

# AUDITORS' REPORT

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## State Education Resource Center

FISCAL YEARS ENDED JUNE 30, 2021 AND 2022



**STATE OF CONNECTICUT**  
Auditors of Public Accounts

**JOHN C. GERAGOSIAN**  
State Auditor



**CRAIG A. MINER**  
State Auditor

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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July 24, 2024

INTRODUCTION

We are pleased to submit this audit of the State Education Resource Center (SERC) for the fiscal years ended June 30, 2021 and 2022 in accordance with the provisions of Sections 1-122, 2-90, and 10-357b(c) of the Connecticut General Statutes. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, or policies; and a need for improvement in practices and procedures that warrant the attention of management.

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the State Education Resource Center during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Michael A. Haynes  
Edyta Lachut  
Niko Perdikakis  
Kevin Thompson

A handwritten signature in black ink, appearing to read "Michael A. Haynes".

Michael A. Haynes  
Associate Auditor

Approved:

A handwritten signature in black ink, appearing to read "John C. Geragosian".

John C. Geragosian  
State Auditor

A handwritten signature in black ink, appearing to read "Craig A. Miner".

Craig A. Miner  
State Auditor

# STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the State Education Resource Center disclosed the following five recommendations, of which two have been repeated from the previous audit:

## Finding 1

### Cash Balance – Maximization of Interest Income

<b>Criteria</b>	Excess cash should be invested prudently in accordance with an approved investment policy.
<b>Condition</b>	According to its audited financial statements, SERC had \$7,777,876 in uninvested cash as of June 30, 2021. SERC did not consider prudently investing in the State Treasurer's Short-Term Investment Fund (STIF), a low-risk money market investment pool.
<b>Context</b>	STIF was established and is operated under Sections 3-27a through 3-27j of the General Statutes. It provides a mechanism for investing at a daily-earned rate with daily interest. STIF also provides participants with daily access to their account balances. Investments are mainly in money market instruments. STIF's effective yield was 5.19% as of June 30, 2023.
<b>Effect</b>	SERC is not maximizing its revenue.
<b>Cause</b>	SERC believed it needed to retain excess cash.
<b>Prior Audit Finding</b>	This finding has not been previously reported.
<b>Recommendation</b>	The State Education Resource Center should consider developing a policy to transfer its excess cash to the State Treasurer's Short-Term Investment Fund.
<b>Agency Response</b>	"We do not agree with this item and would like to offer the following information concerning the cash finding. A substantial portion of the cash balance represents money related to the Emergency Assistance for Non Public Schools Grants, a pass-through program that provides grant dollars to schools with SERC being a provider of services to the CSDE. Grant monies received for schools must be

readily available to pay corresponding program costs. As of 6/30/2022, per the general ledger, SERC assumed costs related to this program in excess of \$10M. SERC must remain liquid in order to pay current liabilities related to programs, the most significant being the Emergency Assistance for Non-Public Schools.”

**Auditors’ Concluding Comments**

STIF is AAAm-rated (highest principal stability fund rating assigned by Standard & Poor’s global ratings) and is considered a cash equivalent as investors can access funds daily. By failing to invest in STIF, SERC may be sacrificing significant interest.

**Finding 2**

**State Open Checkbook for Quasi-Public Organizations**

**Criteria**

Section 2-53l of the General Statutes requires quasi-public agencies to promptly submit any information requested by the Office of the State Comptroller (OSC) for the purposes of posting expenditures in its online database.

**Condition**

SERC underreported its expenditures by \$6,610,478 to the Office of the State Comptroller. Database expenses totaled \$16,008,923, but SERC’s general ledger expenses totaled \$22,619,401

**Context**

We judgmentally selected four large expense categories for review from the 52 categories within the OSC database.

**Effect**

Online database users do not have access to accurate information.

**Cause**

SERC management did not adequately review the data it submitted to the Office of the State Comptroller.

**Prior Audit Finding**

This finding has not been previously reported.

**Recommendation**

The State Education Resource Center should ensure the accuracy of data submitted to the Office of the State Comptroller for inclusion in its online database.

**Agency Response**

“We agree with this finding in part as the Agency is faced with reporting challenges with the existing accounting application. These findings were addressed with the Auditors of Public Accounts via email on 7/24/2023. The amounts were allocated to the correct

general ledger accounts. A clear explanation and backup were provided for the above system discrepancies. SERC is in the process of seeking a new accounting application with an anticipated 7/1/2024 implementation date.”

**Auditors' Concluding Comments**

SERC did not provide correct amounts to the Office of the State Comptroller for its online database.

**Finding 3**

**Annual Reporting**

**Criteria**

Section 1-123(a) of the General Statutes requires SERC to submit an annual report to the Governor and the Auditors of Public Accounts that includes specific information on the fiscal operations and work force of the center during the fiscal year.

Section 10-357d of the General Statutes requires SERC to submit a yearly budget, projected revenue statement, and financial audit to the State Board of Education and the General Assembly.

**Condition**

SERC did not comply with the annual reporting requirements in Sections 1-123(a) and 10-357d of the General Statutes.

**Context**

During the audited period, SERC had four statutory reporting requirements. We reviewed all four requirements for each fiscal year.

**Effect**

Lack of compliance with statutory reporting requirements limited the intended recipient's monitoring function over SERC.

**Cause**

The condition appears to be due to a lack of administrative oversight as SERC did not prepare formal required annual reports.

**Prior Audit Finding**

This finding has been previously reported in the last three audit reports covering the fiscal years ended June 30, 2015 to 2020.

**Recommendation**

The State Education Resource Center should implement proper internal controls to ensure that it prepares and submits all statutorily mandated reports.

**Agency Response**

“We agree with this finding. Reports were recently submitted for multiple fiscal years. The responsibility of all future submissions will be facilitated by SERC's Chief Financial Officer.”

## Finding 4

# SERC Foundation, Inc. – Lack of Proper Accounting and Internal Control

### Background

The SERC Foundation is a 501(c)(3) non-profit organization established to support the programs, services, mission, and vision of the State Education Resource Center. The foundation raises funds to initiate and maintain projects. The foundation uses SERC employees to staff and manage these projects and reimburses SERC in accordance with a memorandum of agreement (MOA).

### Criteria

The SERC Foundation must complete a "Return of Organization Exempt from Income Tax" Internal Revenue Service (IRS) Form 990. This form describes the financial activities of the foundation and includes its assets, liabilities, revenue, and expenses. Deferred revenue is considered a liability.

### Condition

The foundation reported \$23,736 of deferred revenue as an asset rather than a liability on its IRS Form 990 for the fiscal year 2022.

### Context

We reviewed IRS Form 990 submissions for the fiscal years ended June 30, 2021, and 2022. We compared the figures on the IRS form 990 to the applicable independent auditor's report.

### Effect

The SERC foundation's IRS Form 990 included misstated public information.

### Cause

A lack of administrative controls contributed to this condition.

### Prior Audit Finding

This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2017, through 2020.

### Recommendation

The State Education Resource Center and foundation should ensure the accuracy of the foundation's Internal Revenue Services' filings and make any necessary corrections.

### Agency Response

"We do not agree with this finding since SERC is not responsible for the SERC Foundation's reporting. SERC and SERC Foundation are separate entities and require separate engagements. Also, SERC understands the SERC Foundation is not responsible for preparing Form 990. The overstated amount came as a surprise. The requested information to prepare the return was provided to the external audit

firm. The information clearly showed the \$23,736 as being correctly stated in the reports. The reports provided to the Auditors of Public Accounts also showed the proper accounting for the \$23,736, free of misstatement.

The SERC Foundation has made the partner at the external audit firm, aware of this finding and has requested clarification on several occasions, which has yet to be provided.

**Auditors' Concluding Comments**

According to the memorandum of agreement, SERC and the foundation are both responsible for knowing about the foundation's financial resources.

## Finding 5

### Lack of Timely Audit Reports

**Criteria**

Section 1-123(a)(4) of the General Statutes requires SERC to submit an annual report that includes a complete set of financial statements to the Governor and the Auditors of Public Accounts.

Section 10-357d of the General Statutes requires SERC to annually submit a financial audit to the State Board of Education and the General Assembly.

Title 2 U.S. Code of Federal Regulations Part 200.501 provides that a non-federal entity that expends \$750,000 or more in federal awards during a fiscal year must have a single or program-specific audit conducted for that year.

Sound internal controls over information systems require the ability to promptly obtain accurate data for financial reporting.

**Condition**

At the time of our review (January 2024), SERC had not obtained its financial statement and single audit reports for the fiscal year ended June 30, 2022.

**Context**

We requested the financial statement and single audit reports for the fiscal years ended June 30, 2021, and 2022.

**Effect**

Without timely audited financial statements, it is impossible to fully assess SERC's financial health. Without proper administrative and fiscal controls, there is an increased risk of fraud.

<b>Cause</b>	Management did not prioritize administrative and fiscal controls to ensure timely preparation of financial statements.
<b>Prior Audit Finding</b>	This finding has not been previously reported.
<b>Recommendation</b>	The State Education Resource Center should prioritize financial statement and single audit reporting and promptly provide its 2022 annual report.
<b>Agency Response</b>	<p>"We agree in part with this finding. SERC contracted with, a new external audit firm, on December 8, 2022. The engagement included the preparation of the annual audit for fiscal year 2022. The firm was provided with all the requested financial information with the understanding that the audit would be prepared promptly.</p> <p>During the audit of SERC by the Auditors of Public Accounts, SERC was not in possession of the audit performed by the external auditor. Therefore, SERC was and is still unable to provide the Auditors of Public Accounts with the audit. We have contacted the external auditor several times and still have not received a response."</p>
<b>Auditors' Concluding Comments</b>	The State Education Resource Center is ultimately responsible to ensure that it promptly obtains audits and meets its reporting requirements.

# STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our [prior audit report](#) on the State Education Resource Center contained five recommendations. Three have been implemented or otherwise resolved and two have been repeated or restated with modifications during the current audit.

Prior Recommendation	Current Status
<p>The State Education Resource Center should ensure that the SERC Foundation's financial information is accurately maintained and presented, and that it complies with the foundation's bylaws and applicable statutory requirements. SERC and the foundation should also clarify their responsibilities in their memorandum of agreement.</p>	<p><b>REPEATED</b> <b>Modified Form</b></p> <p>Recommendation 4</p>
<p>The State Education Resource Center should ensure that it completes annual performance appraisals for all its employees and that they are promptly included in their personnel files.</p>	<p><b>RESOLVED</b></p>
<p>The State Education Resource Center should properly implement the purchasing and credit card policies that have been approved by its board of directors.</p>	<p><b>RESOLVED</b></p>
<p>The State Education Resource Center should ensure that unexpended funds are appropriately returned to the Connecticut State Board of Education in accordance with their memorandum of agreement.</p>	<p><b>RESOLVED</b></p>
<p>The State Education Resource Center should continue to develop and implement a comprehensive internal control system that is appropriately documented and approved by its board of directors. The internal control system should comply with the General Statutes and the agency's operational objectives.</p>	<p><b>REPEATED</b> <b>Modified Form</b></p> <p>Recommendation 3</p>

# OBJECTIVES, SCOPE, AND METHODOLOGY

We have audited certain operations of the State Education Resource Center in fulfillment of our duties under Sections 1-122, 2-90, and 10-357b(c) of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2021 and 2022. The objectives of our audit were to evaluate:

1. The center's significant internal controls over compliance and its compliance with policies and procedures internal to the quasi-public or promulgated by other state agencies, as well as certain legal provisions, including as applicable, but not limited to whether the center has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial assistance;
2. The center's internal controls over certain financial and management functions; and
3. The effectiveness, economy, efficiency, and equity of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents, interviewing various personnel of the center, and testing selected transactions. Our testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying financial information is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the center's management and the center's information systems, and was not subjected to the procedures applied in our audit of the center. For the areas audited, we identified:

1. Apparent noncompliance with laws, regulations, contracts and grant agreements, policies, and procedures;
2. Deficiencies in internal controls; and
3. A need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the State Education Resource Center.

# ABOUT THE AGENCY

## Overview

The state established the [State Education Resource Center](#) in 1969 (formerly the Special Education Resource Center) to address requirements in the Education of the Handicapped Act. Subsequently, the General Assembly enacted Sections 10-4q and 10-76n of the General Statutes, placing requirements on the State Board of Education (SBE) and the State Department of Education (SDE) related to the operation of SERC and the activities it may perform.

SERC operates under the provisions of Chapter 179a, Sections 10-357a through 10-357g, of the General Statutes. As a quasi-public agency under Section 1-120 of the General Statutes, SERC is a body politic and corporate, constituting a public instrumentality and political subdivision of the state established and created to be a public educational authority acting on behalf of the state.

The duties of SERC are to assist the State Board of Education in the provision of programs and activities that promote educational equity and excellence. The assistance is limited to training, technical assistance and professional development for local and regional boards of education, school leaders, teachers, families, and community partners in the form of seminars, publications, site visits, on-line content and other appropriate means; maintaining a state education resource center library; publication of technical materials; research and evaluation; and writing, managing, administering, and coordinating grants. In addition, SERC may support early childhood education programs and activities, in collaboration with the Office of Early Childhood, to improve school and district academic performance and close achievement gaps between socioeconomic subgroups.

## Organizational Structure

Section 10-357a of the General Statutes established SERC and created a 13-member board of directors charged with its oversight. The board consists of four members appointed by the Governor, two appointed by the State Board of Education, and one each appointed by the president pro tempore of the Senate, majority leader of the Senate, minority leader of the Senate, speaker of the House of Representatives, majority leader of the House of Representatives, minority leader of the House of Representatives, and the Commissioner of Education. The Governor appoints the chairperson of the board from among the members with the advice and consent of the General Assembly. The board has seven vacancies.

SERC's board of directors appointed Ingrid Canady as executive director on October 12, 2016, and she continues to serve in that capacity.

## SERC Foundation, Inc.

The [SERC Foundation](#) operates as a 501(c)(3) organization under the United States Internal Revenue Service tax code, effective January 20, 2016. The foundation allows SERC to raise tax-deductible donations as an alternative funding source. SERC and the foundation entered into a memorandum of agreement in July 2019 to clarify their relationship. The agreement appoints two SERC board members to the foundation's board and requires the foundation to provide reports of its programmatic and financial activities to the SERC board of directors. SERC's fiscal department is responsible for foundation accounting, as the foundation has no paid employees and does not maintain its own accounting system. SERC can exercise significant influence over the foundation due to common board membership.

## Significant Legislative Changes

There were no notable legislative changes that took effect during the audited period.

## Financial Information

The State Department of Education (SDE) provided over 95% of SERC's funding during the period through federal and state grants, a majority of which was for the federal Individuals with Disabilities Education Act (IDEA) grant. IDEA, which provides education resources for children with disabilities, funds numerous educational initiatives at SERC, including the educational library. The library is a comprehensive resource center that contains current collections of research, reference, and instructional material on education and social services. This free, public lending library assists Connecticut education professionals, college/university students, families, and community members in achieving positive educational and life outcomes for all learners.

SERC's other significant educational initiatives include:

- Emergency Assistance to Non-Public Schools - The emergency assistance program provides services or assistance to eligible non-public schools to address educational disruptions caused by the COVID-19 emergency.
- Opioid Grant - The Opioid Grant is a federally funded initiative which SERC administered on behalf of the Department of Mental Health and Addiction Services (DMHAS) to bring stakeholders together in opioid misuse prevention efforts, and to develop programmatic professional support systems. The grant is also intended to build the capacity of school leaders to monitor, support, and consistently implement new learning.
- Service Contracts with Local Education Agencies (LEA) - SERC contracts with LEA to provide training and technical assistance. These service contracts provide funding independent of federal and state grants.

Following is an analysis of SERC revenue, expenditures and net position based on amounts presented in SERC's audited financial statements for the fiscal years ended June 30, 2021. We were unable to include revenues and expenditures for the fiscal ended June 30, 2022. SERC had not obtained completed audited financial statements at the time of this report.

### Revenues

SERC's operations depend on federal and state grants, primarily funded by the State Department of Education, which account for most of SERC's revenues. Total revenue was \$5,842,634, \$10,869,033, and \$22,835,261 for the fiscal years ended June 30, 2020, 2021 and 2022, respectively.

### Expenditures

SERC primarily makes expenditures pursuant to federal, state, and private restrictions on grant revenue. Revenue generated from charges for services is unrestricted and the related expenditures are subject only to approval by SERC's board of directors. The increase in Private School Stipends is the result of the Emergency Assistance for Non-Public Schools (EANS) grant provided by the State Department of Education and managed by SERC. A summary of expenditures by category based on the audited financial statements for fiscal years 2020 and 2021 and SERC's general ledger (unaudited) for fiscal year 2022 follows:

Expenditure Category	Fiscal Year Ended June 30,		
	2020	2021	2022
Salaries	\$ 3,170,934	\$ 3,643,940	3,783,018
Employee Benefits	746,122	870,215	1,003,514
Programs and Events	941,620	1,929,567	5,130,3612
External Contract Services	283,674	-	-
Occupancy	212,395	177,578	182,825
Technology	86,140	89,072	208,245
Professional Services/Insurance	97,843	121,692	110,830
Travel	57,320	-	-
Professional Development	22,110	8,348	8,830
Marketing	20,913	5,365	-
Office Supplies	17,300	61,595	44,737
Other	41,826	-	1,534,387
Private School Stipends	-	3,926,734	10,612,655
Depreciation	30,998	31,075	-
<b>Total Expenditures</b>	<b>\$ 5,729,195</b>	<b>\$ 10,685,181</b>	<b>22,619,402</b>

### Comparative Analysis of Net Position

Over time, net position may serve as a useful indicator of SERC's financial position. The increase in current liabilities due to the purchasing requirement of the EANS grant. SERC uses unrestricted net position to meet ongoing obligations to its employees and creditors. The remaining balance is its investment in capital assets (e.g., furniture, equipment, and computer equipment). A summary of SERC's net position taken from SERC's audited financial statements follows. Fiscal year 2022 figures were not available at the time of our review.

	As of June 30,	
	2020	2021
Current Assets	\$ 3,359,534	\$ 7,966,449
Capital Assets (Net)	232,369	231,507
<b>Total Assets</b>	<b>3,591,903</b>	<b>8,197,956</b>
Current Liabilities	1,889,425	6,308,131
Noncurrent Liabilities	71,373	74,868
<b>Totals Liabilities</b>	<b>1,960,798</b>	<b>6,382,999</b>
Net Position:		
Net Investment in Capital Assets	232,369	231,507
Unrestricted	1,398,736	1,583,450
<b>Total Net Position</b>	<b>\$ 1,631,105</b>	<b>\$ 1,814,957</b>

SERC's assets exceeded its liabilities at the close of each fiscal year. The increases in net position were due to additional grant funding in the fiscal year ended June 30, 2021.

## **Other Audit Examinations**

An independent public accountant (IPA) conducted a financial statement and federal single audits for the fiscal year ended June 30, 2021. The IPA issued an unmodified opinion on the financial statements and single audit and reported no material weaknesses in internal controls. At the time of our review, SERC had not obtained its audited financial statements and single audit report for the fiscal year ended June 30, 2022.