STATE OF CONNECTICUT

AUDITORS' REPORT
BOARD FOR STATE ACADEMIC AWARDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008

AUDITORS OF PUBLIC ACCOUNTS
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July 22, 2009

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FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008

We have examined the financial records of the Board for State Academic Awards (hereinafter referred to as "the Board") for the fiscal years ended June 30, 2007 and 2008.

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

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

COMMENTS

FOREWORD:

The Board for State Academic Awards, a constituent unit of the State system of higher education, operates under the provisions of Chapter 185b, Part IV, of the Connecticut General Statutes. The mission of the Board, which oversees Charter Oak State College and the Connecticut Distance Learning Consortium, is to provide diverse and alternative means for adults to pursue higher education. Accordingly, the Board offers college credit via examinations, assessment of experiential and extra collegiate learning, and electronically administered courses, among other things. In accordance with Section 10a-143 of the General Statutes, the Board grants college credits and awards associate's and bachelor's degrees in the Charter Oak State College program.

The Board appoints the Agency's Executive Director. Dr. Merle W. Harris served as Executive Director until her retirement on February 1, 2008. Edward Klonoski was appointed Executive Director on February 15, 2008, and currently serves in that position.

In accordance with the provisions of Sections 10a-143 and 4-9a of the General Statutes, the Board shall consist of nine persons. Eight members shall be appointed by the Governor and shall reflect the State's geographic, racial and ethnic diversity, one of whom shall be an alumnus of

Charter Oak State College. The ninth member is to be elected by the students enrolled in Charter Oak State College. Members of the Board as of June 30, 2008, were as follows:

Astrid T. Hanzalek, Chairperson
Elizabeth Alquist, Esq.
Jerry Long
John Padilla
John Titley, Esq.
John Whitcomb
Nancy Whitehead (Student Representative)
Lenny Winkler

There was one vacancy on the Board as of June 30, 2008. Chandler J. Howard, Timothy Kulig, Michael Smegielski Jr., and Vincent A. Socci also served on the Board during the audited period.

Recent Legislation:

The following notable legislative changes affecting the Board took effect during the audited period, and thereafter:

- Public Act No. 07-3, June Special Session – Effective July 1, 2007, Section 25 of this Act requires the Connecticut Distance Learning Consortium to deliver on-line courses developed in conjunction with or approved by the Departments of Education and Higher Education, the Regional Educational Service Centers or other agencies interested in the delivery of on-line courses to public schools., The Department of Education must approve the content of any such course that is offered for academic credit in a public school.

- Public Act No. 08-55 – Effective July 1, 2008, this Act modifies subsection (c) of Section 10a-164a of the General Statutes to base the Board's annual appropriation request for the Connecticut Aid to Public College Students (CAPCS) grant program on Charter Oak State College's fee waiver set-aside in the fiscal year two years prior to the fiscal year in which the appropriation applies.

Enrollment Statistics:

Enrollment statistics compiled by Charter Oak State College indicated that average annual student enrollment totaled 1,612 and 1,580 for the fiscal years ended June 30, 2007 and 2008, respectively. Degrees awarded during the above fiscal years totaled 593 and 481, respectively, of which 962 were bachelor's degrees and 112 were associate's degrees.

RÉSUMÉ OF OPERATIONS:

Section 10a-143 of the General Statutes established the Board's Operating Fund Account as a restricted account. It accounts for most of the receipts and expenditures of the Board.

During the audited period, Operating Fund Account activity was recorded in a Special Revenue Fund titled "Federal and Other Restricted Accounts." Further comments on this Fund are presented below in the section of this report titled "Special Revenue Fund – Federal and Other Restricted Accounts."

General Fund:

There were no General Fund receipts during the fiscal years ended June 30, 2007 and 2008, respectively, compared with $6,471 for the fiscal year ended June 30, 2006. This decrease was the result of the discontinuation of the sale of certain books and other educational materials and the accompanying decline in State sales tax collections at the start of the 2006-2007 fiscal year.

General Fund expenditures during the fiscal years ended June 30, 2007 and 2008, totaled $2,625,511 and $2,842,368, respectively, compared with $2,243,843 during the fiscal year ended June 30, 2006. These amounts consisted entirely of transfers of General Fund appropriations to the Board's Federal and Other Restricted Accounts Fund. The subsequent expenditure of these appropriations was charged to the Federal and Other Restricted Accounts Fund.

Special Revenue Fund – Federal and Other Restricted Accounts:

As previously explained, during the audited years, Operating Fund Account activity was recorded by the Comptroller in a Special Revenue Fund titled "Federal and Other Restricted Accounts." The Operating Fund Account is primarily funded by internal fund transfers of appropriations, coupled with fees collected by Charter Oak State College and the Connecticut Distance Learning Consortium. Operating Fund Account receipts, as recorded in the State's accounting records, totaled $11,108,591 and $13,730,064 for the fiscal years ended June 30, 2007 and 2008, respectively, compared with $12,861,078 for the fiscal year ended June 30, 2006. Included in these amounts were transfers of General Fund appropriations, internal transfers between Charter Oak State College and the Connecticut Distance Learning Consortium, internal transfers of student financial aid funds received, among other things, all of which had the effect of greatly inflating actual Operating Fund receipts.
(In contrast, the Board's unaudited financial statements reported receipts, excluding General Fund appropriations and certain internal transfers, totaling $6,406,679 and $9,841,148 for the fiscal years ended June 30, 2007 and 2008, respectively.) These totals represented a decrease of $1,752,487, or nearly 14 percent, and an increase of $2,621,473, or nearly 24 percent, respectively, during the respective audited years.

The decrease in receipts during the fiscal year ended June 30, 2007, can, in large part, be attributed to a substantial reduction in the amount of Federal student financial assistance received by the Board. The decrease in financial assistance received was caused by the discontinuation of Charter Oak State College's agreement with Bridgepoint Education, a for-profit provider of higher education courses. Under the agreement, Charter Oak allowed students at Bridgepoint Education to earn up to 50 percent of their credits towards a degree at Charter Oak State College. This agreement made such Bridgepoint students eligible to apply for Federal student financial aid. The termination of this agreement significantly reduced the number of Charter Oak enrolled students requiring financial assistance during the fiscal year ended June 30, 2007. The increase in receipts during the fiscal year ended June 30, 2008, was driven by an increase in the amount of State and Federal grant funding received as well as an increase in internal transfers recorded and recognized as receipts.

Expenditures charged to this Fund totaled $10,655,629 and $12,986,633, during the fiscal years ended June 30, 2007 and 2008, respectively, according to the State's accounting records. These totals included transfers between accounts and disbursements of student financial aid funds received, both of which had the effect of overstating actual expenditures. (In contrast, the Board's unaudited financial statements, which excluded such transfers, reported expenditures totaling $6,596,580 and $8,975,107 for the fiscal years ended June 30, 2007 and 2008, respectively.) A summary of Account expenditures for the fiscal years examined and the prior fiscal year is presented below:

	2005 – 2006	2006 - 2007	2007 – 2008
Personal services	$ 4,341,298	$ 4,763,179	$ 5,533,081
Contractual services	2,491,331	2,954,172	4,441,301
Commodities	84,984	81,346	109,091
Sundry charges	4,955,649	2,856,932	2,857,133
Equipment and other	49,572	-	46,027
Total Expenditures	**$ 11,922,834**	**$ 10,655,629**	**$ 12,986,633**

As presented above, Operating Fund Account expenditures totaled $10,655,629 and $12,986,633 for the fiscal years ended June 30, 2007 and 2008, respectively, compared to $11,922,834 during the fiscal year ended June 30, 2006. These totals represent a decrease of $1,267,205, or nearly 11 percent, and an increase of $2,331,004, or nearly 22 percent, respectively, during the audited years. Expenditures consisted primarily of costs for personal services, contractual services, and sundry charges. Contractual services were comprised primarily of fees for educational services and electronic data processing costs. Sundry charges were comprised primarily of student financial aid disbursements.

The decrease in expenditures during the fiscal year ended June 30, 2007, can be primarily attributed to the discontinuation of Charter Oak's agreement with Bridgepoint Education. As previously mentioned, the discontinuation of this agreement significantly reduced the number of Charter Oak students and thus the amount of Federal student financial assistance funds received by the Board, which, in turn, greatly reduced the amount of financial assistance that the Board disbursed. An increase in grant funding from the State's Department of Education and the accompanying expenditure of such funds contributed to the increase in Board expenditures during the fiscal year ended June 30, 2008. Further, employee pay raises established by the employee collective bargaining agreement and the hiring of additional staff members also added to this increase in expenditures.

Special Revenue Fund – Capital Equipment Purchase Fund:

Capital Equipment Purchase Fund expenditures totaled $356,970 and $453,463 during the fiscal years ended June 30, 2007 and 2008, respectively. These expenditures were made principally for the purchase of electronic data processing hardware and software.

Student Trustee Account:

Established and operated under the provisions of Sections 4-52 to 4-55 of the General Statutes, the Student Trustee Account is used for the benefit of the student body. Management of the account has been vested in Charter Oak State College's Student Council to the extent of overseeing expenditures. However, accountability of the account is the ultimate responsibility of the College administration.

Receipts, as presented in financial records prepared by the College, totaled $9,289 and $8,386 for the fiscal years ended June 30, 2007 and 2008, respectively. Major sources of receipts included student activity fees and funds raised from various student functions and activities.

Disbursements, according to financial records prepared by the College, totaled $14,240 and $8,765 for the fiscal years ended June 30, 2007 and 2008, respectively. These expenditures consisted primarily of payments for student activities and scholarships.

Charter Oak State College Foundation, Inc.:

The Charter Oak State College Foundation, Inc., (the Foundation) is a private nonstock corporation established to secure contributions from private sources for the purposes of promoting interest in and support of open learning and credentialing in higher education. The Foundation supports activities of the Board for State Academic Awards and furnishes assistance to enrollees in the external degree program.

Sections 4-37e through 4-37k of the General Statutes define and set requirements for such State organizations. The requirements address 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 the use of facilities and resources, compensation of State officers or employees, and the State agency's responsibilities with respect to affiliated foundations.

An audit of the Foundation, consistent with requirements of Section 4-37f, subsection (8), of the General Statutes, was performed by our Office for the fiscal year ended June 30, 2007. Our audit concluded that the Foundation complied in all material respects with Sections 4-37e through 4-37i of the General Statutes. However, the audit disclosed several other, immaterial exceptions that are discussed in the "Management Letter" section of our separate report on the Charter Oak State College Foundation, Inc. for the fiscal year ended June 30, 2007.

CONDITION OF RECORDS

Our audit of the financial records of the Board for State Academic Awards disclosed certain areas requiring attention, as discussed in this section of the report.

Personal Service Agreements and Other Procurement:

Criteria: It is a good business practice to ensure that a written personal service agreement is in place and signed by all relevant parties before related services are provided.

Section 10a-151b of the General Statutes requires constituent units of the State's system of higher education to solicit competitive bids or proposals for purchases exceeding $50,000. Such bids or proposals must be inserted at least once in two or more publications, including one major daily newspaper published in the State, and posted on the Internet, at least five calendar days before the final date of submitting bids or proposals.

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 reviewed 30 purchases made during the audited period. Our audit of the Board's procurement operations disclosed the following:

- Three instances in which written personal service agreement contracts, collectively totaling $55,900, were signed by the Board after the contract period had begun. Such contracts were signed from five to 16 days after the contract period began.

- Two instances in which the Board entered into personal service agreement contracts with State employees but failed to retain documentation to support that it sufficiently advertised for bids, as required by Section 1-84, subsection (i), of the General Statutes. In the instances noted, the Board contracted with the same State employee to provide mentoring (on-line teaching) services. One such contract, totaling $51,200, covered the fall 2006 and spring 2007 semesters. The other contract, totaling $71,066, covered the fall 2007 and spring 2008 semesters. The Board informed us that the two agreements for mentoring services had been advertised on Charter Oak

State College's Web site. However, the Board was unable to provide us with documentation to support that such advertising had been done.

- Three instances in which the Board awarded contracts, each of which exceeded $50,000, without advertising for bids in the publications required by Section 10a-151b of the General Statutes.

Effect: In some instances, internal controls over personal service agreements were weakened. Specifically, in the instances where personal service agreements were approved after the contract period had begun, assurance was lessened that the terms of the personal service agreements met the approval of the Board's administration prior to the performance of such contracts.

With respect to the Board entering into personal service agreement contracts with State employees, in some instances, the Board lacked evidence that it complied with the open and competitive contract award requirements of Section 1-84, subsection (i), of the General Statutes. This creates at least the appearance of a conflict of interest.

In three instances cited, the Board did not fully comply with the statutory bid requirements with respect to advertising for purchases exceeding $50,000.

Cause: It appears that internal controls in place were not sufficient to prevent the above conditions from occurring.

The failure to retain supporting evidence documenting that contracts with State employees were awarded through an open and public process appeared to be an oversight by the Board.

In regards to the two instances in which the Board contracted for mentoring services, each with a contract amount exceeding $50,000, without advertising for bids in the required publications, we were informed that the Board did not consider it necessary to advertise for such bids because the amount paid to the contractor was based on the number of students enrolled in the class at the end of the semester. Therefore, the actual amount paid to the contractor might not have exceeded $50,000 if enough students dropped the course. (Nevertheless, we noted, that each of these contracts specified an amount exceeding $50,000.)

With respect to the third instance in which the Board failed to advertise for bids in the required publications, we were informed that, at the time, the Board was under the assumption that advertising through the

Department of Administrative Services' contracting Web site satisfied the bid advertising requirements of Section 10a-151b of the General Statutes. It should be noted that this instance involved the Board's purchase of an air conditioning system during the summer of 2006. This purchase was made prior to the release of our previous audit report on the Board in which we also cited the Board for noncompliance with the advertised bidding requirements set by the General Statutes.

Recommendation: The Board should ensure that written personal service agreements are signed by all relevant parties prior to the commencement of corresponding services. In addition, the Board should advertise for bids in the publications specified by Section 10a-151b of the General Statutes before making purchases exceeding $50,000 in amount. Further, when awarding contracts to State employees, the Board should take steps to ensure that such contracts are awarded in an open and competitive manner, when required by Section 1-84 of the General Statutes. Also, the Board should retain documentation supporting that such contracts were awarded in an open and competitive manner. (See Recommendation 1.)

Agency Response: "The Board acknowledges that there were instances when personal services agreements were not signed before the commencement of services. The agency will implement several strategies to remedy these occurrences.

Some of the personal services agreements identified were implemented by staff members that were not familiar with the procedures to acquire services. The agency will focus on improving information and training to staff that is in a position to seek vendors to perform services. The Business Office will also implement a process review to existing employees and better orient new staff members of the PSA process and timelines.

An additional approach will focus on better monitoring of returned personal service agreements from course mentors. Outstanding unsigned contracts will be monitored and vendors will be notified that the absence of a signed contract will mean that they cannot engage in services until the agreement is signed.

It is expected that the combination of staff orientation to procedures and close monitoring of outstanding contracts, along with the knowledge that work cannot begin until the agreement is signed, will eliminate future signature date issues with agreements.

The Board recognizes that contracted services that exceed $50,000 must be publicly bid. While the Board operates under this practice, internal procedures up to the beginning of FY 09 enabled the issuance of personal service agreements for more than $50,000.

Prior to FY 09, personal service agreements were drafted based on the courses that the vendor was expected to mentor during the academic year. Since the class size was projected at 40 students with a fixed payment for every student, this approach resulted in a calculation of total services that exceeded $50,000 and was unrealistically high. Few classes reach the 40 student maximum; in fact, the class size average in 2008 was 15 students per class. While it is our position that payments never exceeded $50,000, clearly the committed amounts did exceed this threshold.

Beginning in FY 09, all mentors have been issued personal service agreements that are based on more realistic enrollment expectations that will support their services for the entire academic year. This approach, along with careful monitoring of payments linked to the agreement, will effectively avoid developing a PSA with a committed amount in excess of $50,000 and prevent payments above this threshold.

The bidding procedure for the air conditioning project that was more than $50,000 in 2006 was incorrectly bid and consistent with our approach during the previous audit period. While corrective changes were made in our processes at the close of the FY05 and FY06 audit cycle, this bid took place before the close of the previous audit.

The Board also realizes that contracts awarded to State employees with a value of over $100 must be through an open process. It is also agreed that the existing processes to validate the open process has not always been well organized. As the result of this weakness, the processes will be amended to retain a copy of public postings for each semester in the personal services file. When a State employee is contracted for services outside of the standard semester postings cycle, the specific posting for that position will also be included in the PSA file. This approach will appropriately document the open approach used to select a State employee as a vendor."

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 tagged in an accessible location and recorded in property control records.

Chapter nine of the State of Connecticut's *Property Control Manual* provides that "the Office of the State Comptroller and the Auditors of

Public Accounts must be notified immediately of all losses/damages to State property upon discovery**....**"

Condition: We attempted to verify the existence of a computer server listed on the Board's inventory control records at a cost of $224,097. However, the item that we inspected lacked a visible State identification tag number. Further, we saw no serial number or other identification numbers or markings. Therefore, we were unable to verify that this equipment item was the same item listed on the Board's inventory records.

In addition, we noted several other servers without visible State identification tag numbers during our physical inspection.

Further, we noted one instance in which a laptop computer with a cost of $1,467 was loaned to a Charter Oak State College student and was subsequently reported missing by the student. The Board, however, failed to file a timely loss report with the Office of the State Comptroller and the Auditors of Public Accounts. The Board filed the loss report one year and one month after it had been notified of the missing computer.

Effect: In the instances noted above, the Board failed to comply with the property control requirements set forth by the State Comptroller. As a result, equipment was exposed to an increased risk of loss or theft.

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

In regards to the delayed submission of a loss report to the appropriate State agencies, the Board informed us that it was waiting for a police report to be filed by the student before submitting such loss reports.

Recommendation: The Board should improve internal controls over equipment by following the policies and procedures established by the State of Connecticut's *Property Control Manual*. Specifically, the Board should ensure that all capital/controllable equipment is tagged with State identification numbers in visible locations, and that lost, stolen, or damaged equipment items are immediately reported to the appropriate State agencies when the Board becomes aware of such instances. (See Recommendation 2.)

Agency Response: "The Board recognizes that capital or controlled equipment should be tagged with an identification number that corresponds to inventory listings. Placing a visible tag on rack mounted equipment is challenging due to its small visible footprint and its placement in the racks in the data center. The visible part of the equipment also may have a display type faceplate that would prevent the attachment of a tag in a visible location.

A couple of remedies are in progress to remedy this issue. A reference to the more specific rack location of a piece of equipment in the data center will be entered in Core-CT. A reference map will be created and placed in the data center that will provide the location of each piece of equipment within each rack section. It is also planned that a copy of the equipment tag be placed inside each rack corresponding to equipment placement to facilitate the location of the specific item.

The Board also acknowledges that the loss of State equipment should immediately be reported to the appropriate agencies. Two factors contributed to the delay in timely reporting. The staff member that was aware of the loss did not report it immediately to the Business Office; and once reported, notification of the loss was delayed to the appropriate State agencies until appropriate documentation of the theft (valid police report) was received.

Staff will be reminded to report an equipment loss immediately to the Business Office and the loss will be immediately reported to appropriate agencies.*"*

Federal Time and Effort Reporting:

Criteria: Title 2 in the Code of Federal Regulations, Part 220 (formerly Circular A-21) establishes principles for determining costs applicable to grants, contracts, and other agreements between the Federal government and educational institutions. Under this Regulation, payroll charges to Federal programs must be supported by a system of after-the-fact confirmation.

According to 2 CFR, part 220, 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 must be in place. This 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. Under this method, the statements must be prepared each academic term, but no less frequently than every six months for administrative staff.

Condition: During the audited period, there were several Board employees whose payroll costs were, at least in part, charged to a Federal program (CFDA 84.002 Adult Education – Basic Grants to States). However, we were told that the Board had no time and effort reporting system in place to properly document these Federal payroll charges. According to Title 2 Code of Federal Regulations, part 220, 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 Regulation. In the cases cited above, 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 Board did not fully comply with 2 CFR, part 220 requirements concerning the documentation of payroll costs. This decreases assurance that payroll costs charged to Federal programs actually applied to those programs.

Cause: We were informed that it was the Board's view that since the Federal funds to which these payroll costs were charged were received indirectly from another State agency, the Board considered these funds State grants, which were, therefore, not subject to the requirements of 2 CFR, part 220. As a result, a Federal time and effort reporting system was not used during the audit period.

Recommendation: The Board should comply with the requirements of Title 2 of the Code of Federal Regulations, part 220 by implementing a time and effort reporting system to better support its payroll charges to Federal programs. (See Recommendation 3.)

Agency Response: "When the Board clarified the treatment of these Federal funds through a State agency with the Auditors of Public Accounts, a compliance process that met the approval of the auditors was implemented during August of 2008."

Telecommuting:

Criteria: To better ensure that written employee telecommuting agreements are consistent with the best interests of the agency, it is a good business practice for management to review and approve such agreements before the telecommuting period begins.

Condition: Our audit of this area disclosed four instances in which management approved written telecommuting agreements after the telecommuting period began. The delays in approval ranged from five to 13 days.

Effect: After-the-fact approval of these agreements increases the risk that telecommuting could occur that might not be in the best interests of the agency.

Cause: It appears that adequate controls were not in place to prevent the above condition from occurring.

Recommendation: The Board should improve the timeliness of management review and approval of employee telecommuting agreements. (See Recommendation 4.)

Agency Response: "While the Board agrees that the referenced Telecommuting Agreements lacked the proper signatures in a timely way, the management review and approval of the telecommuter's schedule did take place. Whenever an employee is considering a telecommuting agreement, conversation takes place between the employee, supervisor, and the executive director during the process. Acceptance of the agreement by management takes place prior to the execution of the form.

Although control does exist regarding the approval of these agreements, the objective will be to have the form completed prior to the commencement of telecommuting schedules. New and extended agreements will require the signed form prior to the commencement of telecommuting."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Board should take steps to ensure that payments to employees for accrued vacation leave are calculated correctly and should compensate any employees who were found to have been underpaid for such vacation leave.** Our current audit disclosed no instances in which accrued leave payouts for employees leaving State service were calculated incorrectly. In addition, we noted that the Board made payments to the employees who were found to have been underpaid in the previous audit. As a result, the recommendation is not being repeated.

- **The Board should review longevity payments made to employees at the twenty years of service rate to ensure that such payments agree with provisions of the applicable employee collective bargaining unit agreement. Further, the Board should compensate employees for any underpayments in longevity pay noted.** In our current audit, we noted that longevity payments made to employees at the twenty years of service rate were in agreement with the provisions of the applicable employee collective bargaining unit agreement. Further, we noted that the Board compensated employees for underpayments in longevity pay made in previous years. Therefore, the recommendation is not being repeated.

- **The Board should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by properly documenting, through signed certifications, that no conflicts exist in instances where an employee holds multiple State positions.** Improvement was noted in this area; the recommendation is not being repeated.

- **The Board should improve the timeliness of management review and approval of employee telecommuting agreements and should consider revising its telecommuting policy to require monitoring of the suitability of telecommuter workspaces.** Some improvement was noted in the monitoring of the suitability of telecommuter workspaces; however, sufficient improvement was not made in regards to the timeliness of management's review and approval of employee telecommuting agreements. Therefore, the recommendation is being repeated with modification. (See Recommendation 4.)

- **The Board should comply with the requirements of Federal Office of Management and Budget Circular A-21 by implementing a time and effort reporting system to better support its payroll charges to Federal programs.** Sufficient improvement has not been made in this area. Therefore, the recommendation is being repeated. (See Recommendation 3.)

- **The Board should ensure that it advertises for bids in two or more major State publications before making purchases exceeding $50,000 in amount, as required by**

Section 10a-151b of the General Statutes. Further, when awarding contracts to State employees, the Board should take steps to ensure that such contracts are awarded in an open and competitive manner, when required by Section 1-84 of the General Statutes. Sufficient improvement has not been made in this area. Additionally, other related areas needing improvement were noted during our current audit. Therefore, the recommendation is being repeated with modification. (See Recommendation 1.)

Current Audit Recommendations:

1. **The Board should ensure that written personal service agreements are signed by all relevant parties prior to the commencement of corresponding services. In addition, the Board should advertise for bids in the publications specified by Section 10a-151b of the General Statutes before making purchases exceeding $50,000 in amount. Further, when awarding contracts to State employees, the Board should take steps to ensure that such contracts are awarded in an open and competitive manner, when required by Section 1-84 of the General Statutes. Also, the Board should retain documentation supporting that such contracts were awarded in an open and competitive manner.**

   Comment:

   In some instances, the Board did not execute signed personal service agreements until after the contract period had begun, Additionally, in some instances, the Board entered into personal service agreements with State employees but did not fully comply with, or failed to retain documentation evidencing compliance with, Section 1-84 of the General Statutes, which requires, among other things, that contracts entered into with State employees amounting to $100 or more be awarded through an open and public process. Further, we noted instances in which the Board did not fully comply with the bidding requirements of Section 10a-151b of the General Statutes.

2. **The Board should improve internal controls over equipment by following the policies and procedures established by the State of Connecticut's *Property Control Manual*. Specifically, the Board should ensure that all capital/controllable equipment is tagged with State identification numbers in visible locations, and that lost, stolen, or damaged equipment items are immediately reported to the appropriate State agencies when the Board becomes aware of such instances.**

   Comment:

   Our testing disclosed instances in which computer servers lacked visible State identification tag numbers. Also, we noted that the Board failed to report a stolen computer to the Auditors of Public Accounts and the State Comptroller in a timely manner.

3. **The Board should comply with the requirements of Title 2 of the Code of Federal Regulations, part 220 by implementing a time and effort reporting system to better support its payroll charges to Federal programs.**

Comment:

Employee payroll costs during the audited period were charged to a Federal program. However, the Board had not implemented a time and effort reporting system to document such charges as required by the Code of Federal Regulations.

4. **The Board should improve the timeliness of management review and approval of employee telecommuting agreements.**

Comment:

In some instances, management provided written approval of written employee telecommuting agreements after the telecommuting period had already begun.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Board for State Academic Awards for the fiscal years ended June 30, 2007 and 2008. This audit was primarily limited to performing tests of the Board's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Board's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Board are complied with, (2) the financial transactions of the Board are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Board are safeguarded against loss or unauthorized use. The financial statement audits of the Board for State Academic Awards for the fiscal years ended June 30, 2007 and 2008, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Board complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Board for State Academic Awards' internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Board's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Board's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 – weaknesses in controls and lack of statutory compliance in the areas of personal service agreements and other contracting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Board's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Board complied with laws, regulations, contracts and grant agreements, 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 Board's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to the Board's management in the accompanying "Condition of Records" and "Recommendations" sections of this report

The Board's response to the findings identified in our audit is described in the accompanying "Condition of Records" section of this report. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board's management, 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 the Board for State Academic Awards during the course of our examination.

Daniel F. Puklin
Principal Auditor

Approved:

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