

STATE OF CONNECTICUT

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

**AUDITORS OF PUBLIC ACCOUNTS
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May 6, 2003

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FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001**

We have examined the financial records of Naugatuck Valley 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 Naugatuck Valley Community-Technical College changed its name to Naugatuck Valley Community College. The Board's name remained unchanged.

As such, Naugatuck Valley Community College, located in Waterbury, 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. Richard L. Sanders 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 00-170 – Section 6 of this Act exempts college textbooks from the sales tax as of July 1, 2000. The exemption applies only to textbooks sold to students enrolled in higher education institutions. Qualifying textbooks must be required or recommended for a college or university course.

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

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

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

Enrollment Statistics:

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

	<u>Fall 1999</u>	<u>Spring 2000</u>	<u>Fall 2000</u>	<u>Spring 2001</u>
Full-time students	1,577	1,373	1,681	1,403
Part-time students	<u>3,302</u>	<u>3,135</u>	<u>3,435</u>	<u>3,188</u>
Total enrollment	<u>4,879</u>	<u>4,508</u>	<u>5,116</u>	<u>4,591</u>

The average of Fall and Spring semesters' enrollment totaled 4,693 and 4,853 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 an increase in the number of high school graduates, according to a College official. Also, during the 2000-2001 fiscal year, the State experienced an economic slowdown. Generally, when the economy deteriorates, community college enrollment increases as people seek to improve or develop new job skills or to pursue lower cost higher education.

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 \$100,470 and \$10,689 for the 1999-2000 and 2000-2001 fiscal years, respectively. Receipts were mostly made up of sales tax collected by the College bookstore and refunds of expenditures of budgeted accounts. Receipts declined significantly during the 2000-2001 fiscal year primarily as a result of Public Act 00-170, which exempted college textbooks sold to college students from the State's sales tax effective July 1, 2000.

During the audited period, General Fund expenditures consisted entirely of personal services costs. Expenditures totaled \$15,238,915 and \$14,990,648 for the fiscal years ended June 30, 2000 and 2001, respectively, compared to \$14,244,612 for the fiscal year ended June 30, 1999. These figures represented an increase of \$994,303 (7.0 percent) and a decrease of \$248,267 (1.6 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 refilling of positions vacant due to retirements. 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 \$695,661 and \$2,410,836, respectively. These expenditures were made to cover the costs of various campus building and grounds maintenance and improvement projects as well as equipment purchases during the audited period.

Expenditures increased by \$1,715,174 during the 2000-2001 fiscal year, mostly as a result of costs associated with the reconstruction of the roof and exterior walls of a campus building.

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, and also included income generated from sales of the College-run bookstore.

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

	Fiscal Year <u>1998-1999</u>	Fiscal Year <u>1999-2000</u>	Fiscal Year <u>2000-2001</u>
Total Receipts	<u>\$10,675,584</u>	<u>\$15,480,488</u>	<u>\$12,458,883</u>

Total reported Operating Fund receipts grew by \$4,804,904 (45 percent) during the 1999-2000 fiscal year, compared to the 1998-1999 fiscal year. The increase was primarily due to a timing difference between when the College actually processed a particular transfer receipt through the Office of the State Comptroller and the actual period to which it applied. During the 1999-2000 fiscal year, the College processed a transfer receipt in the amount of \$2,396,640 that actually applied to the 1998-1999 fiscal year. This book keeping entry inflated receipts recorded on the State Comptroller's records during the 1999-2000 fiscal year. The transfer receipt primarily represented the posting, to the State Comptroller's records, of some student financial aid revenues recorded in the College's general ledger but not reflected in the State Comptroller's records.

Operating Fund receipts fell by \$3,021,605 (20 percent) during the 2000-2001 fiscal year, compared to the 1999-2000 fiscal year, mostly as a result of a change in the method used by the Community College system 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 from Federal, State and private financial aid sources and internal, non-cash transactions of tuition and fee revenues recorded in their general ledgers. 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 internal, 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.

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.

	<u>In-State</u>	<u>Out-of-State</u>	<u>N.E. Regional Program</u>
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 the Community College system through the New England Regional Student Program at an amount one and one-half that of in-State tuition.

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

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

	Fiscal Year <u>1998-1999</u>	Fiscal Year <u>1999-2000</u>	Fiscal Year <u>2000-2001</u>
Personal Services	\$3,638,604	\$4,453,098	\$5,049,761
Contractual Services	3,255,965	3,341,288	3,266,187
Commodities	2,270,074	2,316,751	2,253,536
Revenue Refunds	1,410,044	1,370,530	1,724,173
Sundry Charges	355,357	4,516,156	678,207
Equipment and other	<u>356,019</u>	<u>175,058</u>	<u>244,665</u>
Total Expenditures	<u>\$11,286,063</u>	<u>\$16,172,881</u>	<u>\$13,216,529</u>

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. Recorded Operating Fund expenditures increased by \$4,886,818 (43.3 percent) and decreased by \$2,956,352 (18.3 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 large part, to a timing difference between when the College actually processed a particular transfer invoice through the Office of the State Comptroller and the actual period to which it applied. During the 1999-2000 fiscal year, the College processed a transfer invoice (recorded in the Sundry Charges category) in the amount of \$2,396,640 that actually applied to the 1998-1999 fiscal year. This book keeping entry inflated expenditures recorded on the State Comptroller's records during the 1999-2000 fiscal year. The transfer invoice primarily represented the posting, to the State Comptroller's records, of student financial aid charges recorded in the College's general ledger but not reflected in the State Comptroller's records.

Rising personal services costs also contributed to the increase in Operating Fund expenditures during the 1999-2000 fiscal year. In this year, the College processed salary increases as set forth in collective bargaining agreements and refilled vacant positions due to retirements. In addition, as noted above, during the 1999-2000 fiscal year, the College prepared 27 biweekly employee payrolls, compared to 26 in the previous year.

The apparent decline in Fund expenditures during the 2000-2001 fiscal year was mostly caused by a change in the method used by the Community College system to report student financial aid-related tuition and fee expenditures to the State Comptroller. During the 1998-1999 fiscal year and 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 College system, 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 expenditures recorded by the State Comptroller in the 2000-2001 fiscal year, particularly in the category of Sundry Charges.

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 \$72,433 and \$40,201 during the 1999-2000 and 2000-2001 fiscal years, respectively. Expenditures primarily consisted of costs to maintain and improve campus facilities.

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 \$172,886 and \$295,542 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 \$122,656, compared to the previous year. However, our analysis showed that Fund receipts reported for the 2000-2001 fiscal year were, in large part, distorted. Reported receipts included Student Activity fees amounting to \$48,284 which were received by the Fund during the 2000-2001 fiscal year but which actually applied to the prior year. Such fees were actually received by the College during the 1999-2000 fiscal year and were being temporarily held in the College's Operating Fund, pending transfer to the Student Activity Fund. In addition, on its financial statement for the 2000-2001 fiscal year, the College incorrectly classified as a receipt an intra-fund transfer totaling \$40,000. This error in financial statement presentation resulted in a \$40,000 overstatement of reported Fund receipts for the 2000-2001 fiscal year. See the "Condition of Records" section of this report for further details on this and other financial reporting weaknesses noted.

Fund disbursements, according to financial statements prepared by the College, totaled \$133,257 and \$249,562 in the respective audited years. Disbursements were mostly for expenses of student organizations and related activities. In the 2000-2001 fiscal year, reported

disbursements grew by \$116,305, compared to the previous fiscal year. This increase was primarily the result of increased spending by student organizations, fueled in part by the increase in student organization income during the 2000-2001 fiscal year. In addition, as was the case with receipts, reported Fund disbursements were somewhat overstated during the 2000-2001 fiscal year, as the College also misclassified the above-mentioned \$40,000 intra-fund transfer as a Fund disbursement. 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 \$2,887,458 and \$12,133 in the 1999-2000 and 2000-2001 fiscal years, respectively. During the 1999-2000 fiscal year, receipts consisted mostly of monies received as a result of credit card clearing account activity. During most of the 1999-2000 fiscal year, the Fund was used as a clearing account for student credit card transactions in payment for tuition and fees. Such monies were received in the College’s Welfare Fund checking account and then transferred to a State Treasurer’s bank account, credited to the College’s Operating Fund. In addition, during this year, Fund receipts also included Federal student aid monies associated with the Stafford loan program. Through the spring of the 1999-2000 fiscal year, the Welfare Fund was used as a clearing account for Stafford loan program monies received. Such funds were electronically deposited into the Welfare Fund bank account by the lending institution and then disbursed, with a portion going to the College for student balances owed the College and the balance going to the students. During the 1999-2000 fiscal year, Fund receipts also included scholarship monies received.

Fund receipts in the 2000-2001 fiscal year, consisted mostly of scholarship monies and interest income. During this fiscal year, Fund receipts fell by \$2,875,325, compared to the previous year, mostly because the College no longer used the Welfare Fund as a clearing account for credit card transactions. Instead, near the end of the 1999-2000 fiscal year, the College began processing such transactions through a bank account dedicated to credit card transactions. Also, during the 2000-2001 fiscal year, the College no longer used the Welfare Fund as a clearing account for Federal Stafford loan program monies received. Rather, starting in the fall of 2000, such monies were cleared through the College’s Operating Fund.

Financial statements prepared by the College reported Fund disbursements which totaled \$2,943,717 and \$10,137 during the respective audited years. Disbursements were largely made up of credit card and Stafford Loan program clearing transactions in the 1999-2000 fiscal year and scholarship payments in the 2000-2001 fiscal year. Fund disbursements decreased by \$2,933,580 during the 2000-2001 fiscal year, compared to the previous year. The decline can mostly be attributed to the above-mentioned discontinued use of the Fund as a clearing account for credit card and Stafford Loan program transactions.

Naugatuck Valley Community College Foundation, Inc.:

Naugatuck Valley 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 Naugatuck Valley 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 independent certified public accounting firms for the six-month period ended December 31, 1999, the twelve-month period ended December 31, 2000, and the twelve-month period ended December 31, 2001, in accordance with Section 4-37f, subsection (8) of the General Statutes. During the audited period, the Foundation changed its fiscal year-end from June 30 to December 31. Accordingly, two corresponding audit reports were provided to us: one covering the eighteen-month period from July 1, 1999 through December 31, 2000, and another covering the twelve-month period from January 1, 2001 through December 31, 2001. The audit report for the eighteen-month period from July 1, 1999 through December 31, 2000, indicated that the Foundation's financial statements presented fairly, in all material respects, the Foundation's financial position and its changes in net assets and cash flows for the period reviewed except for the omission of certain information. Specifically, the Foundation's statement of activities did not adequately disclose revenues by category, nor did it adequately disclose expense classifications. In contrast, the audit report for the twelve-month period ended December 31, 2001, expressed an unqualified opinion on the Foundation's financial statements and indicated compliance, in all material respects, with Sections 4-37e through 4-37i of the General Statutes.

Reported Foundation net assets totaled \$258,848, \$1,250,429 and \$437,913 as of December 31, 1999, 2000 and 2001, respectively. During the Foundation's fiscal year ended December 31, 2000, the Foundation received more than \$1,000,000 in support, consisting mostly of a restricted donation to be used toward the cost of renovating the lobby of the College's Mainstage auditorium.

CONDITION OF RECORDS

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

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:

- Equipment inventory control records were not up-to-date. During our examination of the College's property control, in January 2002, the latest equipment inventory control listing the College provided us was dated May 15, 2001.
- Equipment inventory control records were not complete and, in some cases, included inaccurate equipment locations. We tested nine equipment items purchased during the audited period and found that three items, amounting to \$7,904, were not recorded in the latest inventory control records provided to us.

We further tested the accuracy of ten of these inventory control records and noted that seven equipment items observed on campus, though recorded in the inventory control records, were listed as being in locations other than where we inspected them.

- 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 the year-end value of the College's bookstore merchandise inventory. Bookstore records show that these amounts totaled at least \$198,313 and \$173,426 as of June 30, 2000 and 2001, respectively.

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

Cause: We were told that some equipment purchased during the audited period was not entered into the College inventory control records that

we examined, since the Connecticut Community College system was 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. Annual property inventory report weaknesses noted appeared to have been the result of a misinterpretation of the State Comptroller's requirements for such reports.

Recommendation: The College should improve controls over its property by following the property control requirements set forth by the State Comptroller. (See Recommendation 1.)

Agency Response: "In June 2001 the college's inventory control system (FAIRS) was discontinued because the Community College System began converting to the Banner inventory control and fixed assets system. The conversion process took a significant period of time and was still ongoing during the period when the state auditors were on site. A physical inventory was completed and inventory control and fixed assets records were eventually created in the Banner system. The college is now able to access the new system and inventory records can again be verified and updated.

The college can not respond to the issue of including the bookstore merchandise inventory on the annual property control reports because the Community College System Office has assumed responsibility for preparation of that report."

Bookstore Internal Control:

Background: The College runs its own bookstore, which sells textbooks and other merchandise to the College community.

Criteria: Sound internal control practices require the separation of duties among certain financial functions. To provide a system of checks and balances aimed at reducing the risk of error or fraud, the functions of custody over assets, record keeping, and reviewing transactions should be divided among different employees.

Condition: College bookstore internal controls demonstrated a weak segregation of duties among certain functions. We were told that the bookstore supervisor balances daily cash receipts against cash register records of such receipts; prepares and makes bookstore bank deposits; and maintains the bookstore cash receipts journal. We were also told that the College Business Office does not compare actual bookstore cash register receipts records with corresponding bank deposit records. Rather, the Business Office compares reports of bookstore receipts, prepared by the bookstore supervisor, with corresponding bank deposit records.

This is a weakness in segregation of duties, as the same person has custody over assets, performs record keeping functions and verifies accountability of cash receipts.

- Effect:* Poor segregation of duties increases the risk of error or fraud.
- Cause:* The College considered controls in place during the audited period adequate.
- Recommendation:* The College should strengthen internal control over its bookstore by improving segregation of bookstore duties. Accordingly, the College Business Office should compare actual bookstore cash register receipts records with corresponding bank deposit records. (See Recommendation 2.)
- Agency Response:* “The college has revised its procedures so that the business office compares bookstore cash register receipts with the corresponding bank deposit records completed by the bookstore supervisor.”

Time and Effort Reporting:

Criteria: The 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 the 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 the 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 Federal Office of Management and Budget Circular A-21. (See Recommendation 3.)

Agency Response: "The college is now requiring supervisors to provide written verification on timesheets of employees being paid with federal grant funds that these employees were working to carry out the purposes of the grant activity."

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: The College misclassified some of its Student Activity Fund receipts and disbursements reported to the State Comptroller during the annual GAAP reporting process. Specifically, we noted the following.

- The College understated Student Activity Fund receipts reported on its Student Activity Fund statement of receipts and disbursements for the 1999-2000 fiscal year. In this financial statement, the College misclassified as a negative receipt a \$14,417 intra-fund transfer from its Student Activity Fund savings account to its Student Activity Fund checking account.
- The College overstated Student Activity Fund receipts and disbursements reported on its statement of cash receipts and disbursements for the 2000-2001 fiscal year. More precisely, the College improperly classified as a receipt of the Fund a \$40,000 intra-fund transfer from its Student Activity Fund checking account to its Student Activity Fund State Treasurer's

Short-Term Investment Fund (STIF) account, overstating Fund receipts by \$40,000. Similarly, it also misclassified this transfer as a disbursement of the Fund, which overstated Fund disbursements by \$40,000.

Effect: Some of the figures reported to the State Comptroller through the College's GAAP reporting forms were not presented in a manner consistent with generally accepted accounting principles.

Cause: It appears that the above misstatements were the results of College oversights.

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

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **Strive to meet the Small Business Set-Aside Program’s goals by increasing efforts to set aside contracts for small business and minority/women business enterprises.** In our current audit, we noted significant improvement in this area. The recommendation, therefore, is not being repeated.
- **Take steps to ensure that a valid personal service agreement has been executed and signed for every payment to a personal service contractor. Purchase requisitions for personal service contractors should be submitted and approved prior to the rendering of the service. Prepare amendments to personal service agreements whenever changes to key terms are made.** Improvement was noted. Therefore, the recommendation is not being repeated.
- **Comply with all applicable payroll and personnel rules and regulations; require all employees to submit timesheets signed by the employees and their supervisors; and pay wages to employees only after the services have been rendered. Incomplete timesheets should be followed up and fully completed and employment contracts should be properly authorized.** Our current audit showed that the recommendation was implemented. Therefore, the recommendation is not being repeated.
- **Draw down Federal receivables more promptly.** We noted improvement in the timeliness of Federal drawdowns during the current audit period. The recommendation is, therefore, not being repeated.

Current Audit Recommendations:

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

Comment:

College equipment inventory records provided to us were not up-to-date. Our tests revealed that some equipment items purchased during the audited period were not recorded in these records. Also, we noted that some equipment items were actually located in places other than the locations recorded in inventory control records. Additionally, annual property inventory reports submitted to the State Comptroller did not include, but should have included, the year-end values of the College's bookstore merchandise inventory.

- 2. The College should strengthen internal control over its bookstore by improving segregation of bookstore duties. Accordingly, the College Business Office should compare actual bookstore cash register receipts records with corresponding bank deposit records.**

Comment:

We found a weakness in segregation of duties among certain College bookstore functions. We were told that the bookstore supervisor balances daily cash receipts against cash register records of such receipts; prepares and makes bookstore bank deposits; and maintains the bookstore cash receipts journal. We were also told that the College Business Office does not compare actual bookstore cash register receipts records with corresponding bank deposit records.

- 3. 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 Federal 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 its 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 actually worked on the program(s) to which his or her payroll expenditures were charged.

INDEPENDENT AUDITOR'S CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of Naugatuck Valley 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 Naugatuck Valley 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 Naugatuck Valley 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 Naugatuck Valley Community College is the responsibility of Naugatuck Valley 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 Naugatuck Valley 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 Naugatuck Valley Community College's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

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

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

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

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Naugatuck Valley Community 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