4,680	$ 2,340
1997-1998	1,608	5,232	2,412
1998-1999	1,608	5,232	2,412

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

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

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

	Fiscal Year 1996-1997	Fiscal Year 1997-1998	Fiscal Year 1998-1999
Personal Services	$956,555	$937,040	$1,593,470
Contractual Services	1,814,670	1,309,317	1,669,723
Commodities	271,200	416,265	401,535
Revenue Refunds	102,458	16,866	731,863
Sundry Charges	1,474,947	2,432,493	1,745,039
Equipment	309,665	293,923	66,333
Total Expenditures	$4,929,495	$5,405,904	$6,207,963

Expenditures were made up of costs associated with personal services, student financial assistance (included in the Sundry Charges category) and other College operating costs. Operating Fund expenditures increased by $476,409 (9.7 percent) and $802,059 (14.8 percent) during the 1997-1998 and 1998-1999 fiscal years, respectively, compared to the previous fiscal years. The increase during the 1997-1998 fiscal year can, in large part, be attributed to an increase in the category of sundry charges, a category made up primarily of expenditures in connection with student financial assistance. During the 1997-1998 fiscal year, student financial assistance expenditures rose, in part, as a result of increased student enrollment. The increase in expenditures during the 1998-1999 fiscal year was mostly a result of increased personal services costs stemming from increases in the number of staff members hired to accommodate the College's growing student enrollment. In addition, during the 1998-1999 fiscal year, revenue refunds increased sharply, while sundry charges fell, compared to the previous year, primarily due to a coding change. In the 1998-1999 fiscal year, the Community-Technical Colleges began to code as revenue refunds disbursements to students for student financial assistance amounts awarded in excess of the amounts the students owed the Colleges. Previously, such transactions were coded as sundry charges.

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. Although management of the Student Activity Fund was under the control of the students acting though the student government, during the audited period, it remained subject to the supervision of the College administration.

Receipts, as presented in financial statements prepared by the College, totaled $81,040 and $50,549 in the respective audited years and primarily consisted of the Student Activity fees assessed on students as well as income generated from various student organization activities. In the 1998-1999 fiscal year, receipts decreased by $30,491 (37.6 percent), compared to the previous year. This was in part due to a decrease in the 1998-

1999 fiscal year in the amount of internal fund transfers, amounts which the College recognized as receipts on its financial statements for the 1997-1998 fiscal year.

Disbursements, according to financial statements prepared by the College, totaled $68,856 and $104,797 in the respective audited years, and were mostly made to cover the costs of student organizations and related activities. In the 1998-1999 fiscal year, disbursements increased by $35,941 (52.2 percent), compared to the previous fiscal year. This increase was mostly the result of an increase in the amount of internal fund transfers in the 1998-1999 fiscal year, which the College reported as disbursements on its financial statement for that year.

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 $132,337 and $186,471 in the 1997-1998 and 1998-1999 fiscal years, respectively. During the audited years, receipts included scholarship monies and graduation fees received. In addition, the fund was used as a clearing account for Federal, State and private student assistance checks received, checks requiring joint endorsement by the student and the College. Such checks were deposited into this fund, with amounts later allocated and disbursed among amounts owed the College, amounts owed the College bookstore and remaining balances owed to students. Receipts increased by $54,134 (40.9 percent) during the 1998-1999 fiscal year, compared to the previous year, mostly due to an increase in the level of Federal student assistance checks received and processed through the fund.

Financial statements prepared by the College reported disbursements which totaled $127,440 and $192,439 during the respective audited years. Disbursements included payments for scholarships, graduation expenses and the distribution of the above-mentioned Federal, State and private student assistance checks received. During the 1998-1999 fiscal year, disbursements increased by $64,999 (51 percent), mostly as a result of an increase in the level of Federal student assistance checks received and later disbursed through the fund.

Housatonic Community-Technical College Foundation, Inc.:

Housatonic Community-Technical 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-Technical 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, 1998 and 1999, in accordance with Section 4-37f, subsection (8), of the General Statutes. We were provided with two audit reports on Foundation operations, one for each of the audited years. Both reports expressed unqualified opinions on the Foundation's financial statements and both 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-Technical College revealed certain areas requiring attention, as discussed in this section of the report.

Late Bank Deposits:

Criteria: Section 4-32 of the General Statutes provides that each State institution receiving revenue for the State shall, where such sums exceed $500, deposit the amounts in bank accounts approved by the State Treasurer, within 24 hours of their receipt.

Condition: We tested the timeliness of bank deposits of 25 receipts batches and noted that two deposits were late, one in the amount of $1,046, which was four work days late, and another totaling $2,115, which was three work days late. In addition to our test of 25 deposits, we found that the College received a check dated August 7, 1998, totaling $1,180, which was deposited on March 31, 1999, more than seven months after the check date. Though College Business Office receipt documentation shows this check as being received in the Business Office on March 26, 1999, it seems that the check was previously received and held in another College office and later turned over to the College Business Office for deposit. It appears that this check was also deposited late.

Effect: The College violated provisions of Section 4-32 of the General Statutes, exposing cash receipts to increased risk of loss or theft.

Cause: It is apparent that controls were not in place to prevent the above conditions from occurring.

Recommendation: The College should comply with Section 4-32 of the General Statutes by ensuring that all receipts received are accounted for and deposited promptly. (See Recommendation 1.)

Agency Response: "The Administration of the college has issued a notification to all Deans, managers, and directors regarding this recommendation. The Business Office has also initiated internal procedures in ensure all incoming checks are deposited in a timely manner. In the past, all incoming checks were researched to ensure recording to the proper internal revenue codes. Now, any unidentified incoming check will be deposited to a miscellaneous account and the research performed after the time of deposit. To correct the internal revenue codes, internal journal vouchers will occur once the research is completed."

Student Activity Fund Event Receipts:

Criteria: The State Comptroller's *Accounting Procedures Manual* for Activity and Welfare Funds, in accordance with Section 4-32 of the General Statutes, requires all cash receipts totaling $500 or more and belonging to the Student Activity Fund to be deposited within 24 hours of receipt. The Manual also requires that these receipts be deposited into a bank account approved by the State Treasurer and State Comptroller pursuant to Section 4-33 of the General Statutes. The Manual further adds "expenses incurred in connection with social events should never be paid out of income."

Condition: During the audited period and through November 7, 1999, the College bookstore, through an agreement with the College, sold student event tickets and received a ten percent commission for this service. Until March 1999, receipts generated from such sales were deposited into the bookstore's own private bank account and then turned over to the College, less a ten percent commission retained. Specifically, the agreement between the College and its bookstore called for the bookstore to remit to the College the net amount of event receipts due within ten days after the event. In effect, expenses were paid out of income for these events.

In March 1999 through November 7, 1999, such receipts were deposited into the bookstore's private bank account and were then transmitted, intact, to the College. The College would then issue a check, drawn from its Student Activity Fund, paying the bookstore the ten percent commission on sales.

In connection with the above, we tested receipts collected for seven student events held during the audited period, including five for which the bookstore sold related tickets. We found that in the five cases where the bookstore sold event tickets, the bookstore did not turn over receipts to the College Business Office promptly. The Business Office received receipts from the bookstore from three to 20 work days after the events took place. Corresponding bank deposits into the Student Activity Fund occurred from four to 22 work days after the respective events occurred.

Effect: The above conditions resulted in noncompliance with the State Comptroller's *Accounting Procedures Manual* for Activity and Welfare Funds, pursuant to Sections 4-32 and 4-33 of the General Statutes. Furthermore, it is questionable whether the commission charged by the bookstore for the sale of student event tickets was a necessary expense for the Student Activity

Fund, given that the College was equipped to handle such activities on its own.

Cause: College officials suggested that having the bookstore handle the sale of student event tickets provided improved controls, compared to having students perform these duties as was done in the past.

Resolution: After November 7, 1999, the College discontinued this agreement with the bookstore and began to directly collect receipts from student events, with no bookstore involvement.

Late Reporting of Receipts:

Criteria: Section 4-32 of the General Statutes, among other things, requires each State agency receiving monies totaling $500 or more to account for and deposit these amounts into a bank account approved by the State Treasurer within 24 hours of receipt. State Treasurer's memorandum T-88-BR2, dated March 21, 1988, says to "account for" means to inform the Treasurer, through a specified deposit document, of all receipts received.

Condition: The State Treasurer's Office advised us of the late reporting of College receipts, a matter which it also reported to the College, in a memo dated May 28, 1999. Examples cited covered the period from February though March 1999. While our review disclosed no late deposits for that period, we did, however, note delays of between 12 and 30 work days in reporting monies received to the State Treasurer's Office.

In a letter dated September 3, 1999, we reported this matter to the Governor and other officials, pursuant to Section 2-90 of the General Statutes.

Effect: Section 4-32 of the General Statutes was not fully complied with, making it more difficult for the State Treasurer's Office to reconcile its records of State monies received.

Cause: It had been the College's practice to send reports of receipts to the State Treasurer accompanied by validated bank deposit receipts. We were told that there were delays in receiving such validated receipts from the bank, delays which, in turn, delayed the College's reporting of these receipts to the Treasurer.

Resolution: We spoke with officials from the State Treasurer's Office who told us that State agencies should report monies received to their office within 24 hours of receipt and that such reports need not be accompanied by validated bank deposit receipts. In July 1999, we informed College officials of this, and have since received no further reports of College-related late reporting of receipts to the State Treasurer's Office.

Welfare Fund Receipts:

Criteria: Sound internal controls require the keeping of cash receipts journals, detailing, among other things, amounts and dates of all monies received.

Condition: For the fiscal year ended June 30, 1999, the College did not maintain a cash receipts journal for Welfare Fund receipts. That is, no summary accounting records were maintained documenting, for the Welfare Fund, receipt dates and amounts of monies received.

Effect: For the 1998-1999 fiscal year, adequate records did not exist to allow the ready determination of how long Welfare Fund monies were being held pending deposit, a condition which increased the risk of loss or theft of such funds.

Cause: It appears that with the implementation of the cash receipting component of the Banner information system in the 1998-1999 fiscal year, inadequate provisions were made for recording Welfare Fund receipts.

Recommendation: The College should 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. (See Recommendation 2.)

Agency Response: "The Business Office, at the recommendations of the auditors, has implemented a cash receipts journal to record all deposited checks, their dates of deposit and amounts deposited."

Inventory Control:

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

Condition:

1. No physical inventory of College equipment was taken during the audited period.
2. The annual property inventory reports submitted to the State Comptroller were not accurate. Specifically, we noted the reports filed for the 1997-1998 and 1998-1999 fiscal years contained incorrect amounts reported for year-end building balances. Also, addition and deletion amounts reported for the categories of books, stores and supplies and fine arts were not accurate.
3. We tested a sample of College inventory control records corresponding with 25 equipment items and found that 15 items, or 60 percent, were actually located in places other than the locations recorded on the College's inventory control records.
4. In a sample of ten computer hardware purchases during the audited period, we found that two items were not tagged with State identification numbers.
5. No perpetual inventory records were maintained for stores and supplies during the audited period, though their reported value exceeded $1,000.

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

Cause: We were told that the employee who completed the annual property reports was new to the task. We were also told that controls were not in place to adequately account for and record the movement of College computer hardware.

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

Agency Response: "The college has implemented measures to ensure that proper controls are in place to monitor our equipment inventory. Annually a full physical inventory will be taken and unannounced random checks of specific room inventory will occur throughout the year. The Purchasing Department will identify equipment purchases for the Facilities' Management/Inventory Control Area to ensure proper tagging. The Business Office will now assist in the preparation of the CO-59 along with the Facilities' Management Area. Lastly, the Information Technology Department will be working with the

Business Office and Facilities' Management Area to implement a perpetual inventory of stores and supplies."

Personal Service Agreements:

Criteria: 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."

Condition: We tested ten personal service agreement contracts during the audited period and found that two were approved by College officials after corresponding services had been completed. In four of the ten cases tested, we were unable to determine the timeliness of contract approval, because the College official who signed the contract did not date it.

Additionally, we found that one of the agreements in the amount of $1,000 was with a current State employee. Since the College dealt with this individual as an independent contractor, it was obligated to follow an award process that met the standards set forth in Section 1-84. That is, the contract should have been awarded through an "open and public process." It was not, according to a College official.

Effect: Internal controls over personal service agreements were weakened. Specifically, assurance was lessened that the terms of personal service agreements met the approval of the College administration prior to the performance of such contracts.
Further, the statutory requirement that contracts be awarded to State employees only through an "open and public process" is intended to prevent abuse. The College's lack of compliance in the case noted raises questions as to the propriety of the transaction.

Cause: Evidently, controls in place were not effective in obtaining timely personal service agreement approvals.

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

Recommendation: The College should improve both its controls and statutory compliance 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 4.)

Agency Response: "The Administration of the college has requested the Business Office to review and strengthen our internal policies governing Personal Service Agreements in order to ensure compliance with all appropriate General Statutes and state requirements. This would include addressing the auditors' specific findings on timely signatures, performing competitive bidding, and regulations governing state employees being awarded Personal Service Agreements."

Student Activity Fund Expenditures:

Criteria: The College has a fiduciary responsibility to ensure that sound internal controls are in place over Student Activity Fund expenditures. Accordingly, disbursements to vendors for services rendered should be supported by documentation indicating that such services were performed.

Condition: We reviewed eight payments charged to the Student Activity Fund during the audited period and found that for three of these cases, all made for services performed, the College issued vendor checks without obtaining documentation evidencing that services were performed. In two of these cases, the College issued checks in advance of corresponding performances, as required by the vendors.

Effect: Controls over Student Activity Fund expenditures were weakened.

Cause: Controls in place were not adequate to prevent the above conditions.

Recommendation: The College should improve internal controls over Student Activity Fund expenditures by ensuring that it obtains adequate support documentation evidencing that services for which payments were made were actually rendered. (See Recommendation 5.)

Agency Response: "The Business Office is working closely with the Dean of Students in order to strengthen the internal policies and procedures of the Student Activity Fund, especially as they pertain to obtaining the proper documents for ordering and receiving supplies and validating that services have actually been performed before checks are issued."

Time and Effort Reporting:

Criteria: Federal Office of Management and Budget Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements between the Federal government and educational institutions. Under this Circular, the method of distributing payroll charges must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. To accomplish this, institutional records must adequately document that payroll expenditures posted to an account were actually incurred in the course of carrying out the program accounted for in the account.

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

Condition: During the audited period, the College received and administered a Federal grant to which payroll expenditures were charged. However, the College did not have a time and effort reporting system, as required by Office of Management and Budget Circular A-21. The Circular provides that where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents qualify as records for this purpose, provided that they meet the requirements outlined in the Circular. The College's payroll documents did not provide a signed certification that the employee's payroll expenditures were charged to the activities/programs on which the employee actually worked.

Effect: The College did not fully comply with Office of Management and Budget Circular A-21 requirements concerning the documentation of payroll distribution costs.

Cause: College officials were unfamiliar with this requirement.

Recommendation: The College should develop and implement a time and effort reporting system for documenting payroll costs associated with its Federal grant programs, as required by Office of Management and Budget Circular A-21. (See Recommendation 6.)

Agency Response: "At the recommendation of the Auditors of Public Accounts, the college has now implemented a system for reporting time and effort for payroll costs on all federal grant programs."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- Comply with the State Comptroller's *Accounting Procedures Manual* for Activity and Welfare Funds, pursuant to Sections 4-32 and 4-33 of the General Statutes, by discontinuing the contract with the College bookstore to sell student event tickets and by promptly depositing related receipts, intact, into a bank account approved by the State Treasurer and State Comptroller. The College implemented this recommendation after November 7, 1999, when it discontinued its agreement with the bookstore and began to directly collect receipts from student events, with no bookstore involvement. The recommendation is, therefore, not being repeated.

- Prepare purchase requests before incurring costs and require vendor invoices before making payments. We noted improvement in this area. The recommendation is not being repeated.

- Establish procedures to ensure compliance with Section 4-37g, subsection (b) of the General Statutes, which, among other things, requires that a copy of the College foundation audit report and a letter stating that the report was reviewed by the executive authority of the agency be sent to the Auditors of Public Accounts. The recommendation was implemented and is, therefore, not being repeated.

- Take steps to improve the accuracy, record keeping and reporting of Federal receivable balances and improve the timeliness of drawing Federal funds. We noted improvement in this area and are, therefore, not repeating the recommendation.

Current Audit Recommendations:

1. **The College should comply with Section 4-32 of the General Statutes by ensuring that all receipts received are accounted for and deposited promptly.**

   Comment:

   We tested the timeliness of bank deposits of 25 receipts batches and noted that two deposits were late, one in the amount of $1,046, which was four work days late, and another totaling $2,115, which was three work days late. In addition to our test of 25 deposits, we found that the College received a check dated August 7, 1998, totaling $1,180, which was deposited on March 31, 1999, more than seven months after the check date.

2. **The College should 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.**

   Comment:

For the fiscal year ended June 30, 1999, the College did not maintain summary accounting records for its Welfare Fund, documenting receipt dates and amounts of monies received.

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

Comment:

No physical inventory of College equipment was taken during the audited period. In addition, inaccurate annual property reports were filed with the State Comptroller's Office. We also noted that 15 of 25 equipment items were located in places other than the locations recorded in College inventory control records. We further noted in sample of ten computer hardware purchases during the audited period, that two items were not tagged with State identification numbers. Also, no perpetual inventory records were maintained for stores and supplies.

4. **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:

We tested ten personal service agreement contracts during the audited period and found that two were approved by College officials after corresponding services had been completed. In four of the ten cases tested, we were unable to determine the timeliness of contract approval, because the College official who signed the contract did not date it. Additionally, we found that one of the agreements in the amount of $1,000 was with a current State employee. The College did not award this contract through an "open and competitive process" as required by Section 1-84 of the General Statutes.

5. **The College should improve internal controls over Student Activity Fund expenditures by ensuring that it obtains adequate support documentation evidencing that services for which payments were made were actually rendered.**

Comment:

In three of eight Student Activity Fund payments tested, the College issued vendor checks without obtaining documentation evidencing that services were performed. In two of these cases, the College issued checks in advance of corresponding performances, as required by the vendors.

6. **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.**

Comment:

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

INDEPENDENT AUDITOR'S CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of Housatonic Community-Technical College for the fiscal years ended June 30, 1998 and 1999. 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-Technical College for the fiscal years ended June 30, 1998 and 1999, 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-Technical 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-Technical College is the responsibility of Housatonic Community-Technical 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, 1998 and 1999, 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-Technical 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-Technical 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: weaknesses in controls over property; incurring obligations for personal services prior to formal approval of contractual terms; and weaknesses in record keeping for Welfare Fund receipts.

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

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

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

CONCLUSION

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

Daniel F. Puklin
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts