

STATE OF CONNECTICUT



***AUDITORS' REPORT
DEPARTMENT OF EDUCATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 and 2006***

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

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June 16, 2008

**AUDITORS' REPORT
DEPARTMENT OF EDUCATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 and 2006**

We have made an examination of the financial records of the Department of Education for the fiscal years ended June 30, 2005 and 2006. This report on our examination consists of the Comments, Recommendations and Certification which follow.

Financial Statements pertaining to the operations and activities of the Department of Education are presented on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Education (hereafter "the Department") functions primarily under the provisions of Title 10 of the General Statutes. The Department, under the direction of the Commissioner of Education, serves as the administrative arm of the State Board of Education, established under Section 10-1 of the General Statutes. General supervision and control of the State's educational interests with respect to preschool, elementary and secondary education, special education, vocational education and adult education are included in the statutory responsibilities of the State Board. The fiscal duties of the Department of Education include the administration of State and Federal grants which are paid to local and regional educational agencies. The Department of Education also administers the State's Connecticut Technical High School System.

Members of the State Board of Education:

Members of the Board as of June 30, 2006, were as follows:

	<u>Term Expires February 28,</u>
Allan B. Taylor, Chairperson	2009
Donald J. Coolican	2009
Patricia B. Luke	2009
Beverly R. Bobroske	2007
Alice L. Carolan	2009
Janet M. Finneran, Vice-Chairperson	2007
Lynne S. Farrell	2007
Timothy J. McDonald	2007
Theresa Hopkins-Staton	2009

Non-voting members

Valerie F. Lewis, Commissioner, Department of Higher Education	(A)
Edna N. Chukwurah, Student member	(B)
Sloan W. Danenhowe, Student member	(B)

Note A:

Under the provisions of Section 10-1 of the General Statutes, the Commissioner of Higher Education serves as an ex-officio member without a vote.

Note B:

There are two non-voting student members. Each student's term expired on June 30, 2007.

Betty J. Sternberg resigned as Commissioner of Education on August 14, 2006. The State Board of Education appointed George A. Coleman as the temporary Commissioner of Education, effective August 14, 2006. He served in that capacity until Dr. Mark K. McQuillan was appointed the Commissioner of Education, effective April 16, 2007.

Legislative Changes:

Notable legislative changes, which took effect during the audited period, are presented below:

- **Public Act 04-254** – This Act required the Office of Policy and Management and the Commissioner of Education to analyze and report to the General Assembly's Education Committee, on or before January 1, 2005, on the costs associated with compliance with mandates imposed by the Federal No Child Left Behind Act. The Act also amended the Education Cost Sharing (ECS) formula by reducing the cap on annual increases and made the 28 poorest towns not meeting the statutory conditions to be priority school districts eligible for competitive School Readiness grants. See the Other Matters section of this report for a related discussion concerning this Public Act.

- **Public Act 05-2** – This Act gives the Attorney General the authority to bring, in a court of competent jurisdiction, a lawsuit on behalf of the General Assembly and the State of Connecticut against the Federal government to enforce provisions of the Federal No Child Left Behind Act (NCLB).

- **Public Act 05-245** – This Act concerned a wide range of education implementer provisions. The following provisions were included in this act. The Education Cost Sharing Grant calculation for FY 06 and FY 07 was changed to equal each town’s FY 05 grant plus 2 percent. Also, the law requires towns to spend all of Education Cost Sharing aid and only for educational purposes. The Act requires that the annual budgeted education appropriation of any town that receives an increase in Education Cost Sharing funding be at least the amount the town appropriated for education in the previous year plus the Education Cost Sharing increase.

RÉSUMÉ OF OPERATIONS:

Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of the “Grants and Restricted Accounts Fund” to account for certain Federal and other revenues and expenditures that are restricted from general use. In previous years those Federal and other restricted revenues and expenditures were accounted for in the General Fund as “Federal and Other Grants.” Thus, starting in the fiscal year ended June 30, 2004, Federal grants and other restricted funds that were formerly accounted for in the General Fund have been reclassified into the “Grants and Restricted Accounts Fund.” The change in fund structure resulted from the implementation of a new State accounting system. Therefore, our presentation of receipts and expenditures has been modified to reflect the change in the manner in which the successor accounting system accounts for those funds.

Total receipts, as recorded by the State Comptroller, for the Department of Education totaled \$421,919,496 and \$446,512,155 for the 2004-2005 and 2005-2006 fiscal years, respectively. For comparison purposes, the combined 2003-2004 fiscal year receipts as recorded by the State Comptroller for the Department of Education totaled \$391,445,955.

A summary of those receipts by Fund, as compared to the 2003-2004 fiscal year, follows:

<u>Fund</u>	<u>2005-2006</u>	Fiscal Year	<u>2003-2004</u>
		<u>2004-2005</u>	
Federal grants – Restricted	\$424,182,578	\$412,448,485	\$382,563,075
Grants – Other than Federal Restricted	16,533,049	4,065,689	3,728,380
Connecticut Tech. Extension	3,020,022	2,778,913	2,608,909
Teachers' Certification fees	2,132,603	1,987,631	2,015,820
General Fund	<u>643,903</u>	<u>638,778</u>	<u>529,771</u>
Total Receipts	<u>\$446,512,155</u>	<u>\$421,919,496</u>	<u>\$391,445,955</u>

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As presented in the summary, the increase in revenues was primarily attributable to increases in Federal grants. Refunds of expenditures resulted primarily from the return of grant funds from educational agencies.

The increase in Grants – Other than Federal Restricted for 2005-2006 resulted from additional costs incurred for construction work at the Department’s Connecticut Technical High School System.

Total expenditures for Department of Education for the fiscal years ended June 30, 2005 and 2006 were \$2,529,344,694 and \$2,657,676,351, respectively. For comparison purposes, the 2004 fiscal year expenditures, as recorded by the State Comptroller for the Department of Education, were \$2,384,805,985.

A summary of General Fund, Grants and Restricted Accounts Fund and other fund expenditures by category, as compared to the fiscal year ended June 30, 2004, follows:

	<u>2005-2006</u>	<u>Fiscal Year 2004-2005</u>	<u>2003-2004</u>
Budgeted Appropriations:			
Personal services	\$ 125,704,653	\$ 117,300,715	\$ 111,439,408
Other expenses	15,695,768	13,661,124	13,367,102
Equipment	57,475	152,211	57,475
Grants to education agencies and Various other payments	<u>2,091,344,121</u>	<u>1,960,198,958</u>	<u>1,874,749,506</u>
Total Expenditures from Budgeted Appropriations	\$2,232,802,017	\$2,091,313,008	\$1,999,613,491
Restricted Contributions:			
Other than Federal	5,585,118	3,815,588	3,747,029
Federal	<u>414,010,093</u>	<u>424,270,007</u>	<u>368,286,850</u>
Total General Fund and Grants and Restricted Accounts Fund Expenditures	<u>\$2,652,397,228</u>	<u>\$2,519,398,603</u>	<u>\$2,371,647,370</u>
Other Funds:			
Grants to Local Governments	\$ (23,282)	\$ 7,455,984	\$ 10,422,263
Grants – Capital Equipment	2,595,689	108,446	75,050
Extension Fund	2,574,095	2,344,140	1,891,514
All Other Funds	<u>132,621</u>	<u>37,521</u>	<u>769,788</u>
Total Expenditures	<u>\$2,657,676,351</u>	<u>\$2,529,344,694</u>	<u>\$2,384,805,985</u>

Federal restricted contributions were audited on a State-wide basis. The results of that review are presented as part of our Statewide Single Audit for each respective fiscal year.

The increase in Federal restricted expenditures from 2003-2004 was primarily attributable to corresponding increases in the funding allocations for Federal Assistance programs made by the United States Congress.

Two large Federal Assistance programs contributed to most of the change in Federal restricted expenditures: Expenditures for the Federal program entitled, “Special Education – Grants to States” went from \$96,562,159 in 2003-2004 to \$118,995,652 in 2004-2005; and, the “Title I Grants to Local Education Agencies” increased from \$99,322,779 in 2003-2004 to \$113,105,716 in 2004-2005.

However, the Federal Assistance for “Title I Grants to Local Education Agencies” was reduced during the 2005-2006 fiscal year, resulting in a decline in program expenditures to \$107,057,529. That decline represents the largest portion of the decline in Federal restricted expenditures noted for the 2005-2006 fiscal year.

According to expenditure records, the majority of personal services expenditures from budgeted accounts were related to the operation of the Connecticut Technical High School System. Expenditures for this System amounted to approximately \$101,264,579 and \$107,007,271 for the fiscal years ended June 30, 2005 and 2006, respectively.

Expenditures associated with Grants to Local Governments (i.e. technical wiring of schools, grants to targeted schools) and Grants – Capital Equipment are variable in nature and not subject to trend analysis.

A summary of grants to educational agencies and other payments made from budgeted appropriations is as follows:

	<u>2005-2006</u>	<u>2004-2005</u>	<u>2003-2004</u>
Payments to Educational Agencies and Others:			
Education equalization grants	\$1,619,662,393	\$1,563,013,950	\$1,522,564,466
Priority school districts	108,735,494	99,422,732	82,155,617
Excess cost – student based	88,861,259	67,104,505	61,520,173
Magnet schools	83,594,252	66,913,095	54,353,101
Transportation of school children	47,964,000	42,696,466	43,139,500
Charter schools	22,446,721	19,732,160	16,971,000
Adult education	18,616,580	16,067,912	16,064,500
Inter-district cooperation	14,663,035	14,118,405	14,041,224
Development of mastery exams	13,420,958	5,280,363	3,604,720
OPEN Choice program	10,777,092	9,425,067	7,972,178
American School for the Deaf	8,594,202	7,609,202	7,552,977
Family resource centers	6,359,461	6,359,211	4,756,461
Health and welfare services	4,750,000	3,800,000	3,800,000
Early Childhood program	4,406,810	4,328,903	-
Nonpublic school transportation	3,995,000	3,250,300	3,250,300
Teachers’ standards implementation Program	3,008,909	3,026,429	3,021,346
Omnibus grants State supported	3,035,447	2,887,535	2,943,004

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Excess cost – equity	3,000,000	-	-
Miscellaneous program payments	<u>25,352,508</u>	<u>25,062,723</u>	<u>27,038,939</u>
Total Grants to Educational Agencies and Other Payments	<u>\$2,091,244,121</u>	<u>\$1,960,098,958</u>	<u>\$1,874,749,506</u>

In addition to the grants and payments from General Fund budgeted accounts presented in the above summary, there were grants for school building construction financed from a capital projects fund, which are discussed further in the report section entitled "School Construction Grants".

Descriptions of the significant State grant programs follow:

Education Equalization Grants to Towns:

Sections 10-261a to 10-262j of the General Statutes provide for education equalization aid to towns. This grant program provides aid to each town maintaining public schools. Aid distributed to a town under this grant program is to be expended for educational purposes only, upon the authorization of the local or regional board of education.

Priority School Districts:

This grant program, established under the provisions of Sections 10-266p through 10-266r of the General Statutes, is designed to provide assistance to improve student achievement and enhance educational opportunities in certain school districts. During the audited period, the eight towns in the State with the largest populations were Priority School Districts. The law also provides that a number of towns with the highest count and/or the highest percentage of children in families participating in the Temporary Family Assistance Program, adjusted by certain factors from the town's Mastery Test results, also be designated as Priority School Districts.

School districts receiving Priority School District funding during the 2005-2006 fiscal year included Ansonia, Bloomfield, Bridgeport, Bristol, Danbury, East Hartford, Hartford, Meriden, New Britain, New Haven, New London, Norwalk, Norwich, Putnam, Stamford, Waterbury, West Haven and Windham.

Excess Cost – Student Based:

Excess Cost – Student Based provisions are found under Sections 10-76d, 10-76g, and 10-253, subsection (b), of the General Statutes. The Excess Cost-Student Based grant provides State support for special education placements and selected regular education placements. The Excess Cost grant funds 100 percent of the costs in excess of the grant thresholds. For placement initiated by a State agency, the basic contribution is equal to the prior year's net current expenditures per pupil (NCEP). Certain State agency placements are subject to 100 percent State funding. The Excess Cost grant is computed twice during the year: February and May.

Magnet Schools:

In accordance with Sections 10-264h through 10-264l of the General Statutes, there exists an Interdistrict Magnet School grant program designed to support racial, ethnic and economic diversity through a high-quality curriculum. This program also provides transportation to interdistrict students who reside outside of the district in which the school is located.

Eligibility is dependent upon a cooperative arrangement involving two or more local districts and approval of the operations plan by the Department. The significant increase in operating grant expenditures corresponds with a similar increase in the number of magnet schools in operation. There were approximately 45 inter-district magnet schools and programs operating in 2005-2006.

Transportation Grants:

Transportation grants were administered under the provisions of Sections 10-54, 10-66ee, 10-97, 10-158a, 10-266m, 10-273a, 10-277, and 10-281 of the General Statutes.

Under the provisions of Section 10-266m of the General Statutes, boards of education are reimbursed for their eligible transportation costs under a sliding-scale percentage method. During the audited period, the percentage range for reimbursement was from zero to 60 percent, with all towns receiving a minimum grant of \$1,000. The rate of reimbursement is based on town wealth, with wealthier communities receiving minimal support and needier towns receiving higher rates.

Charter Schools:

Section 10-66bb of the General Statutes authorizes the creation of charter schools. Section 10-66aa of the General Statutes defines Charter Schools as public, nonsectarian schools that operate independently of any local or regional board of education in accordance with a State or local charter. The goal of charter schools is to serve as centers for innovation and educational leadership to improve student performance, to provide a choice to parents and students within the public school system, and to be a possible vehicle to reduce racial, ethnic and economic isolation. They are assessed annually to determine if they are meeting the goals of the legislation and their charters.

For students enrolled in a local charter school, the local board of education of the school district in which the student resides pays annually an amount specified in its charter. There were approximately 14 charter schools operating in 2005-2006.

Adult Education:

Sections 10-69 to 10-73c of the General Statutes provide for State grants to local and regional education agencies based on a percentage of eligible adult education costs. Instructional and administrative services related to programs in U.S. citizenship, limited English proficiency, elementary/secondary school completion, and any other subject provided by the elementary and secondary schools of a school district are all eligible costs. The reimbursement percentage range for the audited period was zero to 65 percent.

Grants for Interdistrict Cooperative Programs:

In accordance with Section 10-74d of the General Statutes, the Department shall maintain a competitive grant program for the purpose of assisting local and regional boards of education and regional education service centers with the establishment and operation of interdistrict cooperative education programs.

School Construction Grants:

Grants for public school building projects were governed primarily by the provisions contained in Chapter 173 of Title 10 of the General Statutes. Various statutory rates were used in the grant computations.

In general, grants are provided for construction of new schools (including site acquisition) and expansion or major alteration of existing facilities. Aid is also provided for regional vocational agriculture centers, occupational training centers, administrative or service facilities, and special education facilities. In addition, bond interest subsidy payments and special hardship grants are made.

Funding for the school construction program is provided by General Fund appropriations and by the School Building Capital Projects Fund, established under the provisions of Sections 10-287a through 10-287i of the General Statutes to account for the proceeds of State bonds issued for school construction. A summary of cash receipts and disbursements of the School Building Capital Projects Fund for the years under audit, is presented below:

	<u>Fiscal Year</u> <u>2005-2006</u>	<u>Fiscal Year</u> <u>2004-2005</u>
Beginning Cash	\$ 46,663,348	\$ 11,758,632
Receipts - Sale of Bonds	<u>654,970,000</u>	<u>597,270,000</u>
Total Available	701,633,348	609,028,632
Disbursements - School construction grants	<u>697,296,061</u>	<u>562,365,284</u>
Ending Cash	<u>\$ 4,337,287</u>	<u>\$ 46,663,348</u>

Public Act 04-1, Sections 6 and 7, increased the total bond authorization for school construction grants from \$3,259,460,000 to \$4,402,960,000 for the 2004-2005 fiscal year. Public Act 05-5, Sections 5 and 6, increased the total bond authorization for school construction grants for the 2006 fiscal year to \$5,007,960,000. Various Public and Special Acts authorized additional funding for Magnet School construction projects and other educational grants. This resulted in total authorizations for school construction in the School Building Capital Projects Fund of \$4,484,270,270 and \$5,089,270,270 as of June 30, 2005 and June 30, 2006, respectively. State assistance for Magnet Schools is also available in the form of grants to local governments, from sources other than the School Building Capital Projects Fund.

A summary of State payments for school building programs, by type of grant and by source of funding, for the fiscal years ended June 30, 2006, 2005 and 2004, respectively, is as follows:

	<u>2005-2006</u>	<u>2004-2005</u>	<u>2003-2004</u>
Type of Grant:			
School Construction Grants	\$	\$ 805,075	\$ 593,581
Principal Installment	670,361,848	531,194,985	453,631,348
Interest	26,934,213	31,610,290	
Waterbury Magnet School		<u>(439,991)</u>	
Total Grants	<u>\$697,296,061</u>	<u>\$563,170,359</u>	<u>\$454,224,929</u>
 Source of Funding:			
General Fund	\$	\$ 805,075	\$ 593,581
School Building Capital Projects	<u>697,296,061</u>	<u>562,365,284</u>	<u>453,631,348</u>
Total Grants	<u>\$697,296,061</u>	<u>\$563,170,359</u>	<u>\$454,224,929</u>

The State's liability for installment grant obligations under Sections 10-287 and 10-287h amounted to approximately \$610,000,000 and \$550,000,000 as of June 30, 2005 and 2006, respectively. The liability for bond interest subsidy grants amounted to approximately \$150,000,000 and \$120,000,000 as of those same dates. These amounts represent only those projects which have gone forward and for which grants have been calculated. They do not include estimated amounts for projects authorized by the Legislature prior to 1997, which have not moved forward and have not had a grant calculated. As explained below, the Department no longer provides financial support for construction projects as "installment grant obligations." The amounts of these outstanding grant obligations have peaked and will continue to decrease gradually over future periods.

In accordance with Section 10-287 of the General Statutes, the State no longer participates in the payment of debt service on municipal bonds for school construction projects. The State incurs its share of construction project costs on a progress-payment basis during the construction period. Progress-payment indebtedness amounted to approximately \$3,000,000,000 and \$3,100,000,000 for the fiscal years ended June 30, 2005 and 2006, respectively.

The Department of Education also administered an enterprise fund, during the audited period. A brief description of its operation follows.

Vocational Education Extension Fund:

The Vocational Education Extension Fund, an enterprise fund, operates under the provisions of Section 10-95e of the General Statutes. The Fund was used during the audited period to account for the revenues and expenses of adult educational programs and includes an Industrial Account for production activities conducted at the Connecticut technical high schools. In accordance with the provisions of Section 10-99 of the General Statutes, the Vocational Education Extension Fund is allowed to retain up to a \$500,000 balance in the Industrial Account.

Amounts in excess of the \$500,000 allowed balance must be transferred to the General Fund within ten months of the close of a fiscal year. For the fiscal years ended June 30, 2005 and 2006, no transfers were required.

Vocational Education Extension Fund cash receipts and disbursements for the fiscal years ended June 30, 2005 and 2006, as compared to the fiscal year ended June 30, 2004, are presented below:

	<u>2005-2006</u> <u>Fiscal Year</u>	<u>2004-2005</u> <u>Fiscal Year</u>	<u>2003-2004</u> <u>Fiscal Year</u>
Beginning Cash	<u>\$2,359,087</u>	<u>\$1,924,107</u>	<u>\$1,230,912</u>
Receipts:	3,026,000	2,757,231	2,623,515
Disbursements:	<u>(2,582,366)</u>	<u>(2,322,251)</u>	<u>(1,930,320)</u>
Ending Cash	<u>\$2,802,721</u>	<u>\$2,359,087</u>	<u>\$1,924,107</u>

Approximately 79 percent of the Vocational Education Extension Fund cash receipts were from tuition fees for adult education. The remaining cash receipts were from customer fees generated in the production shops (i.e. automotive, woodworking, etc.). Adult education related expenses accounted for approximately 71 percent of the Fund's disbursements. The rest of the disbursements were for costs associated with operation of the production shops.

OTHER MATTERS:

Lawsuit – State of Connecticut vs. U.S. Secretary of Education:

The following disclosure, carried forward from the previous audit, represents an ongoing matter that may have a significant affect on the future operations and/or Federal funding of the State Department of Education.

Public Act 03-168 was passed to align State law with the testing requirements of the No Child Left Behind (NCLB, P.L. 107-110). It also required that any costs incurred by the State to conform to those requirements be paid "exclusively" from the NCLB funds received by the State and local school districts. The State Board of Education had been concerned that the "proposed annual testing requirement will impose a significant cost on Connecticut education for no benefit." The State responded to those concerns by passing Public Act 04-254 requiring the Office of Policy and Management and the Commissioner of Education to analyze and report the costs associated with compliance with the NCLB.

Cost estimates at the State level and selected local levels were completed toward the end of the June 30, 2005 fiscal year. Those studies found that the estimated State costs for the additional testing requirements under NCLB will exceed Federal funding by a substantial amount.

On August 22, 2005, Connecticut's Attorney General filed a lawsuit in the United States District Court against the U.S. Secretary of Education for failing to provide adequate funding under the No Child Left Behind Act of 2001(NCLB). As of the date of this audit report, the State's lawsuit remains active in the United States District Court.

PROGRAM EVALUATION:

Enrollment Projections Utilized in the Computation of State Grant Reimbursement for School Building Projects (C.G.S. Section 10-286):

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. The selection of Enrollment Projections as the subject matter for our Program Evaluation was prompted by a whistleblower complaint received by the Auditors of Public Accounts. School Districts are reimbursed by the State for a portion of building project's costs based upon a statutorily-defined grant calculation. Enrollment projections represent one of the key data elements used in determining the amount of State grant reimbursement for certain school construction projects. This data element is a key factor in determining the applicability and impact of "space standards" in the school building grant calculation formula.

The whistleblower complaint alleged that a large school district in Connecticut was overestimating the highest projected enrollment for two school construction projects. The overstatements of projected enrollment figures could result in oversized schools and excess construction costs borne by State and local taxpayers. Our whistleblower review raised concerns as to whether school districts were reporting enrollment projections in accordance with Section 10-286 of the Connecticut General Statutes and whether the Department had sufficient procedures in place to ensure that valid "projected student enrollment data" was used in the State grant reimbursement calculation.

Section 10-287(a) and 10-287i of the Connecticut General Statutes require audits of school construction grants prior to final payment. These audits are either performed or coordinated by the State Department of Education's (Department's) Office of Internal Audit. The Department's auditors had become aware of the concerns noted above and developed expanded audit procedures designed to confirm district reported projected student enrollment data used in the grant calculations. These expanded audit procedures identified inconsistencies in projected student enrollment data for the district noted in the whistleblower complaint and other school districts.

As a result of the concerns noted above, our program review was designed to consider: whether school districts were developing and reporting "projected student enrollment" in accordance with Section 10-286 of the Connecticut General Statutes; whether the Department's policies and procedures were sufficient to ensure that valid "projected student enrollment" data was used in the State's school building grant calculation; and, whether there was a potential fiscal impact when those statutory requirements were not followed.

It is the school districts' responsibility to conduct or obtain proper enrollment studies to support the enrollment numbers reported to the Department. Our review found that school districts were inconsistent in the development and reporting of projected student enrollment used for school building grant calculations. Some districts used a system-wide, rather than school specific approach, to projecting enrollment. No explicit guidance is given to school districts concerning what constitutes acceptable enrollment data. The Department's procedures do not require that the school districts submit supporting documentation for the enrollment projections. There is only a limited review of this data element by the Department until the post project audit is conducted.

The Department's expanded post audits have resulted in findings and adjustments to projected student enrollment data for some school districts. Accordingly, we make the following recommendation:

Background: The State of Connecticut through the Department of Education provides a significant amount of financial support for State and local school construction projects and repairs. School Districts are reimbursed by the State for a portion of each building project's costs based upon a statutorily-defined grant calculation. Enrollment projections represent one of the key data elements used in determining the amount of State grant reimbursement for certain school construction projects.

The total bond authorization for school construction grants for the 2006 fiscal year was \$5,007,960,000. Total school building Capital Project expenditures were \$562,365,284 and \$697,296,061 as of June 30, 2005 and 2006, respectively.

Criteria: Section 10-286 of the General Statutes states in part that,

“in the case of a new school plant, an extension of an existing school building or projects involving the major alteration of any existing building to be used for school purposes, the eligible percentage, as determined in section 10-285a, of the result of multiplying together the number representing the highest projected enrollment, based on data acceptable to the Commissioner of Education, for such building during the eight-year period from the date a local or regional board of education files a notification of a proposed building project with the Department of Education, the number of gross square feet per pupil determined by the Commissioner of Education to be adequate... .”

Condition 1: We judgmentally selected and surveyed nine school districts and 18 school construction projects. Combined with the district and schools involved in the whistleblower complaint, a total of ten school districts and 20 school projects were reviewed. The 20 school projects reviewed represented approximately \$244,000,000 in fiscal year 2007 expenditures and approximately \$906,000,000 in total estimated construction project costs of which an estimated \$682,000,000 was funded by State grants.

Our review found that five of the ten school districts, representing ten school projects, submitted enrollment projection documentation based upon a system-wide approach rather than on a school specific basis. The system-wide approach does not appear to be in compliance with Section 10-286.

Two school districts representing three school projects did not provide any supporting documentation, when such data was requested as part of our survey, for the projected student enrollment data submitted to the Department.

The enrollment projection documentation for the remaining seven schools appeared to be based upon a school specific approach.

Condition 2: As noted above, the Department’s Office of Internal Audit expanded its post grant audit procedures to include testing of district reported enrollment projections. Those reviews are ongoing as construction projects are completed and subjected to post grant audit procedures. At the time our field work was conducted, we noted that four of those expanded project audits contained findings and recommended adjustments concerning improper and/or unsupported projected enrollment data reported by the respective districts. Those findings and related recommendations, if implemented, would result in significant reductions in the State’s grant reimbursement (i.e. measured in the millions) to some of those districts.

Effect: Improperly performed and/or unsupported enrollment projections could result in oversized school buildings, excess State grant reimbursements and unnecessary construction and operating costs borne by State and local taxpayers. Further, there is an increased risk that the State of Connecticut may incur bond debt beyond what is considered absolutely necessary.

Cause: The Department has not developed sufficient guidance and procedures to ensure that school districts comply with Section 10-286. Further, the Department relies on post-construction audits to confirm enrollment data rather than obtaining and reviewing the supporting documentation (i.e. studies, analyses, etc.) from the school districts prior to construction.

Recommendation: The Department should develop and provide to districts updated guidance concerning the requirements associated with Section 10-286 and the submission of projected student enrollment data for school building projects. At a minimum, the guidance should clarify what constitutes, “data acceptable to the Commissioner of Education” and the method of collection and reporting to the Department. Further, the Department should establish procedures to obtain and review such data for conformance with the newly established guidance, prior to the approval of project applications. (See Recommendation 1).

Agency Response: “We agree with the finding. The Department will develop updated guidelines concerning the requirements associated with Section 10-286 and the submission of projected student enrollment data for

school building projects. These guidelines shall include criteria that constitutes data acceptable to the Commissioner of Education; suggested method(s) of collecting projected enrollment data; data reporting guidelines, and document retention requirements.

It is also planned that these guidelines will be provided to school districts and that projected enrollment data submitted as part of a school construction grant application will be received and reviewed prior to the approval of the associated school construction grant application.”

CONDITION OF RECORDS

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

General and System-wide Controls:

Non-Business Use of State Computers

Criteria: In accordance with C.G.S. 4d-2 c (1), the Chief Information Officer of the Department of Information Technology is responsible for developing and implementing policies pertaining to information and telecommunication systems for State agencies.

The Department of Information Technology's Acceptable Use of State Systems policy states that, "State systems are provided at State expense and are to be used solely to conduct State of Connecticut business. Unacceptable system usage is generally defined as any activity NOT in conformance with the purpose, goals, and mission of the agency. Additionally, activities that are NOT in accordance with each user's job duties and responsibilities as they relate to the user's position within State service are also unacceptable."

Condition: As part of our current review, we tested employee Internet usage for a ten day period in July, 2007. We also tested for the presence of unauthorized downloads existing on Department computers as of August 10, 2007. Our sample of 32 employees was judgmentally determined and selected. Our review found the following:

- Ten out of thirty-two Department employees visited between approximately ten and 26 (mostly non-duplicative) websites during the test period that appeared to be non-business related. Examples of the websites visited included but were not limited to: Yahoo E-mail, Hotmail, personal job searches and shopping on line for non-work related items.
- A review of a sub-sample of the judgmentally selected sample of employees found that seven of 15 had non-work related downloads on their computers. One employee had a tax software application on a laptop; six employees had downloaded approximately two or more short cuts to websites that appeared to be non-work related.

Effect: The Department is not in compliance with the Department of Information Technology's Acceptable Use of State Systems Policy. Non-work related websites may contain viruses that could have a negative impact on the Department's computer systems.

Lost labor time due to personal use of the Internet and/or computers during work hours may impact on the Department's ability to carry out its mission.

Cause: The Department has not implemented procedures to monitor employee computer use and therefore is unable to enforce the Department of Information Technology's Acceptable Use of State Systems Policy.

Recommendation: The Department should develop the necessary monitoring and enforcement tools and procedures to ensure compliance with the Department of Information Technology's Acceptable Use of State Systems Policy. (See Recommendation 2.)

Agency Response: "We agree with this finding. On February 4, 2008, the SDE's Bureau of Information Technology modified the Department of Information Technology's (DOIT's) Internet filtering levels for the agency. The level of filtering at SDE is now consistent with DOIT's filtering level with minor exceptions based on agency needs. The Bureau of Information Technology will perform random sampling on a quarterly basis to evaluate the effectiveness of the higher level of filtering.

The Department has also obtained and deployed E-Smart software which will monitor and generate reports regarding installed software on agency computers. This software inventory will be generated on a biannual basis with all occurrences of software installed that are not business related or State purchased (not including freeware and shareware) will be deleted."

Payroll and Personnel Controls:

Compensatory Time Procedures and Records:

Criteria: When the need for compensatory time is considered necessary for the operational requirements of the Department, requests for authorization should be made as far in advance as possible to the appropriate manager.

Condition: Our review of the Department’s use of compensatory time found:

- Forty-four compensatory time samples selected throughout the audited period were tested with the result that 19 samples were found to have been approved after the fact.

Effect: The Department was not in compliance with standard guidelines relative to compensatory time. In addition, without proper oversight, the Department has less assurance that the services it has compensated its employees for have actually been received.

Cause: The Department did not exercise the necessary administrative oversight to ensure that compensatory time was approved in advance and that sufficient documentation was retained in support of those approvals.

Recommendation: The Department should implement the necessary controls to ensure that the authorization of compensatory time is made in advance of the work performed and that sufficient documentation is retained in support of those approvals. (See Recommendation 3.)

Agency Response: “We agree with this finding. BHR requires quarterly reporting (DMB 10’s) from all divisions to document the pre-approved earning and use of compensatory time, which is noted in the procedure on the intranet, is in the annual mailing, and BHR sends out correspondence quarterly when these reports are due. Additional notification will be sent out to SDE managers and Principals as a reminder of this documentation requirement.”

Dual Employment:

Criteria: Section 5-208a of the Connecticut General Statutes states that “No State employee shall be compensated for services rendered to more than one State agency during a biweekly pay period unless the appointing authority of each agency or his designee certifies that the duties performed are outside the responsibility of the agency of principal employment, that the hours worked at each agency are documented and reviewed to preclude duplicate payments, and that no conflicts of interest exist between services performed. No State employee who holds multiple job assignments within the same State agency shall be compensated for services rendered to such agency during a biweekly pay period unless the appointing authority of such agency or his designee certifies that the duties performed are not in conflict with the employee’s primary responsibility to the agency, that the hours worked on each assignment are documented and reviewed to preclude duplicate payment, and that there is no conflict of interest between the services performed.”

- Condition:* Our review of the personnel files of 30 employees revealed that nine employees had not completed the required dual employment form or had equivalent documentation on file.
- We found three employees that did not have hiring authority's signatures and date. We also found one employee that worked for two State agencies that had a dual employment form that was approved by an unauthorized employee.
- Effect:* Employees may be working in multiple State positions without proper authorization.
- Cause:* The existing monitoring procedures were not adequate to ensure that both dual employment certification forms are properly completed and maintained on file for all of the Department's dual employees.
- Recommendation:* The Department should comply with Section 5-208a of the General Statutes and State dual employment policies to appropriately monitor dual employment situations. (See Recommendation 4.)
- Agency Response:* "We agree with this finding. If SDE is the primary agency, there is not a workable mechanism/report for SDE to track dual employment situations. If SDE is the secondary agency, we will require a dual employment form if one has not been submitted. As the primary agency, however, we rely on the employee to report a dual employment situation to the SDE. The dual employment procedure also resides on the SDE intranet and is part of the agency's annual mailing."

Payroll System User Names:

- Criteria:* Acceptable use of electronic signatures for authorization requires authentication controls. Authentication controls are standards, policies and procedures that are used to verify that systems and the users of those systems are who they say they are. Such controls are designed to limit system access to only those identifiable users with proper credentials, such as passwords, in an effort to reduce the risk of unauthorized access, modification, loss or disclosure.
- The Department of Information Technology's Acceptable Use of State Systems policy states that, "As a user, it is important to identify yourself clearly and accurately in all electronic communications." Further, it states that, "Individuals may not provide their passwords or logon ids to others."

Condition: Our review included procedures to identify those employees who had the ability to make changes to electronic payroll and personnel records (i.e. rates of pay, overtime, etc.).

A judgmentally determined and selected sample of nine of those employees, identified as having such ability, found that two of the user names were shared by other employees:

- One user name was a composite of the first names for two employees in Human Resources who shared it to access position data and system queries.
- One user name was a fictitious name used by the Department's payroll unit for its operational needs and to access related system queries.

Effect: The system controls did not limit access to electronic payroll and personnel records to individual users with specific authentication credentials. There is an increased risk of unauthorized access, modification, loss or disclosure of information.

Cause: The Department did not submit separate security forms for each individual granted access to the electronic payroll and personnel records so that access was granted under their own user name.

Conclusion: The Department took immediate steps to correct the conditions described above.

Specific Program and Fund Controls:

Student Activity Funds:

Background: There were 18 separate student activity funds maintained at the Connecticut technical high schools.

Criteria: The Department has issued formalized procedures for the Connecticut technical high schools to follow relative to the maintenance of student activity fund operations.

The Department conducted its own internal reviews of the operations of each Connecticut technical high school within its system. Those reviews included consideration of the operation of the activity funds at the various Connecticut technical high schools.

Condition: In coordination with the Department's Office of Internal Audit, we performed site reviews at three Connecticut technical high schools. Those reviews found the following:

- One instance was found where goods or services were purchased without evidence of competitive bidding by a minimum of three vendors, as required by the Student Activity Fund Manual. The total amount with no indication of bidding is \$3,742.50.
- One school had untimely checking account reconciliations for a three month period; two schools had excess funds in their checking accounts.
- One school had four of ten purchases without proper signatures on the required form.
- The Department's own internal reviews of its student activity funds at the various Connecticut technical high schools disclosed a number of other internal control matters, many of which were repeated from prior reviews.

As part of a separate review of revenue, we found that ten of eighteen of the Department's student activity fund checking accounts retained balances in excess of \$10,000. That threshold has been nominally accepted as the maximum reasonable amount of cash to be maintained in a student activity fund checking account. The remainder should be transferred to the State's Short-term Investment Account to earn a return on the asset. As of June 30, 2006, the ten student activity fund checking accounts in excess of the threshold ranged from \$140 to \$44,238 and totaled \$137,874.37.

Effect:

Prior and current reviews, performed by our Office and the Department, of the student activity funds at the various Connecticut technical high schools have identified a number of common and persistent reportable conditions. Those reportable conditions, such as are noted above, reflect student activity fund internal control deficiencies that affect the Department's ability to properly record, process and report financial data, safeguard assets, and comply with established procedures.

Cause:

While the Department's internal monitoring procedures have been effective in identifying the types of conditions noted above, that identification has not been effectively translated into timely corrective action.

The Department has not established the necessary accounting and administrative controls required to prevent the occurrence and recurrence of the types of exceptions noted above and in previous audit reports.

Recommendation: The Department should establish the necessary accounting and administrative controls to ensure that the Connecticut technical high schools' student activity funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. Further, those controls should ensure that excess student activity fund checking account balances are invested in the State of Connecticut's Short-term Investment Account. (See Recommendation 5.)

Agency Response: "We agree with the recommendations. The Department has implemented additional controls and will reinforce all of the student activity fund's policies and procedures including the ones cited above with all of the school principals, business managers and activity advisors."

Accountability Over School Lunch Revenues and Receipts:

Criteria: Sound business practices and proper internal control procedures prescribe that revenue should be properly accounted for. Verification of the deposit of receipts and the proper processing of the transactions may be enhanced with the preparation of reconciliations or accountability reports that compare deposits made by the Revenue Section, with the transactions processed by the various individual units or schools.

Condition: In coordination with the Department's Office of Internal Audit, we performed a review of three Connecticut technical high schools.

We tested a total of 30 days of cafeteria activity and receipts by comparing point of service system accountability reports against the amounts deposited. Our examination found the following:

- For 26 of the 30 days tested, variances were noted between the Point of Service system accountability reports and the amount of the deposits.
- Of the 26 variances, 17 had till counts greater than the deposit and nine had till counts less than the deposit.
- The net amount that the till counts exceeded the deposit amounts was approximately \$450.
- The schools did not research the variances.
- In a related matter, we found that for two of the three schools reviewed, the monthly food and supplies inventories were not being completed by the responsible personnel.

Effect: Current internal controls over revenues and other receipts do not provide management with reasonable assurance that all receipts were properly accounted for.

In the absence of the required monthly food and supplies inventory reports, management lacks the information necessary to perform its oversight and monitoring responsibilities.

Cause: The variances between the point of service system accountability reports and the deposits are not researched to determine their cause. Other contributing factors include the observed practice by cashiers of operating from open register draws and the lack of formal reconciliation procedures and training.

Management oversight was not sufficient to ensure that all required food and supplies inventory reports were received on a monthly basis.

Recommendation: The Department should implement procedures to ensure that the variances between the Point of Service Accountability reports and deposits are properly researched and resolved in a timely manner. Also, the Department should ensure that the required monthly food and supplies reports are submitted and reviewed by management. (See Recommendation 6).

Agency Response: “We agree with these recommendations. The Department will issue procedures for reviewing and reporting on point of sales variances and will collect inventory data centrally to ensure completion and timely reporting.”

Production Funds:

Background: Separate production funds are maintained at the Connecticut technical high schools. The production fund accounts for the financial activities in each school’s trade areas.

Criteria: The Department has issued formalized procedures for the Connecticut technical high schools to follow relative to the production activities of its trade areas.

As noted above, the Department conducted its own internal reviews of the operations of each Connecticut technical high school within its system. Those reviews included consideration of the operation of the production funds at the various Connecticut technical high schools.

Condition: In coordination with the Department’s Office of Internal Audit, we performed site reviews at three Connecticut technical high schools. Those reviews found the following:

- At one school we found that 23 of 36 PF-3 Production Order Forms reviewed had a delay between the completed date and the customer’s paid date of six days or more. At another school, our

testing of PF-3 Production Order Forms found ten of 39 had delays between the completed date and the customer's paid date of six days or more. Six of the identified delays exceeded 50 days and one delay was 132 days.

- The Department's own internal reviews of its production funds at the various Connecticut technical high schools disclosed a number of similar and other internal control matters, many of which were repeated from prior reviews.

Effect: Prior and current reviews, performed by our Office and the Department, of the production funds at the various Connecticut technical high schools have identified a number of common and persistent reportable conditions. Those reportable conditions, such as are noted above, reflect production fund internal control deficiencies that affect the Department's ability to collect customer service charges in a timely manner and to maximize cash flow related to its productive assets. Uncollected customer service charges represent unrecorded accounts receivable.

Cause: While the Department's internal monitoring procedures have been effective in identifying the types of conditions noted above, that identification has not been effectively translated into timely corrective action.

The Department has not established the necessary accounting and administrative controls required to prevent the occurrence and recurrence of the types of exceptions noted above and in previous audit reports.

Recommendation: The Department should establish the necessary accounting and administrative controls to ensure that the Connecticut technical high schools' production funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. (See Recommendation 7.)

Agency Response: "We agree with this recommendation. Schools have been instructed not to release items to the customer until payment has been obtained. Customers are notified to pay and pick up the deliverable when production work is completed. However, since the Department has little control over the customer's schedule, a further notice will be given to the customer for any deliverable left at the school for more than 30 days."

Operation of Cafeteria Cash Registers:

- Background:* The Department operates cafeterias at the Connecticut technical high schools. Those cafeterias provide food services to the employees and students of the schools.
- Criteria:* Standard internal control procedures require that cash register drawers be closed after the execution of each and every cash transaction. All non-cash openings of cash register drawers should be monitored and approved by management.
- Condition:* In coordination with the Department's Office of Internal Audit, we performed site reviews at three Connecticut technical high schools. Those reviews found the following:
- It was observed that the two cash register drawers remained open in each of two schools during the lunch wave of students.
- Effect:* Cash register transactions may not be accurately accounted for and receipts are not properly safeguarded when cash registers remain open between transactions.
- Cause:* The Department's internal control procedures were not sufficient to detect or prevent the improper operation of the cash registers.
- Recommendation:* The Department should establish the necessary monitoring and operational controls to ensure that cash registers are properly operated by the Connecticut technical high schools. (See Recommendation 8.)
- Agency Response:* "We agree with this recommendation. The Department will issue an administrative letter to school personnel requiring closing of the point of sales drawers after each transaction."

Equipment and Real Property Management:

- Background:* The Department reported approximately \$320,267,000 in inventory at June 30, 2006, a majority of which represents real property (\$268,143,000).
- During the prior audited period the State of Connecticut converted to a new central asset management and inventory system. The Office of the State Comptroller issued Memorandum No. 2005-04 with the intent of correcting deficiencies in the inventory records prior to that conversion.

The memorandum Stated that, “during the conversion of agency capitalized assets from the legacy systems, there will be a one time opportunity for agencies to remove and report missing assets from their records.” That process was to be completed by June 30, 2005.

The Department availed itself of the opportunity to remove and report missing assets from its records. A complete and thorough inventory of the Department and its technical high schools was performed subsequent to our audited period. The results of the first pass-through as of June 30, 2005, are as follows:

- Approximately \$3,702,000 was reported as lost or damaged;
- Approximately \$14,556,000 appeared to have been scrapped or disposed of over the years;
- Approximately \$5,792,000 was identified during the physical inventory process that had not been included in the inventory records.

As a result of the Department’s efforts to properly account for and value its inventory, we did not include a recommendation in the prior audit. The information noted above was presented in the prior audit report for disclosure purposes.

Criteria:

Section 4-36 of the General Statutes provides that each State agency shall establish and keep an inventory account in the form prescribed by the State Comptroller.

Standards and procedures for recording and maintaining inventory records are set forth in the State of Connecticut’s Property Control Manual, issued by the State Comptroller.

State procedures require the maintenance of perpetual records of capital assets and the identification of the funding source of those assets purchased with Federal grant funds.

Condition:

We have received and continue to receive disclosure reports from the Department concerning lost or damaged physical inventory at the central offices and technical high schools. We reviewed and summarized the reports covering the period coincident with our 2006 Single Audit review of the Department (March 2006 to December 2006). Those reports detailed hundreds of inventory items that could not be located during physical inventories of the various technical schools. The approximate value of those lost items was \$1,068,000.

The reports also disclosed the identification of a large number of equipment items that were not included on the school's beginning inventory listing. For instance, one school reported \$116,000 in equipment items that could not be located (computers, shop equipment, etc.). The same physical inventory found another \$119,000 in equipment items (computers, bus, etc.) that had not been added to the inventory records.

Effect: The Department continues to experience significant inventory write-downs (and write-ups) subsequent to the inventory correction period permitted by the Office of the State Comptroller. The Department's equipment inventory records can not be relied upon as to detail and value.

Cause: The Department's inventory controls are not sufficient to ensure that additions to inventory are recorded when the items are received. Further, the Department's inventory control system does not prevent items from being lost.

Recommendation: The Department should take the necessary steps to improve controls over its inventory system to ensure that equipment inventory is properly recorded when received and safeguarded. (See Recommendation 9.)

Agency Response: "The Department agrees with the finding. The Department's review of this condition concluded that overstatements in the value of additions and subtractions to inventory are the result of a variety of reasons including limitations within the State system and the Department's need to improve controls over the reporting of assets. The Department is currently addressing the latter through the introduction of an on site quality control checking methodology."

Donated Cars:

Background: Separate production funds are maintained at the Connecticut technical high schools. The production fund accounts for the financial activities in schools trade areas.

Criteria: The Department has issued formalized procedures for the Connecticut technical high schools to follow relative to the production activities of its trade areas and the acceptances of gifts. Gifts for instructional use in the Connecticut technical high schools may be accepted under the following conditions:

- Items have instructional value and are not provided primarily for advertising purposes.
- Items are donated with full title and control passing to the

State Department of Education.

- Items are available for use by all students, and the school determines which students can benefit.
- Costs to transport, install or maintain are not excessive and can be covered with the operating budget.

Condition: In coordination with the Department’s Office of Internal Audit, we performed a review of three technical high schools. Our review at one technical high school found the following:

- Our testing of donated cars found thirteen out of twenty two cars did not have a gift acceptance form.
- Also we found eleven out of twenty two donated cars were not on the school’s inventory list.

Effect: Prior and current reviews, performed by our Office and the Department, of the production areas at the various Connecticut technical high schools have identified a number of common and persistent reportable conditions. Those reportable conditions, such as are noted above, reflect internal control deficiencies that affect the Department’s ability to properly account for gift acceptances, safeguard assets, and comply with established procedures.

Cause: While the Department’s internal monitoring procedures have been effective in identifying the types of conditions noted above, that identification has not been effectively translated into timely corrective action.

The Department has not established the necessary accounting and administrative controls required to prevent the occurrence and recurrence of the types of exceptions noted above and in previous audit reports.

Recommendation: The Department should take the necessary steps to improve controls over the acceptance of gifts to ensure that gift acceptance forms are completed and retained for each donated car and that the donated cars are properly recorded in inventory. (See Recommendation 10.)

Agency Response: “We agree with these recommendations. The Department will take immediate action to review donation requirements with the school principals, business managers, automotive and automotive collision Department heads.”

Adult Education:

- Background:* The Department's Extension Fund is used by the technical high schools to collect tuition and fees associated with adult and evening classes. A standard registration form is used to trace enrollment and is necessary to reconcile student participation with cash receipts.
- Criteria:* The Connecticut State Library is the Public Records Office for the State of Connecticut. The State Librarian is given the authority and responsibility to administer a public records program for State agencies. This authority is found in Sections 11-8 and 11-8a of the General Statutes.
- Section 11-8a of the General Statutes states that State agencies have responsibilities which include inventorying all books, records, papers and documents under its jurisdiction and submitting record retention schedules to the State Library for approval.
- Accounting records such as cash receipts and disbursement ledgers, journals, and books have a minimum retention requirement of three years or until audited, whichever comes later.
- Condition:* In coordination with the Department's Office of Internal Audit, we performed a review of three technical high schools. Our review found that adult education registration forms for the fall of 2006 were shredded at the end of the school year by two of three technical schools prior to being audited.
- Effect:* The failure to maintain adult education registration forms has resulted in non-compliance with the State's Records Retention Schedule. In the absence of the registration forms, enrollment activity could not be reconciled to the cash receipts for the period reviewed.
- Cause:* There appears to be a lack of controls over the maintenance of the Adult Education registration forms.
- Recommendation:* The Department should institute procedures to ensure that the registration forms are appropriately maintained with supporting documentation for cash receipts and be kept for a minimum of three years or until audited, whichever comes later. (See Recommendation 11).
- Agency Response:* "We agree with the recommendation. The current records retentions schedule will be reissued to school personnel."

Teachers' Certification and Adult Education Program Fees:

Background: As specified within Section 10-145(b), subsection (p), of the General Statutes, the Department is charged with collecting teacher certification fees.

The Vocational Education Extension Fund is an enterprise fund designed to account for the revenues and related costs for the Connecticut technical high schools' adult educational programs and the production activities of the Schools' shops.

The Teachers' Certification Unit within the Department of Education received fees of approximately \$2.0 and \$2.1 million for the fiscal years ended June 30, 2005 and 2006, respectively.

Tuition fees from the Department's adult educational programs at the Connecticut technical high schools were approximately \$2.2 and \$2.4 million for the fiscal years ended June 30, 2005 and 2006, respectively.

Criteria: In accordance with the State Accounting Manual, receipts should be safeguarded by recording such receipts in a receipts journal. Additionally, accountability reports should be periodically prepared to compare the receipts that were actually recorded with the funds that should have been accounted for.

Condition: Our prior review noted that reconciliations between fees received and deposited with the number of certifications processed or pending were not routinely prepared. That condition remains unchanged.

Our prior review found that the Department did not reconcile its Adult Education Accountability Reports for attendance and tuition to the revenue reports for the same activity. That condition remains unchanged.

Effect: The lack of accountability procedures prevents the comparison of revenue that should have been received with amounts actually deposited.

Cause: The Department has not fully developed and implemented the necessary administrative and accounting controls to ensure the accountability of revenues received to revenues generated by operations.

Recommendation: Internal controls over the receipt of Teachers' Certification and Adult Education fees should be improved to include the performance of accountability procedures over those receipts. (See Recommendation 12.)

Agency Response: “We agree with this finding. The Department is currently contracting the development of a new teacher certification system that will reconcile revenues to certificates issued. The Department will reconcile its Adult Education Accountability Reports for attendance and tuition to the revenue reports for the same activity.”

Emerging Issues – Charter Schools:

Charter schools are public nonsectarian schools organized as nonprofit corporations. They are operated independently of local or regional boards of education. Charters are granted by the State Board of Education. As of the report date, there were 16 charter schools in operation in the State. That number is expected to grow in the future.

Most of the charter schools in the State perform the administrative and program functions associated with their operations. In response to the increasing demands for providing educational services within the constraints of existing budgets, charter schools are exploring new ways to acquire the subject matter expertise to operate while at the same time reducing costs. To date two charter schools have opted to employ the same management service organization in order to address those demands and constraints. The Department has been supportive and involved with the charter schools and management service organizations as they implement these new working relationships.

The management service organization charges the charter schools a service fee to provide such services as but not limited to: development of core curricula, budget preparation, recruiting, start-up management and fundraising. The charter schools benefit by this arrangement in that they have access to subject matter professionals without having to bear the full cost of those professionals. As the number of charter schools expands, it becomes increasingly likely that the use and number of management service organizations will expand with them.

However, there are certain emerging issues associated with this relatively new type of business relationship. The Department’s policies and procedures need to be updated to reflect these emerging issues. Accordingly, we make the following recommendations:

Charter School Governance and Independence:

Criteria: Section 10-66aa(1)(D) of the Connecticut General Statutes defines a charter school as a public, nonsectarian school which operates independently of any local or regional board of education in accordance with the terms of its charter. Further, no member or employee of a governing council of a charter school shall have a personal or financial interest in the assets, real or personal, of the school.

Condition: Our review of the composition of the governing boards (“boards”) for two charter schools and their management service organization found that several board members served on two or more of the boards.

It was also noted that several employees had been paid by both the management service organization and one of the charter schools.

There is currently no policy prohibiting charter schools and management organizations from sharing board members and/or management level employees.

Effect: Either in appearance and/or practice, the ability of charter schools to “operate independently” is compromised by the sharing of board members and employees. Decisions made for the collective good of the management service organization and the associated entities, may not be in the best interests of an individual charter school.

Cause: The Department has not established a formal policy and monitoring procedures to prevent and/or detect the presence of interlocking board members and the sharing of management level employees by charter schools and their management service organizations. It was noted that the Department had taken steps to address this matter, however no formal policy with respect to this emerging issue has been generated to date.

Recommendation: The Department should establish a formal policy that prohibits charter schools and their management service organizations from sharing board members and management level employees. The policy should be distributed to all charter schools. In addition, the Department should establish monitoring procedures designed to periodically test for the presence of shared board members and management level employees by charter schools and their management service organizations. (See Recommendation 13.)

Agency Response: “The State Department of Education agrees in part with this recommendation. We agree that a board member serving on a management service organization that provides services to a charter school precludes such board member from simultaneously serving on the charter school governing board which retains the management organization. We do not believe that a similar policy concerning management level employees is warranted at this time. However, the Department will revise the ED001(C) to monitor for related party management issues and the financial impact of sharing management level employees.”

Calculation of Service Fee Rates by Management Service Organizations:

Criteria: Pursuant to Section 10-66ee(c)(1) of the Connecticut General Statutes, “the State shall pay in accordance with this subsection, to the fiscal authority for a State charter school, for the fiscal year ending June 30, 2006, seven thousand six hundred twenty-five dollars for each student enrolled in such school, and for each fiscal year

thereafter, eight thousand dollars for each student enrolled in such school.”

Condition: With respect to the service fees charged by the management service organization for services rendered to the two charter schools, our review noted the following:

- The Department has not yet developed a policy with respect to the application and use of service fees by charter school management service organizations.
- The service agreement does not specifically identify the direct and indirect costs that have been factored into the service fee rate.
- Some of the services listed in the agreements in exchange for the service fee appear to be one time or intermittent in nature.
- The Department has not reviewed the cost analysis and supporting documentation used by the management service organization to calculate the service fee rate charged to the two charter schools.

Effect: There is an indeterminate risk that the service fee rate charged by the management service organization may recover costs from the charter schools in excess of the services provided. As noted above, charter school funding and the service fees charged by the management service organization are both based upon enrollment.

By extension, the State is also at risk of making grant payments to the charter schools for administrative and program services not fully rendered by the management service organization.

It is possible that the service fee rate in effect does not sufficiently recover the costs associated with the services performed by the management service organization on behalf of its client charter schools. Such a determination could have a bearing on the quality of services provided by the management service organization for its client charter schools.

Cause: The use of a management service organization by the charter schools is a relatively new business arrangement. As such, the Department has not had the opportunity to develop policy with respect to the application and use of service fees.

Recommendation: The Department should develop a policy with respect to the methodology used by management service organizations to calculate service fee rates. The policy should be distributed to all charter schools. At a minimum, the policy should provide guidance on how

service fee rates should be calculated and what constitutes allowable costs. In addition, the Department should establish monitoring procedures designed to periodically test the service fee rates charged by management service organizations to determine if the rates are properly calculated and supported. (See Recommendation 14.)

Agency Response: “The State Department of Education agrees in part with the recommendation. The Department will explore the basis for management fees charged to charter schools through an examination of management service organization agreements. The Department will review the services performed and the fee paid for such services. Based upon this analysis, the Department will evaluate the need to establish policies and develop monitoring procedures as considered necessary.”

Fund Transfers between Charter Schools and Management Service Organizations:

Criteria: Section 10-66aa(1)(D) of the Connecticut General Statutes defines a charter school as a public, nonsectarian school which operates independently of any local or regional board of education in accordance with the terms of its charter.

Section 10-66ee(e) of the Connecticut General Statutes states that, “Notwithstanding any provision of the general statutes to the contrary, if at the end of a fiscal year amounts received by a State charter school, pursuant to subdivision (1) of subsection (c) of this section, are unexpended, the charter school, (1) may use, for the expenses of the charter school for the following fiscal year, up to ten per cent of such amounts, and (2) may (A) create a reserve fund to finance a specific capital or equipment purchase or another specified project as may be approved by the commissioner, and (B) deposit into such fund up to five per cent of such amounts.”

Condition: The financial information for two charter schools and their management service organization for 2005 and 2006 properly disclosed several non-interest bearing advances among the related parties:

One non-interest bearing transfer in fiscal year 2005 in the amount of \$90,000 was between the two charter schools affiliated with the management service organization; another transfer in fiscal year 2006 in the amount of \$369,354 was between the charter school and the management service organization.

Our review found that there are several emerging issues associated with monetary transfers between these affiliated non-profit organizations:

- While there may be a collective benefit in terms of minimizing the costs associated with cash management for the affiliated group of non-profits, such transfers may not be in the financial or operational interest of an individual charter school and its students.
- The transferor surrenders direct control over the transferred funds and relinquishes the potential investment income from those funds.
- The Department has no policy allowing or prohibiting unsecured, non-interest bearing advances to affiliated non-profit organizations.
- Charter schools are limited by law in the use of excess funds received from the State grant. There are no existing Departmental monitoring procedures to determine the composition of the transferred amounts among affiliated organizations.

Effect:

Charter schools that make unsecured, non-interest bearing loans to affiliated organizations subject themselves to additional financial and operational risk. A default in the “loan” by one organization could have a negative, cascading effect on the other affiliated organizations.

Further, in the absence of monitoring procedures, it is possible that the transferred amounts could include State or Federal grant funds in violation of applicable laws.

Cause:

The use of management service organizations by charter schools is a relatively new type of business relationship. By extension, the transfer of funds among the affiliated organizations is a relatively new type of transaction. Currently, there is no Departmental policy allowing or prohibiting unsecured, non-interest bearing transfers among charter schools and their management service organizations.

There are no monitoring procedures in place to determine whether the transfers included State or Federal grant funds.

Recommendation:

The Department should develop a policy with respect to unsecured, non-interest bearing transfers between charter schools and their management service organizations. The policy should be distributed to all charter schools. At a minimum, the policy should prohibit the use of State and Federal grant funds for such purposes. The policy should describe the conditions under which such transfers are allowable, require the approval of the charter schools’ board of directors and require that the transfers be properly secured and

interest bearing. (See Recommendation 15.)

Agency Response: “The State Department of Education agrees in part with this recommendation. The Department will formalize a policy to prohibit the use of State and Federal grant funds with respect to unsecured, non-interest bearing transfers between charter schools and management service organizations. Concerning transfers of non-State or Federal funds, the Department will monitor such transfers and evaluate the need for developing a more comprehensive policy and related procedures.”

RECOMMENDATIONS

Our prior report contained 13 recommendations. There has been satisfactory resolution of eight of these recommendations. The five remaining recommendations have been repeated or restated to reflect current conditions. Ten additional recommendations are being presented as a result of our current examination.

Prior Audit Recommendations:

- 1. The Department should consider revising its plan of organization and methods of assigning authority and responsibility to address those internal control deficiencies that remain persistent and repetitive throughout the Connecticut Technical High School System.**

This recommendation has been substantially addressed by the Department and therefore will not be repeated.

- 2. The Department should take the necessary steps to ensure that monitoring activities at the Connecticut technical high schools are sufficient to determine whether internal controls are adequately designed, properly executed, and effective. In addition, the Department should develop the necessary procedures to ensure that all identified deficiencies in internal controls are corrected in a timely manner.**

Our review found no recurrence of the condition. The recommendation will not be repeated.

- 3. The Department should take the necessary steps to ensure that it is in compliance with Sections 4-190 through 4-197 of the Connecticut General Statutes concerning personal data. Those steps should include the appointment of a Personal Data Protection Coordinator and the formal consideration of the proposed, “Personal Data Protection and Privacy Policy” and/or the implementation of such procedures as to fully address the requirements of State laws with respect to personal data.**

The Department has taken the necessary steps to address this recommendation.

- 4. Uniform attendance procedures should be established and maintained for the Connecticut Technical High School System. The Department’s Connecticut technical high school personnel should be adequately trained in the application of those policies and procedures and their efforts should be supervised and periodically monitored.**

This recommendation was substantially addressed and will not be repeated.

5. **The Department should implement a formal and documented process for reviewing and verifying personnel actions on the Personnel Actions History Report (or similar report) by someone independent of the approval and input functions.**

Our review found no recurrence of the conditions found in the previous review. Therefore, this recommendation will not be repeated.

6. **The Department should implement the necessary controls to ensure that the authorization of overtime and compensatory time is made in advance of the work performed and that sufficient documentation is retained in support of those approvals.**

The condition remained substantially unchanged for compensatory time during the audited period. Therefore, the recommendation will be repeated in modified form. (See Recommendation 3.)

7. **The Department should establish the necessary accounting and administrative controls to ensure that the Connecticut technical high schools' student activity funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. Further, those controls should ensure that excess student activity fund checking account balances are invested in the State of Connecticut's Short-term Investment Account.**

The condition remained substantially unchanged during the audited period. Therefore, the recommendation will be repeated. (See Recommendation 5.)

8. **The Department should establish a policy that clearly defines those limited instances where a donation to a Parent Faculty Organization is necessary to accomplish a task or goal that could not otherwise be accomplished through the resources and controls of the Department. The Department should refrain from making donations to Parent Faculty Organizations that are in effect transfers for the purpose of avoiding their own operating procedures and controls in order to expedite purchases.**

No recurrence of this condition was found during our current review. The recommendation will not be repeated.

9. **The Department should establish the necessary accounting and administrative controls to ensure that the Connecticut technical high schools' production funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner.**

The Department has not taken the necessary corrective action to address this recommendation. The recommendation will be repeated. (See Recommendation 7.)

- 10. The Department should establish the necessary monitoring and operational controls to ensure that cash registers are properly operated by the Connecticut technical high schools.**

The condition remained substantially unchanged during the audited period. Therefore, the recommendation will be repeated. (See Recommendation 8.)

- 11. The Department should develop and utilize an accounting rationale for determining whether project expenditures should be capitalized. The final determination on the capitalization of project expenditures based upon the accounting rationale should be performed by the Bureau of Fiscal Services.**

No recurrence of this condition was found during our current review. The recommendation will not be repeated.

- 12. Internal controls over the receipt of Teachers' Certification and Adult Education fees should be improved to include the performance of accountability procedures over those receipts.**

The condition remained substantially unchanged during the audited period. Therefore, the recommendation will be repeated. (See Recommendation 12.)

- 13. The Department should improve its administration over the petty cash fund to ensure that employees comply with both the Comptroller's and the Department's policies for the timely submission of required documentation for travel advances.**

Our current review found no repetition of this prior audit condition. The recommendation is resolved.

Current Audit Recommendations:

- 1. The Department should develop and provide to districts updated guidance concerning the requirements associated with Section 10-286 of the General Statutes and the submission of projected student enrollment data for school building projects. At a minimum, the guidance should clarify what constitutes, “data acceptable to the Commissioner of Education” and the method of collection and reporting to the Department. Further, the Department should establish procedures to obtain and review such data for reasonableness and compliance with Section 10-286, prior to approval of project applications.**

Comment:

The Department has not developed sufficient guidance and procedures to ensure that school districts comply with Section 10-286. The Department does not require school districts to submit supporting documentation for the enrollment projections. There is only a limited review of that data element by the Department when the post project audit is performed.

- 2. The Department should develop the necessary monitoring and enforcement tools and procedures to ensure compliance with the Department of Information Technology’s Acceptable Use of State Systems Policy.**

Comment:

Department employees were found to have visited non-business related websites during work hours and to have non-work related downloads on their computers. The Department’s controls were insufficient to routinely monitor non-business related use of its computers.

- 3. The Department should implement the necessary controls to ensure that the authorization of compensatory time is made in advance of the work performed and that sufficient documentation is retained in support of those approvals.**

Comment:

The Department did not exercise the necessary administrative oversight to ensure that compensatory time was approved in advance and that sufficient documentation was retained in support of those approvals.

- 4. The Department should comply with Section 5-208a of the General Statutes and State dual employment policies to appropriately monitor dual employment situations.**

Comment:

The existing controls were not sufficient to ensure that dual employment certification

forms were properly completed and maintained on file by the Department for dual employees.

5. **The Department should establish the necessary accounting and administrative controls to ensure that the Connecticut technical high schools' student activity funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. Further, those controls should ensure that excess student activity fund checking account balances are invested in the State of Connecticut's Short-term Investment Account.**

Comment:

The Department has not established the necessary accounting and administrative controls over its activity funds needed to prevent the occurrence and recurrence of the conditions detailed in this recommendation. While the Department's internal monitoring procedures were effective in identifying those conditions, that identification has not been translated in corrective action.

6. **The Department should implement procedures to ensure that the variances between the Point of Service Accountability reports and deposits are properly researched and resolved in a timely manner. Also, the Department should ensure that the required monthly food and supplies reports are submitted and reviewed by management.**

Comment:

The variances between the system reports and cash deposits were not researched to determine their cause. Management oversight was not sufficient to ensure that all required food and supplies inventory reports were received on a monthly basis.

7. **The Department should establish the necessary accounting and administrative controls to ensure that the Connecticut technical high schools' production funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner.**

Comment:

Prior and current reviews of the Department's production funds at the various Connecticut technical high schools have identified a number of common and repeated reportable conditions. While the Department's internal monitoring procedures were effective in identifying those conditions, that identification has not been translated in corrective action.

- 8. The Department should establish the necessary monitoring and operational controls to ensure that cash registers are properly operated by the Connecticut technical high schools.**

Comment:

At two schools, it was observed that the operators of the cash registers left the drawers open during the lunch wave of students. The Department's controls were not sufficient to prevent or detect the improper operation of the cash registers.

- 9. The Department should take the necessary steps to improve controls over its inventory system to ensure that equipment inventory is properly recorded when received and safeguarded.**

Comment:

The Department continues to experience significant inventory write-downs and write-ups. The Department's inventory records can not be relied upon as to detail and value.

- 10. The Department should take the necessary steps to improve controls over the acceptance of gifts to ensure that gift acceptance forms are completed and retained for each donated car and that the donated cars are properly recorded in inventory.**

Comment:

Our sample of 22 donated cars found that 13 were accepted by one of the Department's technical high school's without the creation of proper gift acceptance forms. Eleven of those donated cars were not added to the Department's inventory record.

- 11. The Department should institute procedures to ensure that the registration forms are appropriately maintained with supporting documentation for cash receipts and be kept for a minimum of three years or until audited, whichever comes later.**

Comment:

Our review found that adult education registration forms for the fall of 2006 were shredded at the end of the school year by two of the three technical high schools. As a result, enrollment activity could not be reconciled to the cash receipts for that period.

- 12. Internal controls over the receipt of Teachers' Certification and Adult Education fees should be improved to include the performance of accountability procedures over those receipts.**

Comment:

The Department has not fully developed and implemented the necessary administrative and accounting controls to ensure the accountability of revenues received to revenues generated by operations.

- 13. The Department should establish a formal policy that prohibits charter schools and their management service organizations from sharing board members and management level employees. The policy should be distributed to all charter schools. In addition, the Department should establish monitoring procedures designed to periodically test for the presence of shared board members and management level employees by charter schools and their management service organizations.**

Comment:

The use of management service organizations by charter schools is a relatively new business relationship in the State of Connecticut. As such, the Department has not yet established a formal policy and monitoring procedures to prevent and/or detect the presence of interlocking board members and the sharing of management level employees by charter schools and their management service organizations.

- 14. The Department should develop a policy with respect to the methodology used by management service organizations to calculate service fee rates. The policy should be distributed to all charter schools. At a minimum, the policy should provide guidance on how service fee rates should be calculated and what constitutes allowable costs. In addition, the Department should establish monitoring procedures designed to periodically test the service fee rates charged by management service organizations to determine if the rates are properly calculated and supported.**

Comment:

The use of management service organizations by charter schools is a relatively new business relationship in the State of Connecticut. As such, the Department has not yet established a policy and guidelines with respect to the use and calculation of service fees by management service organizations.

- 15. The Department should develop a policy with respect to unsecured, non-interest bearing transfers between charter schools and their management service organizations. The policy should be distributed to all charter schools. At a minimum, the policy should prohibit the use of State and Federal grant funds for such purposes. The policy should describe the conditions under which such transfers are allowable, require the approval of the charter schools' board of directors and require that the transfers be properly secured and interest bearing.**

Comment:

The use of management service organizations by charter schools is a relatively new business relationship in the State of Connecticut. As such, the Department has not yet developed a policy with respect to non-interest bearing transfers between charter schools and management service organizations.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Education for the fiscal years ended June 30, 2005 and 2006. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial Statement audit of the Department of Education for the fiscal years ended June 30, 2005 and 2006, is included as a part of our Statewide Single Audit 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 Department of Education complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Education is the responsibility of the Department of Education's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2005 and 2006, 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 generally accepted government auditing standards.

We did, however, note certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the Department of Education is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Education'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 Agency'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 Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: the lack of established procedures to obtain and review projected enrollment data for reasonableness and compliance with Section 10-286; the lack of monitoring and enforcement tools and procedures to ensure compliance with the Department of Information Technology's Acceptable Use of State Systems Policy; the need to implement controls to ensure that compensatory time is approved in advance of the work performed; the need to establish controls to ensure that student activity funds and production funds are operated in accordance with established procedures; the lack of procedures to ensure that variances between accountability reports and deposits are properly researched and resolved in a timely manner; the need to ensure that cash registers are properly operated; the need to improve controls over the inventory system; the need to establish controls over the receipt of Teacher's Certification and Adult Education fees; and, the need to establish policies with respect to charter schools and their management service organizations for the emerging issues of, interlocking board members, use and calculation of service fees by management service organization and non-interest bearing transfers between charter schools and their management service organizations.

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 Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency'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.

We believe that the following reportable conditions described above are considered to be material or significant weaknesses: the lack of established procedures to obtain and review

projected enrollment data for reasonableness and compliance with Section 10-286 of the General Statutes; and, the need to improve controls over the inventory system.

We also noted other matters involving internal control over the Agency'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

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the central office of the Department of Education and of the various divisions, bureaus, schools, and other units during the course of our examination.

Michael R. Adelson
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts