

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF CONSTRUCTION SERVICES
FOR THE FISCAL YEARS ENDED
JUNE 30, 2010, 2011, AND 2012*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

July 14, 2016

AUDITORS' REPORT DEPARTMENT OF CONSTRUCTION SERVICES FOR THE FISCAL YEARS ENDED JUNE 30, 2010, 2011, and 2012

We have audited certain operations of the Department of Public Works (DPW) and its successor agency, the Department of Construction Services (DCS), in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2010, 2011 and 2012. The Department of Administrative Services (DAS) provided accounting, payroll and personnel services to DPW and DCS during the audited period. The scope of our audit did not extend to the evaluation of the relevant controls at the agencies. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions;
2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency 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 department; as well as certain external parties; and testing selected transactions. 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 our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Department of Construction Services.

COMMENTS

FOREWORD

For the fiscal years ended June 30, 2010 and 2011, the Department of Public Works operated primarily under the provisions of Chapters 59, 60 and 60a – Section 4b-1 et seq. of the General Statutes, its responsibilities included:

- The design, construction, and alterations of major state facilities.
- Leasing and property acquisitions for most state agencies.
- Facilities management, maintenance, and security of state buildings in the greater Hartford area in addition to certain properties outside of the Hartford area.
- Collaboration with the Office of Policy and Management in the state real property surplus program.
- Assisting state agencies and departments with long-term facilities planning and the preparation of cost estimates for such plans.

- The establishment of security standards for facilities occupied by state agencies and the review of preliminary designs for renovations and new construction for compliance with security standards.

Effective July 1, 2011, DPW ceased to exist as a separate and distinct state agency. DPW duties specifically related to construction and construction management were transferred to the newly created Department of Construction Services. At that time, the remaining functions and duties were consolidated into the Department of Administrative Services. DCS operated primarily under the provisions of Chapters 60, 173, 531, 532 538, 538a, 539, 540 and 541 of the General Statutes. Its responsibilities included:

- The design, construction, and alterations of major state facilities.
- Building and fire safety inspections.
- School construction program.

Additional changes occurred on July 1, 2013, when DPW ceased to exist and on that date became the Department of Administrative Services, Division of Construction Services. These changes are discussed further in the Significant Legislation section of this report.

In accordance with Section 60 subsection (c) of Public Act 05-251, effective July 1, 2005, the Commissioner of the Department of Administrative Services, in consultation with the Secretary of the Office of Policy and Management, developed a plan for DAS to provide personnel, payroll, affirmative action and business office functions to DPW. The services were provided by the DAS Small Agency Resource Team (SmART). This transfer of functions became effective in August 2005.

Raeanne Curtis served as DPW Commissioner from September 2007 to December 2010. Jonathan P. Holmes served as the Acting DPW Commissioner from January of 2011 to June 30, 2011, when Donald J. DeFronzo was appointed Acting Commissioner of the successor Department of Construction Services by Governor Dannel Malloy. Commissioner DeFronzo served throughout the audited period, until July 1, 2013, when the powers and duties of the Department of Construction Services were transferred to the Department of Administrative Services.

Significant Legislation

Notable legislation, enacted during the audited period and subsequent to it, are presented below:

- Section 42 of Public Act 11-51 repealed Section 4a-1 of the General Statutes, effective July 1, 2011, and established that the Department of Administrative Services shall constitute a successor department to the Department of Public Works, except for those duties relating to construction and construction management, in accordance with the provisions of Sections 4-38d, 4-38e and 4-39 of the General Statutes.

- Section 45 of Public Act 11-51 added a new state department effective July 1, 2011. Subsection (a) established a Department of Construction Services. Subsection (b) noted that the Department of Construction Services shall constitute a successor department to the Department of Public Works in accordance with the provisions of Sections 4-38d, 4-38e and 4-39 of the General Statutes with respect to those duties and functions of the Department of Public Works concerning construction and construction management pursuant to any provision of the general statutes.
- Section 195 of Public Act 13-247, effective July 1, 2013, amended Section 4b-1b of the General Statutes by deleting subsection (a) that previously established the Department of Construction Services. The powers and duties of the Department of Construction Services were transferred to the Department of Administrative Services on July 1, 2013 in subsection (d) of the act. The Department of Administrative Services established the Division of Construction Services as the state's primary contact for executive and judicial branch construction-related services, administration of the state school construction grant program, and development, administration and training of state building and fire safety codes.

RÉSUMÉ OF OPERATIONS

Revenue and Receipts

Receipts net of transfers and adjustments totaled \$96,539,066, \$28,179,746 and \$9,759,008, for the fiscal years 2009-2010, 2010-2011 and 2011-2012, respectively. Receipts consisted primarily of grant transfers from other agencies to fund various capital projects. These transfers are accounted for in the Grants and Restricted Accounts Fund, which decreased in 2010-2011 and 2011-2012, due largely to a reduction in funding for technical school additions and renovations. Revenue from rents remained consistent for the fiscal years ended June 30, 2010 and 2011. However, there was no rental revenue during the fiscal year ended June 30, 2012 due to the consolidation of the leasing function into DAS effective July 1, 2011. Building and safety inspections were moved to DCS from Public Safety, effective July 1, 2011. As a result, licenses and fees increased during the 2011-2012 fiscal year. A summary of receipts for the years under review is presented below:

| | <u>2009-2010</u> | <u>Fiscal Year</u> <u>2010-2011</u> | <u>2011-2012</u> |
|----------------------------------|---------------------|--|--------------------|
| General Fund: | | | |
| Rents | \$1,412,777 | \$1,477,172 | \$ - |
| Licenses and Fees | - | - | 2,565,715 |
| Sale of Property | - | 500 | - |
| Refunds | 33,482 | 8,244 | - |
| Miscellaneous | <u>5,088</u> | <u>4,437</u> | <u>2,490</u> |
| Total General Fund | <u>1,451,347</u> | <u>1,490,353</u> | <u>2,568,205</u> |
| Other Funds: | | | |
| Grants and Restricted Accts Fund | 95,080,435 | 26,677,264 | 7,193,691 |
| Fringe Benefit Recovery Fund | <u>7,284</u> | <u>12,129</u> | <u>(2,888)</u> |
| Total Other Funds | <u>95,087,719</u> | <u>6,689,393</u> | <u>7,258,603</u> |
| Total Receipts | <u>\$96,539,066</u> | <u>\$28,179,746</u> | <u>\$9,759,008</u> |

Expenditures

During the period under review, DCS maintained two major expenditure reporting systems, operating accounts and project accounts. The operating accounts consisted primarily of General Fund accounts used for agency operating expenditures. The project accounts consisted primarily of capital project funds used to account for significant DCS construction projects.

Overall, expenditures increased from \$173,314,022 in the 2009-2010 fiscal year, to \$223,856,188 in the 2010-2011 fiscal year to \$675,542,362 in the 2011-2012 fiscal year. The most significant change was due to grant transfers for public school building projects becoming the responsibility of DCS as of July 1, 2011. Grant transfers totaled \$422,822,219 in the fiscal year ended June 30, 2012. Also, expenditures associated with construction projects increased in each of the audited years, from \$124,776,498 in the 2009-2010 fiscal year, to \$173,972,631 in the 2010-2011 fiscal year, to \$245,282,289 in the 2011-2012 fiscal year. The variation in the annual level of project expenditures reflects changes in bond monies made available and in the number of active major construction projects. The expenditures can be mostly attributed to the additions and renovations to community colleges and state universities.

Effective July 1, 2011, expenditures for property management including utilities, rents, and storage were moved from DCS to DAS. This resulted in an approximately \$42,000,000 decrease in operating expenditures for the 2011-2012 fiscal year.

A comparative summary of expenditures for the fiscal years ended June 30, 2010, 2011 and 2012 is presented below:

Expenditure by General Type:

| | <u>2009-2010</u> | <u>Fiscal Year</u> <u>2010-2011</u> | <u>2011-2012</u> |
|---|----------------------|--|----------------------|
| General Fund | \$50,241,618 | \$51,307,078 | \$ 9,103,511 |
| Minus funds used in DCS projects | <u>(1,759,920)</u> | <u>(1,677,762)</u> | <u>(1,687,852)</u> |
| General Fund for Operating Expenditures | 48,481,698 | 49,629,316 | 7,415,659 |
| Plus Capital Equipment Purchase Fund | <u>55,825</u> | <u>254,241</u> | <u>22,195</u> |
| Total Operating Expenditures | 48,537,523 | 49,883,557 | 7,437,854 |
| Grant Transfers | - | - | 422,822,219 |
| Construction Projects | <u>124,776,498</u> | <u>173,972,631</u> | <u>245,282,289</u> |
| Total Expenditures | <u>\$173,314,021</u> | <u>\$223,856,188</u> | <u>\$675,542,362</u> |

Operating Expenditures:

| | <u>2009-2010</u> | <u>Fiscal Year</u> <u>2010-2011</u> | <u>2011-2012</u> |
|---------------------|---------------------|--|---------------------|
| Personal Services | \$10,466,982 | \$10,911,613 | \$ 6,697,009 |
| Property Management | 12,583,992 | 13,777,782 | - |
| Utilities | 12,424,619 | 13,127,330 | 62,167 |
| Rents and storage | 10,886,759 | 9,644,769 | - |
| Miscellaneous | <u>2,175,171</u> | <u>2,422,063</u> | <u>678,678</u> |
| Total | <u>\$48,537,523</u> | <u>\$49,883,557</u> | <u>\$ 7,437,854</u> |

Project Expenditures:

| | <u>2009-2010</u> | <u>Fiscal Year</u> <u>2010-2011</u> | <u>2011-2012</u> |
|------------------------------|------------------|--|------------------|
| Acquisitions | \$1,053,248 | \$4,686,550 | \$1,808,804 |
| Design | 21,543,291 | 19,210,627 | 26,843,045 |
| Construction | 91,732,398 | 141,219,132 | 190,575,208 |
| Equipment | 2,238,969 | 348,284 | 7,338,401 |
| Art | 346,980 | 1,195,421 | 578,121 |
| DCS Fees | 7,315,765 | 6,947,989 | 7,562,182 |
| Claims | 56,966 | 158,363 | 1,288,608 |
| Telecommunications | 383,768 | 13,055 | 5,056,423 |
| Miscellaneous | 43,780 | - | 1,247,251 |
| Hazardous Material Abatement | 61,333 | 193,210 | 850,133 |
| Construction Manager | - | - | 1,950,855 |

| | | | |
|---------------------------|----------------------|----------------------|----------------------|
| Contingency/Change Orders | - | - | 183,258 |
| Total | <u>\$124,776,498</u> | <u>\$173,972,631</u> | <u>\$245,282,289</u> |

Construction project expenditures are charged primarily to capital projects funds. Smaller amounts are charged to special revenue funds and the General Fund. A summary of project expenditures by funds follows:

| | <u>Fiscal Year</u> | | |
|---------------------------|----------------------|----------------------|----------------------|
| | <u>2009-2010</u> | <u>2010-2011</u> | <u>2011-2012</u> |
| General Fund | \$1,759,920 | \$1,677,762 | \$1,687,852 |
| Special Revenue Funds | 34,039,329 | 18,645,632 | 47,498,227 |
| Public Works Service Fund | 1,433,150 | 135,303 | 382,066 |
| Capital Project Funds | <u>87,544,099</u> | <u>153,513,934</u> | <u>195,714,144</u> |
| Total | <u>\$124,776,498</u> | <u>\$173,972,631</u> | <u>\$245,282,289</u> |

Project grant transfers to other state agencies were made primarily for projects administered by other agencies pursuant to subsection (a) of Section 4b-52 of the General Statutes. The bulk of project expenditures are for projects involving the design and construction of state facilities. By far, the largest expenditure activity is for construction costs. The two largest ongoing construction projects during the audited period were the new campus for Gateway Community College on Church Street in downtown New Haven and the public health laboratory in Rocky Hill. The following is a list of the projects that had significant construction expenditures during the audited period:

| | <u>2009-2010</u> | <u>2010-2011</u> | <u>2011-2012</u> |
|--|------------------|------------------|------------------|
| Gateway Community College | \$30,588,938 | \$59,389,413 | \$69,887,301 |
| Manchester Community College | 2,073,612 | 1,618,120 | |
| Norwalk Community College | 4,747,041 | 13,436,070 | 7,586,122 |
| Quinebaug Valley Community College | | 1,507,094 | |
| Three Rivers Community College | 7,788,947 | | |
| Tunxis Community College | | | 3,586,876 |
| Central Connecticut State University | | 1,199,153 | 15,860,311 |
| Eastern Connecticut State University | | | 2,116,551 |
| Southern Connecticut State University | 1,252,687 | 6,928,763 | 19,419,484 |
| Western Connecticut State University | 2,972,719 | 3,821,346 | 12,341,684 |
| Henry Abbott Technical High School-Danbury | 1,008,061 | | |
| Howell Cheney Technical High School-Manchester | 1,827,090 | | |
| Harvard H. Ellis Technical High School-Danielson | | | 17,044,781 |
| E. C Goodwin Technical High School-New Britain | 1,211,546 | | |

| | | | |
|---|------------|------------|------------|
| W. F. Kaynor Technical High School-Waterbury | 4,551,449 | | |
| A I Prince Technical High School-Hartford | 3,648,128 | 1,191,613 | 3,044,971 |
| H. C. Wilcox Technical High School-Meriden | 1,258,091 | | 9,767,587 |
| J. M. Wright Technical High School -Stamford | | | 2,811,372 |
| Hartford Superior Court Garage | | 1,898,106 | |
| New Haven Superior Court Roof and Masonry | | | 1,747,556 |
| Bridgeport Superior Court Roof and Masonry | | | 2,167,503 |
| Camp Niantic | 10,835,206 | 1,119,124 | |
| Dept. of Emergency Services and Public Protection | 3,702,621 | | |
| Dept. of Public Health Laboratory-Rocky Hill | 2,408,059 | 29,287,294 | 26,642,165 |
| New Haven Regional Fire School | | 2,648,056 | |
| Hartford County Fire School | | | 3,978,967 |
| Long Lane School-Middletown | 1,910,629 | | 4,175,570 |
| Gates Correctional Institution- Niantic | 5,477,157 | 4,200,641 | |
| Osborn Correctional Institution- Somers | 1,726,261 | | |
| Lead Abatement | 1,583,779 | 2,599,785 | |
| Energy Conservation | 1,004,974 | 1,547,446 | |

Some of the project expenditures noted above were initially recorded in a revolving fund (Capital Projects Revolving Fund). Employees working on construction projects are initially paid out of that fund. Subsequently, that cost is allocated or charged back to applicable project accounts or to a General Fund operation account for general administrative or general technical support services to state agencies. The fund's revolving or charge back provision was intended to be the means of financing the future agency payroll cost of project employees. A summary of the fund's transactions for fiscal years ending June 30, 2010, 2011 and 2012, is presented below:

Capital Projects Revolving Fund:

| | <u>2009-2010</u> | <u>2010-2011</u> | <u>2011-2012</u> |
|--|--------------------|--------------------|--------------------|
| Funding Sources : | | | |
| Project Costs Recovered | \$4,159,576 | \$5,402,781 | \$5,393,636 |
| Cost not Related to Specific Projects Recovered: | | | |
| From the General Fund | 12,000 | 500,000 | - |
| Recoveries of Fringe Benefit Costs | <u>308,919</u> | <u>312,050</u> | <u>2,100,882</u> |
| Total Funding | 4,480,495 | 6,214,831 | 7,494,518 |
| Less Expenditures – Project Costs | <u>(5,625,892)</u> | <u>(5,705,860)</u> | <u>(5,999,785)</u> |
| Expenditures in (Excess) of Funding | (1,145,397) | 508,971 | 1,494,733 |
| Cash Balance, Beginning of Fiscal Year | <u>(4,456,438)</u> | <u>(5,601,835)</u> | <u>(5,092,864)</u> |

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our review of the records of the Department of Construction Services revealed certain areas requiring improvement or attention, as discussed in this section of the report.

Payroll Personnel Deficiencies

Criteria: State agency retention and disposition requirements for personnel records are stipulated in the State Agencies' Records Retention/Disposition Schedule issued by the Connecticut State Library's Office of the Public Records Administrator.

The State Comptroller requires that notification of employee separation is made to ensure that Core-CT systems security is properly carried out. The notification should result in termination of access to Core-CT on the date of separation.

Condition: Audit testing of payroll personnel files processed by the DAS SmART Unit revealed that backup documentation was not available in all cases selected for review. In some cases, when documentation was available, it was not fully completed. In addition, the Comptroller's Core-CT system security directive was not comprehensively applied to employee separations. The following represents the results of our testing:

There was no documentation in the personnel file supporting the compensation for one employee selected for testing. Also, there was no documentation of on call hours in the personnel file for one employee sampled.

We sought documentation to support a vacation time adjustment. The payroll file did not contain the documentation and the agency did not provide it when requested.

One employee selected for testing had two types of timesheets for the pay period – one for overtime and another for regular time. The timesheet for overtime was approved by the employee's supervisor. However, the timesheet for regular hours was not approved.

We tested employee files for evidence of medical certificates. Certificates are required when sick leave in excess of five days is used. We determined that for six of twenty-one employees

sampled, the files did not contain the required documentation. The agency did not provide the medical certificates when requested.

A test of separated employees revealed that for seven employees sampled, access to the Core-CT computerized accounting system was not terminated at separation, as required by the State Comptroller.

Effect: Without sufficient documentation and evidence of authorization, there is less assurance that transactions are completed in accordance with state policies and procedures.

When termination of access to Core-CT on the date of employee separation is not completed, unauthorized use of Core-CT can result.

Cause: The department underwent several changes due to agency consolidations. We noted changes in responsibilities to the agency's human resources and payroll areas as well as physical location changes. We attribute the difficulties in locating documentation to these changes. With respect to termination of access to Core-CT for separated employees, it appears that management does not have a well-defined, effective process for notification of employee separation and completion of the corresponding required termination of Core-CT access.

Recommendation: The Department of Construction Services should ensure that all payroll and personnel records are completed with respect to authorization and retained in accordance with state records retention requirements. In addition, employee separation procedures must include termination of access to Core-CT. (See Recommendation 1.)

Agency Response: "We agree; some conditions are already resolved and some require continued follow up. The SmART Unit has taken several steps to transition agencies to electronic processes as well as to develop processes to capture missing required documentation.

In 2015, Core-CT implemented an automated User Inactivation Process that deletes row security and any transactional roles for terminated, retired employees or employees who transfer out of an agency.

Human Resources representatives will continue to work with the agency security liaison to lock user accounts. The SmART Unit implemented an internal follow-up procedure to ensure compliance which includes bi-weekly Core-CT reports, communications to agency managers and supervisors on reporting requirements.”

Claims by the State

- Background:* The department uses PMWeb, a construction project management collaborative software tool that incorporates contracts, consultant payments, contractor payments, and change orders. PMWeb is used throughout both the preconstruction and construction phases as applicable to the specific project.
- Criteria:* Good business practice requires the establishment and application of formally approved construction claims procedures by a claims unit independent of the construction unit. Good business practice also requires that formal policies and procedures be established to encourage the systematic review of project records to routinely determine whether there is a likely basis for potential claims by the state against construction consultants or contractors.
- Condition:* A claims procedure manual has not been prepared. DCS does not have formal procedures requiring a routine review of project records to determine whether there is a likely basis for potential claims by the department against a construction consultant or contractor.
- Effect:* The absence of formal policies and procedures jeopardizes recovery of claims by the state.
- Cause:* The department’s financial and human resources are limited; nonetheless, it appears that within existing resources, claims management activities have not been allocated a sufficiently high priority.
- Recommendation:* The Department of Construction Services should finalize and put into practice construction claims procedures. These procedures should include a requirement for a systematic review of construction project records to determine whether there is a likely basis for potential claims by the state against construction consultants or contractors. (See Recommendation 2.)

Agency Response: “We agree with the recommendation. PMWeb will be better utilized to review project records and analyze data for potential claims by the State against consultants and/or construction contractors. Construction claims procedures will be finalized and a Claims Procedure Manual will be prepared for claims against contractors and consultants.”

Lease Revenue

Background: Section 4b-38 subsection (a) of the General Statutes allows the commissioner to lease out state-owned land, buildings, or facilities for municipal or private use when not needed for state use and when such action appears desirable to produce income or is otherwise in the public interest.

Criteria: Maintaining orderly records of lease revenues due and received as well as monitoring and enforcing the terms of active lease agreements are good business practices.

Condition: The department does not maintain a comprehensive database of leases and lease revenue receivable. Various lists of leases are created but are not maintained to reflect changing lease clauses, conditions, or requirements. Some leases also contain clauses which detail specific payment and other requirements.

In conducting our review, we noted five leases that were not entered on DAS lease accounting records.

Effect: Lack of accountability of lease revenue could cause a loss of revenue to the state. Lack of oversight could cause delays in lease renewals.

Cause: This recommendation was also included in the prior audit report. The department’s response to that recommendation noted the implementation of an Excel spreadsheet with all lease-outs (in which the state is the landlord) entered. We determined that the Excel information entered into the Excel spreadsheet was not complete and did not include all leases.

Recommendation: The Department of Construction Services should design and implement a system to monitor lease terms and lease revenue, including lease revenue receivables. (See Recommendation 3.)

Agency Response: “We agree with this recommendation. DAS Leasing will create and maintain a more comprehensive database of leases and lease revenue receivables to reflect changing lease clauses, conditions, or requirements.”

Lack of Adherence to Construction Project Change Order Procedures

Background: The department uses PMWeb, a construction project management, collaborative software tool that tracks change orders. Change orders are common to most construction projects, especially large projects. In construction project management, a change order is a component of the construction management process in which work is added to or deleted from the original scope of work of a contract. When a capital project construction change order is prepared and authorized, the scope of work agreed to by the State of Connecticut, the contractor, and the architect/engineer is implemented. This may alter the original contract amount and/or completion date.

Criteria: The department requires that management reviews and approves construction change orders prior to the commencement of additional work on a project. The level of management required to authorize correlates to the dollar value of the change order. These approvals are documented by management signatures on change order forms. Change order forms are required to be retained in order to verify the process.

Prior to March 11, 2014, change orders under \$30,000 required the project manager’s signature; change orders from \$30,000 to \$50,000 required the signature of one of the three assistant directors of project management; change orders from \$50,000 to \$100,000 required the signature of the director of project management; change orders over \$100,000 required the signature of the deputy commissioner. Effective, March 11, 2014, the management signature required for change order approval was modified. Management was authorized to sign for a higher dollar value of construction project change orders. The approval signature thresholds implemented are that change orders under \$50,000 require the signature of the project manager; change orders from \$50,000 to \$100,000 require the signature of one of the three assistant directors of project management; and change orders over \$100,000 require the signature of the director of project management. In addition, effective March 11, 2014, the

requirement that the deputy commissioner sign all construction project change orders over \$100,000 was eliminated.

Condition:

We examined 35 capital project change orders totaling \$1,826,299 associated with eight construction projects. The change orders were dated from March 3, 2012 to August 14, 2014. We noted the written authorization signature was often not legible and it was not supported by a corresponding printed signature for identification purposes. Also, the change order forms did not require a date on the approval signature. In addition, we noted following instances of noncompliance:

Our initial review determined that 20 of the change orders, totaling \$1,293,975, were incomplete and lacked approval signatures. Upon further review, we determined that original change orders had not been provided to us by the agency. The agency then provided us with the change orders as requested. Upon completion of our review, we determined that 11 change orders totaling \$537,394, or approximately 31 percent of those examined, did not have the required approval signatures. Obsolete change order forms were used in 13 instances. The forms lacked accountability controls. The printed names of the managers approving the change orders were not required and the approval signatures were at times illegible, so we could not determine whose signature was on the approval line.

Effect:

The lack of approval signatures for 11 capital project construction change orders, totaling \$537,394, indicates that construction project change order work commenced before the approvals were obtained.

In the case of signed construction project change orders sampled, the date of the approval signatures can't be determined. The change order work may have been started before the approvals were obtained.

The lack of approval signatures and the lack of date of signature indicates a lack of control over the approval process.

A useful construction project change order data self-assessment tool is not being utilized. Management had collected change order data, including the amount per project of the change order, when the State Property Review Board required it for preparation of its annual report. Management has reportedly stopped collecting this

data. The management tool utilized to assess change order data was discontinued.

Cause: Deficiencies in the controls over approval of construction change orders, including an inadequate change order form, lack of management oversight regarding levels of approvals, and insufficient use and understanding of the PMWeb project tracking system are all contributing causes of the conditions detailed above.

Recommendation: The Department of Construction Services must adhere to capital project construction change order approval procedures. Change order construction work should not proceed without proper authorization. A legible printed and written, or electronic signature, with the corresponding date of approval should be required on all construction project change orders. The department should better utilize the PMWeb construction project management system, including the implementation of electronic signatures and date tracking. (See Recommendation 4.)

Agency Response: “We agree that capital project change order procedures should be adhered to and that change order construction work should not proceed without proper authorization. The Change Order Manual, and all corresponding forms, will be reviewed and updated to reflect current standards. A legible print and written, or electronic signature, with the corresponding date of approval will be required on all construction project change orders to ensure proper authorization prior to proceeding with construction change order work. In support of these efforts, PMWeb will be better utilized to track and review project change orders.”

Compliance with the Statutory Requirement to Review General Contractors’ Subcontracts

Criteria: Subsection (e) of Section 4b-95 of the General Statutes requires the contract awarding authority to periodically review the general contractor’s subcontracts to ensure compliance with statutory provisions, “...and shall after each such review prepare a written report setting forth its findings and conclusions.”

Condition: Periodic reviews of subcontractor agreements with contractors are performed by the department. However, formal reports of these reviews are not prepared. If there are major discrepancies, the agreements are sent back to the contractors to be corrected. In the case of minor discrepancies, notes are made in the file. A transmittal memo is prepared in lieu of a formal report that sets

forth its findings and conclusions. The department has not formalized the subcontract review procedures, which would include the preparation of a report template incorporating the subcontractor provisions set forth in Chapter 60 of the General Statutes.

Effect: The department is not in compliance with the requirements of subsection (e) of Section 4b-95 of the General Statutes as it relates to the department's responsibility for reviewing general contractor subcontracts. If reviews are not documented, there is no assurance they have been done.

Cause: The department does not have staff specifically responsible for issues relating to contract compliance. It appears that contract compliance issues are not prioritized.

Recommendation: The Department of Construction Services should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to its responsibility for reviewing general contractor subcontracts. (See Recommendation 5.)

Agency Response: "We agree with this recommendation. Policy statements shall be developed to address General Contractor (GC) requirements to ensure compliance with statutory provisions and subcontract review procedures will be formalized. A Biznet application is being developed for GC contract and project data input that includes provisions for the subcontractor as set forth in Chapter 60. Reports will be generated from this application that will require contract reviewers to make findings as to the subcontractor's compliance with each contract element in order to determine whether a subcontract, as a whole, is or is not compliant."

Real Property Reporting to Client State Agencies

Criteria: Pursuant to Section 4b-51 subsection (a) of the General Statutes, the commissioner is responsible, subject to certain defined exceptions, for the remodeling, alteration, repair or enlargement of any state agency real asset. Inherent in this responsibility is a requirement for the timely reporting of construction cost data to client state agencies that are responsible for the reporting of those assets as items of inventory.

The State Property Control Manual requires that each agency prepare and timely submit the Annual Report of all Real Property, (Form CO-59 Fixed Assets/Property Inventory Report/GAAP Reporting Form.)

According to generally accepted accounting principles (GAAP), expenditures for new buildings and building additions should be capitalized (added to the inventory of capital assets) but repairs should be expensed in the year in which they occur. Detailed documentation is needed to support the determination as to which costs should be capitalized and which should be expensed. When a construction project is sufficiently complete, a certificate of substantial completion should be issued to the client state agency. This step allows the facility to be occupied and/or used. To provide the client state agency with comprehensive cost data for inventory purposes, an Insurance Notification/Transfer Form should be prepared and sent to the occupying agency, State Comptroller and State Insurance Risk Management Board. The final notification to the client state agency is the certificate of acceptance formerly called a certificate of completion and an asset valuation memorandum. They are required so that the client state agency can include the building's asset finalized value on their CO-59 property inventory report. Such notifications are necessary so that the cost of capitalized additions to buildings, and expensed costs are documented and properly recorded by the client state agency.

Condition:

We noted that the department provides the following documents to the client state agency:

A certificate of substantial completion is issued to notify the client state agency, that it can use the building. We noted that delays in the issuance of the certificate of substantial completion resulted in errors to the GAAP form reporting construction in progress and to client state agency CO-59 property inventory reports. These errors were reported to the Comptroller as part of our annual CAFR audit.

An Insurance Notification/Transfer Form is issued and gives an estimate of the construction costs for the prime contractor only. Other cost elements such as design, hazardous material removal, construction not performed by the prime contractor, and allocated department labor are not included. This document does not provide a breakdown of the costs of capital improvements to buildings and non-capital repair costs, which are expensed.

A certificate of acceptance and an asset valuation memo are issued to client state agencies by the department when the building is entirely completed. It is required that the full cost of a construction project include additions or deletions to the original construction contract; design and DCS fees; and other project costs like telecommunication, hazardous material removal as part of a major renovation that increases the economic life of the building; or construction performed separately by a contractor other than the major contractor. However, we found that the certificate of acceptance and an asset valuation memo might not be issued for one year or more after the issuance of a certificate of substantial completion. In cases involving claims litigation, change orders, furnishing and equipment purchases, and information technology purchases, the time period is extended. This means that any initial CO-59 under-reporting of additions to buildings at the substantial completion stage might not be corrected in extreme cases for two or more years. As a result, state buildings on the state's inventory were under-reported to the Comptroller. In addition, non-capital, repair expense items were not accurately reported in the year expended as required by GAAP.

Effect: The department's current procedures for reporting facility project costs to client state agencies can lead to GAAP form errors, the under-reporting of annual expenditures, and/or material delays in the reporting of accurate costs on CO-59 property inventory documents, resulting in undervaluation of assets at year end.

Cause: The department's procedures do not require that a sufficiently comprehensive or timely accounting of facility project costs be provided to client state agencies until a certificate of acceptance is issued. Even when a certificate of acceptance is issued to the client state agency, a breakdown of capitalized project costs and expensed costs is not provided.

Recommendation: The Department of Construction Services should improve its reporting of construction cost data to client state agencies responsible for the reporting of those assets as items of inventory. Construction cost data should include both the costs of capital improvements to buildings and non-capital repair costs, which are expensed. (See Recommendation 6.)

Agency Response: "We disagree with this finding. The Department's current procedure, outlined below, complies with its statutory obligations,

by providing the agency with all of the information the Department possesses to allow the Agency to determine whether to capitalize or expense costs.

At project initiation, a Form 1105 - Capital Project Initiation Request is generated and is maintained throughout the life of the project. This Form memorializes the project budget, including the five major areas of expenditures: Haz-Mat, total construction, equipment/telecom, professional fees, Percent for Art, and DCS fees. At the beginning of the project, the Form reflects estimated costs. Throughout the project, the estimates are updated to reflect the actual costs as they occur.

At project completion (when the building is ready for turnover to the Agency) the Agency is provided Form 781 – Substantial Completion (SC), Form 785 – Insurance Notification and Transfer, and Form 1105. These documents demonstrate the various expenditures that occurred during the project. At the time of SC, project accounting costs are considered 99% complete. Outstanding items and any change orders or incomplete work still appear in the budget. Potential claims are not included in the final costs because a vendor has up to two years to make a claim after the certificate of acceptance is given. Such costs cannot be anticipated in advance.”

Auditors’ Concluding

Comments:

Our CAFR audit testing revealed that certain client agencies were not provided with detailed cost information in a timely manner. These omissions resulted in audit adjustments to annual CAFR reports to correct the Annual Report of Real Property (Form CO-59 Fixed Assets/Property Inventory Report/GAAP Reporting Form).

RECOMMENDATIONS

Our prior report on the Department of Public Works covered the fiscal years ended June 30, 2007, 2008, and 2009, and contained 17 recommendations. The Department of Construction Services was consolidated into the Department of Administrative Services. Prior audit recommendation follow-up is a function of the audit of the Department of Administrative Services for nine of the prior audit recommendations. Four of the prior audit recommendations have been resolved. Four of the recommendations have not been fully resolved and are therefore being repeated. Two additional recommendations are being presented as a result of our current examination.

Status of Prior Audit Recommendations:

- DPW should adhere to accounts payable internal control procedures. The controls should include contractual cost and services reconciliations as well as reviews of supporting documentation. Controls over the expenditure function became the responsibility of DAS.
- DPW should finalize and put into practice construction claims procedures. These procedures should include a requirement for a systematic review of construction project records to determine whether there is a likely basis for potential claims against construction consultants and/or construction contractors. This recommendation is being repeated. (See Recommendation 2.)
- DPW should design and implement a system to monitor lease revenue, including lease revenue receivables. This recommendation is being repeated. (See Recommendation 3.)
- DPW should, in conjunction with the Office of Policy and Management where appropriate, establish procedures relating to compliance with the requirements of Section 4b-23 of the General Statutes. Section 4b-23 requires the department to review State Facility Plan requests submitted by state agencies to the Office of Policy and Management. Section 4b-23 also requires the department to monitor compliance with the approved State Facility Plan and to obtain approvals from the State Bond Commission, the Governor, and the State Properties Review Board for certain deviations from the plan. Controls over the review and monitoring of the state facility plan function became the responsibility of DAS.
- DPW should continue to work toward the adoption of regulations regarding the leasing of offices, space, and other facilities pursuant to Section 4b-23 subsection (o) of the General Statutes. This recommendation was resolved due to a change in the statutory reporting requirement.
- DPW should comply with the requirements of Section 3-21d of the General Statutes, which requires that reports on completed capital works projects be submitted to the State

Bond Commission and the General Assembly. This recommendation was resolved due to a change in the statutory reporting requirement.

- DPW should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to its responsibility for reviewing general contractor subcontracts. This recommendation is being repeated. (See Recommendation 5.)
- DPW should improve its administration of the Capital Projects Revolving Fund. All project costs and, when appropriate, the applicable General Fund appropriation should be billed. Billings for projects financed by other state and quasi-public agencies should be processed in a timely manner. Also, all applicable collections should be credited to the unfunded charges receivable balance. In addition, the department should maintain and regularly reconcile the fund's unreimbursed charges receivable to project billings and receipts. Controls over management of the capital projects revolving fund function became the responsibility of DAS.
- DPW should continue to review its processing system for the Capital Projects Revolving Fund to reduce the level of manual operations required to process billing transactions and increase the usefulness of information provided by its system. Controls over the Core-CT project tracking system and its functions over the Capital Projects Revolving Fund became the responsibility of DAS.
- DPW should improve its procedures for the timely reporting of facility project costs to client agencies. This recommendation is being repeated. (See Recommendation 6.)
- DPW should discontinue the use of the Funds Awaiting Distribution account for transacting state property operations. The net proceeds from real estate sales should be transferred to the General Fund. Expenditures for the disposal of state property should be accurately accounted for and attributed to the specific property sold. The unidentified balance in the Funds Awaiting Distribution account should be transferred to the General Fund. Controls over the Funds Awaiting Distribution Account became the responsibility of DAS.
- DPW should develop and implement written procedures to account for the antiques, art objects, carpets and other items loaned to the state by the Governor's Residence Conservancy, Inc. The department should conduct an annual inventory of the residence and report the value of the Governor's Residence Conservancy, Inc.'s collection on the CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form. Controls over the Governor's Residence Conservancy, Inc. became the responsibility of DAS.
- DPW should maintain, reconcile, and report inventory assets as prescribed by the State Property Control Manual. Controls over the inventory function became the responsibility of DAS.

- DPW should take greater care in properly coding items purchased that require accountability as minor equipment. The department should identify and inventory controllable property. Controls over controllable property became the responsibility of DAS.
- DPW should implement and adhere to applicable petty cash internal control procedures. This recommendation is resolved, the petty cash was closed out in June, 2011.
- DPW should allow the Project Accounting Unit read-only access to the Prolog database system. This recommendation is resolved, as read-only access has been granted to the DAS Project Accounting unit that processes payments on projects for DCS.
- DPW should comply with the software inventory requirements contained in the State Property Control Manual. Controls over the software inventory became the responsibility of DAS.

Current Audit Recommendations:

- 1. The Department of Construction Services should ensure that all payroll and personnel records are completed with respect to authorization and retained in accordance with state records retention requirements. In addition, employee separation procedures must include termination of access to Core-CT.**

Comment:

Our audit testing of payroll personnel files revealed that backup documentation was not available in all cases selected for review. In some cases, when documentation was available, it was not fully completed. In addition, the Comptroller's Core-CT system security directive was not comprehensively applied to employee separations.

2. **The Department of Construction Services should finalize and put into practice construction claims procedures. These procedures should include a requirement for a systematic review of construction project records to determine whether there is a likely basis for potential claims by the state against construction consultants or contractors.**

Comment:

A claims procedure manual has not been prepared. DCS does not have formal procedures requiring a routine review of project records to determine whether there is a likely basis for potential claims by the department against a construction consultant or contractor.

3. **The Department of Construction Services should design and implement a system to monitor lease terms and lease revenue, including lease revenue receivables.**

Comment:

The department does not maintain a comprehensive database of leases and lease revenue receivables. Various lists of leases are created but are not maintained to reflect changing lease clauses, conditions, or requirements. Some leases also contain clauses detailing specific payment and other requirements.

4. **The Department of Construction Services must adhere to capital project construction change order approval procedures. Change order construction work should not proceed without proper authorization. The department should better utilize the PMWeb project management system, including the implementation of electronic signatures and date tracking.**

Comment:

We noted several deficiencies related to construction project change orders. The department did not adhere to established procedures or efficiently utilize the PMWeb project management system.

- 5. The Department of Construction Services should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to its responsibility for reviewing general contractor subcontracts.**

Comment:

Section 4b-95 deals, in part, with requirements concerning the general contractor's use of subcontractors. Pursuant to subsection (e) of Section 4b-95, the department is required to periodically review the general contractor's subcontracts to ensure statutory compliance and prepare a written report of that review. The department does not prepare written reports setting forth its findings and conclusions.

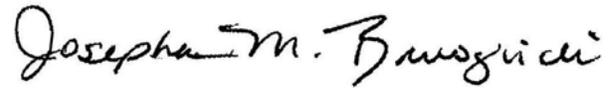
- 6. The Department of Construction Services should improve its reporting of construction cost data to client state agencies responsible for the reporting of those assets as items of inventory. Construction cost data should include both the costs of capital improvements to buildings and non-capital, repair costs, which are expensed.**

Comment:

We noted deficiencies related to the timely reporting of facility project costs. The department's current procedures for reporting facility project costs to client state agencies can lead to GAAP form errors, the under-reporting of annual expenditures, and/or material delays in the reporting of accurate costs on CO-59 property inventory documents, resulting in undervaluation of assets at year end. The asset valuation memorandum cost data provided to state agencies does not provide the kind of breakdown required to determine which cost elements should be capitalized and which should be expensed.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesy extended to our representatives by the personnel of the Department of Construction Services during the course of our examination.



Josepha M. Brusznicki
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts