

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF PUBLIC WORKS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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November 9, 2005

**AUDITORS' REPORT
DEPARTMENT OF PUBLIC WORKS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

We have examined the financial records of the Department of Public Works for the fiscal years ended June 30, 2001 and 2002. This report on that examination consists of the Comments, Recommendations and Certification that follow.

Financial statement presentation and auditing are done 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 policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Public Works (DPW) operates primarily under the provisions of Chapters 59, 60 and 60a - Section 4b-1 et seq. of the General Statutes. Its responsibilities include:

- 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.

Theodore R. Anson served as the DPW's Commissioner during the audited period.

The State Properties Review Board, under the provisions of Sections 4b-3 of the Connecticut General Statutes, must approve or disapprove any proposed DPW real estate acquisitions, sales, leases, and subleases. In addition, pursuant to subsection (i) of Section 4b-23, the Board approves most proposed DPW contractual agreements with design professionals and other construction consultants. Also, pursuant to Section 4b-24 of the General Statutes, any DPW contract for a total cost project on a single contract with a private developer requires the approval of the Board. The Board is a separate State agency and our review of its operations is presented in a separate audit report.

RÉSUMÉ OF OPERATIONS:

Revenues and Receipts:

Receipts totaled \$17,993,525 and \$16,505,262 during the 2000-2001 and 2001-2002 fiscal years, respectively. A summary of these receipts together with those of the preceding fiscal year, is presented below:

	Fiscal Year Ended June 30,		
General Fund:	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Rents	\$1,313,580	\$1,319,769	\$1,461,260
Refunds and other recoveries of expenditures	514,875	441,975	459,428
Non-Federal Receivable collections	1,104,484	2,460,659	59,032
Restricted Contributions:			
Grants transferred from another agency or fund	1,140,348	6,557,509	3,982,029
Other Grants	611,073	1,791,779	6,515,889
All others	<u>43,113</u>	<u>43,589</u>	<u>45,998</u>
Total General Fund	<u>4,727,473</u>	<u>12,615,280</u>	<u>12,523,626</u>
Other Funds:			
Special Revenue Funds			
State grant transfers – tax exempt proceeds	1,100,045	2,716,901	1,375,913
Capital Projects Funds			
Refunds of expenditures	289,964		2,348
Restricted grants (non-Federal)	2,130	656,094	12,915
Agency Funds			
Funds Awaiting Distribution	<u>3,603,662</u>	<u>101,596</u>	<u>477,503</u>
Subtotal Accounts charged to DPW	<u>4,995,801</u>	<u>3,474,591</u>	<u>1,868,679</u>
Other Agency Accounts administered by DPW	<u>158,871</u>	<u>1,903,654</u>	<u>2,112,956</u>
Total Other Funds	<u>5,154,672</u>	<u>5,378,245</u>	<u>3,981,635</u>
Total Receipts	<u>\$9,882,145</u>	<u>\$17,993,525</u>	<u>\$16,505,261</u>

Receipts consisted primarily of grant transfers from other agencies to fund various capital projects. Collections were based on DPW's construction costs to date. In addition, \$5,000,000 was collected as other grants in fiscal year 2001-2002 pursuant to Section 13 of Public Act 1-9 of the June Special Session. Section 13, which was not codified, provided for grants from the Energy Conservation and Load Management Fund of the Department of Public Utility Control in calendar year 2002. This money is to be used by DPW for energy conservation projects in State buildings. The non-Federal receivable collections were from Central Connecticut State University for the financing of the football field. The final collection occurred in fiscal year

2001-2002. The bulk of the rent receipts consist of collections (in excess of \$800,000 in both audited years) from three State agencies housed at a State office building. A bond issued by the Connecticut Development Authority funded its construction. Rent collections equal bond payment requirements, which are paid by the State Treasurer's Office. Other rents included leases of parts of various closed State hospitals.

Funds Awaiting Distribution increased from \$101,596 in fiscal year 2000-2001 to \$477,503 in fiscal year 2001-2002. DPW's Funds Awaiting Distribution Fund is used to deposit and distribute security deposits, cash bid bonds, and fee revenue/costs related to the use of State facilities by outside parties. It has also been used to accumulate revenue from real property sales to pay for sale-of-property expenses. Additional comments concerning this use of the Funds Awaiting Distribution Fund are contained in the "CONDITION OF RECORDS" section of the report.

Expenditures:

During the period under review, DPW maintained two major expenditure-reporting systems. One was for operating accounts, the other was for public works project accounts. The operating accounts consisted primarily of certain General Fund accounts used for Agency operating expenditures. These accounts were reported on a character and object basis that showed the transaction's essential nature (for instance, Personal services, Contractual services, Sundry charges including grants and transfers, Equipment and Buildings.). The public works project accounts were used for DPW's significant public works projects and were reported on an activity basis (for instance, construction, design cost and acquisition), not on a character and object basis. A summary of expenditures for the two audited years, together with those of the preceding fiscal year, is presented below:

Expenditures by Type:

	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
General Fund	\$47,971,460	\$52,958,073	\$57,099,262
Less General Fund moneys used in public work projects	<u>11,694,311</u>	<u>12,301,614</u>	<u>10,950,275</u>
Total General Fund Operating Expenditures	36,277,149	40,656,459	46,148,987
Public Works projects	218,240,511	210,482,748	261,354,102
Capital Equipment Purchase Fund	242,386	276,740	73,051
Agency Fund – Funds awaiting distribution	<u>349,913</u>	<u>581,318</u>	<u>1,187,728</u>
Total Expenditures	<u>\$255,109,959</u>	<u>\$251,997,265</u>	<u>\$308,763,868</u>

General Fund Operating Expenditures:

	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Personal Services	<u>\$9,776,078</u>	<u>\$ 9,244,515</u>	<u>\$ 10,177,586</u>
Contractual Services:			
Rents and storage	6,133,791	8,723,079	6,013,281
Outside property management	9,675,053	10,855,770	12,334,494
Utility services	6,678,771	7,217,726	7,748,220
All other contractual services	<u>3,037,414</u>	<u>3,466,944</u>	<u>3,263,894</u>
Total Contractual Services	<u>25,525,020</u>	<u>30,263,519</u>	<u>29,359,889</u>

Auditors of Public Accounts

Commodities	691,584	647,920	576,153
Deficit transfer to Revolving Fund	200,000	475,000	5,874,118
All Others	<u>84,458</u>	<u>25,505</u>	<u>161,241</u>
Totals	<u>\$36,277,149</u>	<u>\$40,656,459</u>	<u>\$46,148,987</u>

Public Works Project Expenditures:

	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Acquisition costs	\$510,112	\$5,598,763	\$516,084
Design costs	21,672,698	22,953,913	25,331,881
Construction costs	150,464,320	129,376,357	190,945,461
DPW Fees	4,316,377	5,133,886	4,816,795
Claims payments	7,619,535	1,406,509	97,415
Security improvement costs		205,453	1,862,826
Grant transfers	32,203,732	42,335,188	34,398,829
Other costs	<u>1,453,737</u>	<u>3,472,679</u>	<u>3,384,811</u>
Totals	<u>\$218,240,511</u>	<u>\$210,482,748</u>	<u>\$261,354,102</u>

Operating expenditures consist primarily of payroll costs and property costs such as rental charges, property management costs, and utility payments. The increase of approximately \$5.5 million between fiscal years 2000-2001 and 2001-2002 is primarily attributable to Sections 47(a) and 47(w) of Special Act 01-1 (June Special Session). Those sections provided for an appropriation of \$5,268,958 to DPW for a deficit payment to the Capital Projects Revolving Fund.

Public works project expenditures are charged primarily to DPW and other State Agencies' Capital Projects Funds but some are charged to Special Revenue Funds or the General Fund. A summary of public works project expenditures by fund follows:

	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
General Fund	\$11,694,311	\$12,301,614	\$10,950,274
Special Revenue Fund (1169)	1,657,189	2,088,967	1,078,064
Capital Equipment Purchase Fund (1872)		1,355,314	197,783
Hartford Downtown Redevelopment Fund (1971)		1,285,418	26,469,614
Capital Projects Funds	<u>204,889,011</u>	<u>193,451,435</u>	<u>222,658,367</u>
Totals	<u>\$218,240,511</u>	<u>\$210,482,748</u>	<u>\$261,354,102</u>

Public Works Project grant transfers to other State agencies are made primarily for projects administered by other agencies pursuant to subsection (a) of Section 4b-52 of the General Statutes. The bulk of Public Works Project expenditures is for projects involving the design and construction of State facilities. By far, the largest expenditure activity is for construction costs. Projects that had significant construction expenditures during the audited period include the following:

	<u>2000-2001</u>	<u>2001-2002</u>
Stamford Court House	\$ 13,223,678	\$ 14,870,343
Rowland Government Center	5,839,145	245,060
Fort Trumbull State Park	6,613,075	4,900,187
Connecticut Valley Hospital - Page Hall renovations	410,983	8,507,749
Regional Technical-Community College System - Infrastructure Projects	7,493,685	3,244,606
Manchester Community College - New Center for the Arts and Sciences	6,670,036	17,989,447
Capital Community College - Old G Fox Building	9,848,595	29,218,533
Central Connecticut State University:		
Classroom/Office/Parking	4,162,257	891,431
New Utility Tunnel Network	33,199	5,874,091
Southern Connecticut State University - Engelman Hall		9,001,482
Department Of Correction - Infrastructure Project	5,266,006	3,064,443
McDougall Correctional Institution Expansion		22,050,932
Connecticut Juvenile Training School	22,579,873	3,954,633
Additions to Hartford Juvenile Detention Center		4,231,173
Judicial Dept - Infrastructure Projects	5,498,428	892,920

The costs of DPW's project employees are initially recorded in the Capital Projects Revolving Fund. Subsequently that cost is allocated (or charged back) to applicable public work project accounts or (for general administrative or general technical support services to State agencies) to a General Fund operating account. The Fund's revolving (or charge back) provision was intended to be the means of financing future Agency payroll costs of public works project employees. However, the Fund has been operating in a deficit (negative cash balance) position. A summary of the Fund's transactions during the audited period, together with those of the preceding fiscal year, follows:

Capital Projects Revolving Fund:

	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Funding Sources :			
Project costs recovered	\$4,574,833	\$5,212,900	\$ 4,874,667
Cost not related to specific projects recovered			
From the General Fund	1,711,296	1,253,315	1,305,876
Recoveries of fringe benefit costs	<u>712,635</u>	<u>492,782</u>	<u>590,343</u>
Total cost recoveries	6,998,764	6,958,997	6,770,886
Deficit transfer from General Fund	<u>200,000</u>	<u>475,000</u>	<u>5,874,118</u>
Total Funding	7,198,764	7,433,997	12,645,004
Less expenditures – project costs	<u>6,807,840</u>	<u>6,733,807</u>	<u>7,672,932</u>
Funding in excess of expenditures	390,924	700,190	4,972,072
Cash Balance beginning of fiscal year	<u>(6,680,875)</u>	<u>(6,289,951)</u>	<u>(5,589,761)</u>
Cash Balance end of fiscal year	<u>(\$6,289,951)</u>	<u>(\$5,589,761)</u>	<u>(\$ 617,689)</u>

The negative cash balances result from the failure for various reasons to charge back or allocate payroll costs to funded capital projects. For example, charges were made to project

activities that lacked available funding. As a result, an unreimbursed charges receivable has existed for several years. This receivable amounted to \$9,961,354 on June 30, 2001, and \$12,133,388 on June 30, 2002. Deficit transfers from the General Fund have reduced the cash balance deficit from \$6,289,951 as of June 30, 2000, to \$617,689 as of June 30, 2002.

PERFORMANCE EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected agency operations. On this occasion we chose to follow-up on a performance evaluation reported on in our last audit report (fiscal years ended June 30, 1999 and 2000) that examined DPW's compliance with certain statutory requirements of the Set-Aside Program and the accuracy of DPW's quarterly and annual set-aside reporting. On that occasion we had opined that "It appears that reports are not completely accurate and are not in complete compliance with the requirements of General Statutes."

The Set-Aside Program for small contractors and minority business enterprises is authorized under Sections 4a-60g through 4a-60j of the General Statutes.

Each year, State agencies must report their small and minority business set-aside goals. Subsequently, State agencies must issue quarterly reports on the results. These reports are submitted to the Commissioner of Administrative Services, the Commission of Human Rights and Opportunities, and to specific members of the General Assembly. The Commission on Human Rights and Opportunities monitors whether or not an agency meets its annual set-aside goals.

The following schedule reflects, on an annual basis, set-aside data as reported to the Commission on Human Rights and Opportunities and specific members of the General Assembly by DPW:

	<u>For Fiscal Year Ended June 30,</u>	
	<u>2001</u>	<u>2002</u>
Value of contracts	\$ 159,166,054	\$171,976,368
Set-Aside Goal – 25 percent of Contracts	39,791,514	42,994,092
Set-Aside Contracts Awarded	30,408,106	46,499,867
Percentage of Set-aside Goal Achieved	76%	108%
Minority/Women Contract Goal – 25 percent of Set-Aside Goal	9,947,878	10,748,523
Minority/Women Contracts Awarded	14,801,913	25,501,271
Percentage of Minority/Woman Set-aside Goal Achieved	149%	237%

DPW met its Minority/Woman set-aside goals for both of the fiscal years under review but did not meet its overall set-aside goal for 2001. No material inaccuracies in the preparation of the quarterly and annual reports came to our attention, but as described below, we noted that the Department failed to comply with certain statutory and regulatory mandates.

COMPLIANCE WITH SET-ASIDE PROGRAM REGULATIONS:

Background: Effective June 29, 1999, the administration of the State's set-aside program was transferred from the Department of Economic and Community Development (DECD) to the Department of Administrative Services (DAS.) DAS has drafted new regulations for review but until their adoption the "old" DECD regulations continue to apply.

Criteria: Subsection (e) of Section 4b-95 of the General Statutes provides that contract awarding agencies shall periodically review the general contractor's subcontracts to ensure compliance with Section 4b-95 requirements and shall, after each review, prepare a report setting forth its findings and conclusions.

Subsection (b) of Section 32-9f-3a of the State regulations requires that set-aside contracts be advertised.

Subsection (c) of section 32-9f-3a of the State regulations states that a set-aside contract shall not be accepted if it's more than ten percent above the anticipated competitively bid price.

Subsection (f) of section 32-9f-3a of the State regulations provides that each agency submit its competitive bidding procedures to the DECD for their written approval.

Condition: Other than for an up-front review of subcontractors, which is undertaken when a general contractor's bid documents are received, the Department does not perform periodic reviews of general contractor's subcontracts to ensure compliance with Section 4b-95 and it does not prepare written reports of its findings.

The Department's construction contracts for less than \$500,000 are generally restricted to set-aside contractors. Bids are solicited from a list of set-aside construction businesses but the set-aside contracts are not advertised.

Typically, architects prepare cost estimates for construction set-aside bids. However, in such cases, if the winning bid is more than ten percent higher than that cost estimate, the bid is accepted.

- .
- Effect:* The Department is not complying with certain regulatory requirements for the administration of the State's set-aside program.
- Cause:* We were unable to determine the specific reasons for the exceptions noted above.
- Recommendation:* The Department should follow all statutory and regulatory requirements of the State's set-aside program. (See Recommendation 24.)
- Agency Response:* "4b-95 relates to contract compliance monitoring for the major named sub-contractors listed in the bid. The Department does monitor the participation of the major sub-contractors on each project. While the Department does not interfere in the contractual relationship between the general contractor and his sub-contractors, two of the performance indicators the department uses to evaluate the general contractor's performance are the sub-contractor's quality of work and the general contractor's cooperation with sub-contractors.

With respect to set-aside contractor participation, the Department, due to a lack of dedicated DPW contract compliance staff, has relied on the staff of the CHRO to monitor the actual participation against each general contractor's affirmative action [AA] plan. The CHRO, prior to some key retirements in 2003 and continuously throughout the audit period, provided a high level of contract compliance monitoring and feedback on occasions where a general contractor was determined to be not in compliance with its AA plan participation

With respect to compliance with regulations of the State's set-aside program promulgated by the DECD prior to the transfer of the program to the DAS in June of 1999, the Department believes that its bidding procedures meet all legal and administrative requirements. Our decision to award a construction contract is based on a competitive process with resulting market driven pricing in consideration of the cost estimate and the funds authorized to award. The Department's record of set-aside participation stands for itself. We believe that we have met both the spirit and intent of the law and regulations to provide opportunities to set-aside contractors in CT while also attending to our fiduciary responsibility. Note that Executive Order #3 from Governor Rell issued in December 2004, will modify the Department's procedure by requiring that bids be posted on the

DAS procurement portal. This action will also notify all certified set-aside contractors of construction opportunities.”

Auditors’ Concluding

Comments:

Subsection (e) of Section 4b-95 specifically states, “The awarding authority shall periodically review the general contractor’s subcontracts to insure compliance with such provisions, and shall after each such review prepare a written report setting forth its findings and conclusions.” This was not done.

Subsection (f) of section 32-9f-3a of the State regulations specifically requires that each agency obtain DECD’s written approval of its competitive bidding procedures. DPW did not show us documentation that this was done.

“Informal” construction contracts (i.e., construction contracts under \$500,000) are typically allotted to set-aside contractors and are not advertised. Architects typically prepare cost estimates for those projects. However, if the winning bid is more than 10 percent above the estimated cost figure, the bid is not rejected. Subsection (c) of Section 32-9f-3a of the State regulations specifically states that a “set aside contract bid shall not be accepted by any State agency if it is more than ten percent above the price which could be anticipated in general bidding based on staff analysis prior to going to bid.”

CONDITION OF RECORDS

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

EQUIPMENT INVENTORY:

Criteria:

The State's Property Control Manual (Manual), as authorized by Section 4-36 of the General Statutes, requires that "A real and personal property control system, in a form approved by the Comptroller must be established and maintained to record and control all property owned by and/or in the custody of a state agency."

The Manual requires a complete physical inventory of all property to be taken annually to insure that "...property control records accurately reflect the actual inventory on hand..."

The Manual requires the preparation and timely submission of an annual inventory report of real and personal property (the CO-59 report.) The instructions to the CO-59 Report require that opening balances, additions, deletions and closing balances for defined categories of property be reported.

The Manual states that it is "...mandatory that each agency maintains a written list of controllable property..." Controllable property is tangible property that has a unit value of less than \$1,000, has an expected life of greater than one year, and is portable and theft-prone. (The Department classifies computers and printers as controllable.)

The Manual states "Because property represents one of the largest investments being made by the State, complete accountability must be maintained and safeguards established to protect this investment."

Condition:

The use of the Department's computerized property inventory system was discontinued several years ago due to system problems. As a result the Department does not maintain a comprehensive database, electronic or manual, of inventory records detailing all the property owned by and/or in the custody of the Department.

A physical inventory of property to ensure that property control records accurately reflect the actual inventory on hand has not been made since April 1998.

The Department submits annual CO-59 reports as required, however, the personal property balances are only supported by arithmetic calculations, and the actual physical existence of the personal property has not been verified by a physical review of the inventory of furnishings and equipment.

The Department does not maintain a list of theft-prone portable “controllable” items.

Effect:

The Department’s annual CO-59 report for 2002 reported the total cost of personal property as \$21,429,422. The conditions noted above demonstrate that complete accountability over personal property has not been maintained and that there are not adequate safeguards to protect the Department’s investment in personal property. This means that the Department is unlikely to know if it has a problem with missing or stolen equipment. In addition, as a result of the conditions noted, we cannot rely upon the accuracy of the data provided by the annual CO-59 reports for financial reporting or insurance purposes.

Cause:

The Department has apparently felt that its options were limited until the new State processing system (Core-CT) “affords an inventory control infrastructure (i.e., the database and the interface to procurement). . . .”

*Concluding
Comments:*

The State is in the process of implementing a State-wide Core-CT asset management module. That implementation is expected in the near future and it should enable DPW to expeditiously comply with the requirements of the Comptroller’s Property Control Manual. Accordingly, no recommendation is made at this time. We will revisit this issue in the next audit.

CAPITAL PROJECTS - CLAIMS MANAGEMENT:

CLAIMS AGAINST THE STATE:

Criteria:

Section 4-61(a) of the Statutes allows claims against the State on certain categories of highway and public works construction contracts.

Good business practice requires the establishment and application of formally approved construction claims procedures by a claims unit independent of the construction unit. This would help ensure that claim processing is thorough, independent, and fair.

Condition: The Department's "Strategic Business Plan, January 2000 through June 2003" dated November 2000, called for the drafting of a procedure manual related to the processing of contractor's claims. Such a draft has not been forthcoming.

The most recent document that the Department provided us with concerning claims procedures was a Report entitled "Claims Business Process Mapping" dated November 24, 1997. That document has never been completed and submitted for formal approval.

As of June 2004, there was no claims unit as such.

Effect: Without formally approved construction claims procedures in place and in use, there is a heightened risk that construction claims and disputes will not be resolved in a fair manner.

Cause: The Department did not grant this activity a sufficiently high priority.

Recommendation: Completed construction claims procedures should be established, approved and put into practice. In addition a claims unit independent of the management of day-to-day construction project activities should be established. (See Recommendation 1.)

Agency Response: "The Department of Public Works has expanded the responsibilities of the agency administered projects office to include the function of claims management. The department is also in the process of producing a written claims manual. This manual would include all administrative requirements, notifications, record retention standards, and useful references. The anticipated time for this to be complete will be mid summer of 2005. This would also address the economics and viability of pursuing claims due the State."

CLAIMS DUE TO THE STATE:

Criteria: Good business practice requires that formal policies and procedures be established to encourage the systematic review of construction project records with a view to routinely determining if there is a likely basis for potential claims against construction consultants (such as design professionals) and/or construction contractors.

Condition: The Department lacks formal procedures requiring a routine review of project records to determine if there is a likely basis for potential claims against any contractor associated with a construction project.

- Effect:* In the absence of formal policies and procedures there is a heightened risk that potential claims will not be identified, or, if identified, will not be pursued.
- Cause:* Although the Department agreed with a prior audit's recommendation on this topic and responded by proposing a four-point plan to address better claims management, as of June 2004, no formal procedures have been promulgated.
- Recommendation:* Formal procedures should be established and put in place that would require a systematic review of construction project records to determine if there is a likely basis for potential claims against construction consultants and/or construction contractors. (See Recommendation 2.)
- Agency Response:* "The Department of Public Works has expanded the responsibilities of the agency administered projects office to include the function of claims management. The Department is also in the process of producing a written claims manual. This manual would include all administrative requirements, notifications, record retention standards, and useful references. The anticipated time for this to be complete will be mid summer of 2005. This would also address the economics and viability of pursuing claims due the State."

CAPITAL PROJECTS - INSURANCE CERTIFICATES:

- Criteria:* Good business practice requires that construction contractors and construction consultants (such as architects, engineers, and construction managers or administrators) should not be authorized to commence work under a contract until they have provided written proof of insurance coverage as specified in their contract with DPW. In addition, for long-term contracts, construction contractors and consultants should be required to provide annually, written evidence of continued adequate insurance coverage.
- The Insurance Guidelines of the State Insurance and Risk Management Board (SIRMB) states "All contractors should be required to maintain reasonable insurance coverage and provide written proof of this protection. It also states "One way to ensure compliance with the insurance guidelines is to require the contractor to furnish a Certificate of Insurance."
- Condition:* In regard to construction contractors, DPW's "General Conditions of the Contracts for Construction" (the Conditions) states "The Contractor shall not start work under the contract until they have obtained insurance" The Conditions also state "The Contractor shall send certificates of liability insurance to...DPW." The

Conditions further require that the contractor maintain insurance coverage during the life of the contract.

We reviewed a sample of 26 construction contract files for construction projects that lasted for more than one year. In two cases there was no copy of an initial insurance certificate. In 18 cases there were no copies of insurance certificates evidencing continued insurance coverage. The Department does not maintain a log that tracks the receipt of insurance certificates and therefore, in those cases where the certificate was not in the relevant file, they were unable to tell us if the certificate had in fact been received but subsequently misplaced. In at least three cases, DPW accepted certificates that did not indicate an insurance policy number. This is contrary to SIRMB requirements.

DPW's contracts with its construction consultants require these consultants to provide proof of certain types of liability insurance. We noted problems in this area, for instance:

- In a number of cases, insurance certificates indicated that general liability coverage was limited per project; however, no project identification was shown on the certificates.
- For one contract, coverage did not meet contract requirements for auto liability by \$3 million. In addition, \$10 million in required excess coverage was not shown. No evidence of valuable paper coverage had been provided, and the latest certificates on file had expired.
- In at least two cases, certificates showed "Retro Date N/A" for retro date coverage. Retro date coverage provides continuing coverage when insurance companies are changed. Without retro date coverage, new claims on incidents occurring prior to the change in insurance carriers are not covered. We were told that in insurance practice "N/A" for retro date coverage means full prior acts coverage. However, an officer of the State Insurance Risk Management Board informed us that it would instead be preferable to state on the insurance certificate "full prior acts coverage" because N/A could be misinterpreted as "not applicable".

Effect: Inadequate insurance and failure to require proof of insurance over the life of a contract could subject the State to liability.

Cause: These problems appear to be the result of inadequate procedures. For instance, DPW has not established a data processing system to track the required receipts of insurance certificates from construction contractors. (They have such a system for contractual consultants.)

Recommendation: The Department of Public Works should improve its monitoring of insurance requirements compliance by its capital project

consultants and construction contractors. (See Recommendation 3.)

Agency Response: “The Department requires as a condition of every contract that contractors maintain certain insurance coverage. The Department agrees that monitoring certificates of insurance and early detection of coverage lapses or deficiencies is an important risk prevention measure. Procedures currently exist that require an insurance certificate to be filed prior to the award of a contract, we are reviewing methods to maintain and follow-up on contractor insurance certificates annually.”

CAPITAL PROJECTS - CHANGE ORDERS:

Background:

Construction projects are competitively awarded to contractors, usually as a result of a bidding process. Changes to the scope of a project or its specifications are often required during the course of a project as a result of document deficiencies, agency requests or field conditions. Change orders typically result in increased costs. However, unlike the original contract, change orders are normally not subject to bidding. Our review of change orders disclosed the following:

CHANGE ORDER ADMINISTRATION:

Criteria: Good business practice requires that construction change orders be subject to a systematic review and approval process, be supported by contemporaneously prepared documentation and represent changes to the original plans that are reasonable in nature and cost.

Condition: We noted procedural deficiencies and control weaknesses in the processing of change orders. The details follow:

In four cases change orders classified as “Document Deficiencies” had not been submitted to the Chief Architect/Client Team Administrator for review and signature as required. This review is important for a number of reasons, not the least of which is that document deficiencies might be the subject of financial claims made by the State and should be individually disclosed for further review.

In three cases change orders appear to have been misclassified as “Field Conditions.” In two cases “Document Deficiencies” would appear to be a more appropriate classification and in one case “Agency Request” appears to be more appropriate. The correct classification of change orders is important for several reasons including the fact, as noted above, that document deficiencies might be the subject of financial claims by the State.

In two cases a change order was not supported by a “Change Order Transmittal Form” as required by Agency procedures. The

“Change Order Transmittal Form” supplies information not found on the change order Form itself, and as such should be reviewed as part of the change order approval process.

In one case a required signature of approval was missing from a change order for \$100,000. Nevertheless, the change order was processed. In addition there was no detail provided to support a quote for labor costs of \$84,821.

In one case a change order for \$425,967 appears to have been misclassified as an “Agency Request.” A document deficiency classification would have been more appropriate. As noted above, document deficiencies might be the subject of claims by the State.

In one case an electrical subcontractor gave a quotation for labor on a change order that the Agency’s Project Contract Administrator reported as being excessive. The Agency accepted the quoted price but did not document why it believed it had no option but to accept the (apparently overpriced) quotation.

We noted that the Agency does not have a current Policy and Procedures guide to change order administration, and that there is no formal change order quality control program.

Effect: The comparatively large number of control weaknesses noted, the lack of a current Policy and Procedures guide to change order administration, and the absence of a formal change order quality control program increases the probability that excessive change order costs have been incurred and gone undetected.

Cause: Reorganizations and job losses led to a low priority being given to change order administration and training in recent years.

Recommendation: The Department of Public Works needs to improve its procedures over the processing of change orders. (See Recommendation number 4.)

Agency Response: “DPW concurs that the Change Order Policy and processing needs to be reviewed and updated. An update of the staff training is appropriate. DPW is unaware of any inappropriate change orders being processed.”

CHANGE ORDER REPORTING:

Criteria: In the Governor’s Midterm Budget Adjustment document for fiscal year 2002-2003, one of DPW’s listed initiatives is to “Expand the program monitoring and accountability function.”

Section 4-67m of the General Statutes requires that State agencies develop, for budgetary purposes, quantifiable outcome measures. DPW's Strategic Business Plan for Fiscal year 2000-2003 lists proposed performance measures related to change orders that quantifies change orders by causal type as follows:

1. Architect/engineer errors (the term Document Deficiency has replaced this term.)
2. Field conditions
3. Agency Request

Change orders can result in cost overruns on construction projects. Accordingly, it would be good business practice for Agency administrators responsible for monitoring construction projects to develop up-to-date measurements that routinely monitor change order totals by type and by the fiscal period during which they occur. These measurements should be routinely and periodically distributed to Agency administrators.

Condition:

DPW has not included change order amounts and rates as part of its budgetary performance measures. It lists change order totals and rates as part of an annual report to the State Properties Review Board (Board.) That report is statutorily required under Subsection (a) of Section 4b-2 of the General Statutes. The report includes the dollar amount and percentage at total change order level. There is no breakdown by change order type. Moreover, the Annual Report figure is based on cumulative change orders on projects completed in the reporting year and not on change order costs actually occurring in the reporting year. This presentation can be misleading because projects may be active for a number of years and therefore the published data is an amalgamation of data from different time periods. Change orders processed in the current year for ongoing projects will not be reported until the years in which those projects are completed

For the 2001-2002 fiscal year DPW did not adequately account for its change orders by category. Typically DPW has annually prepared a closeout report, which lists each closed project and summarizes by category the change orders. For the fiscal year ending June 30, 2002, DPW was unable to provide us with that report. Instead, each of the four client services units of the Project Management (construction) Department prepared separate closeout reports. However the total of those four reports did not agree to the data submitted in the annual report to the State Properties Review Board. The annual report indicated that total change orders amounted to \$8,225,906; however, the total of the four closeout reports showing the categories of change orders only amounted to \$6,587,066.

Effect:

The absence of data by the fiscal year in which change orders were actually processed weakens accountability and monitoring efforts.

Important and useful up-to-date information concerning the status of change orders is not being routinely disseminated to Agency administrators and other interested parties, such as the State Legislature. The inability to provide a full accounting of change orders for fiscal year 2001-2002 weakens accountability.

Cause: The report to the Board contains data on real estate acquisitions. As such, it shows change order reporting by closed projects. However, change order data on the basis of closed project reporting is not adequate for monitoring and evaluation purposes. Change order reporting should be expanded to show change orders by category and by year of occurrence. Otherwise, DPW management, the Governor, the State Properties Review Board and the Legislature cannot adequately monitor DPW's ability to manage change orders from period to period. Instead, the present system could provide those parties with misleading and ill-timed information.

Recommendation: In addition to its total change order reporting by closed projects, the Department of Public Works should routinely compile and report change order totals and rates by category type and by the fiscal year in which they occur. Also, that information should be included as part of its budgetary reporting request pursuant to Section 4-67m of the General Statutes. It should also be included in the annual report to the State Properties Review Board. (See Recommendation 5.)

Agency Response: "DPW agrees and its project tracking system is developed to categorize and track change orders according to "document deficiency, field condition and agency request". The Department's business plan document referenced by the Auditors of Public Accounts (APA) contemplates the assessment of performance at the conclusion of construction, rather than on a fiscal year basis as recommended by the APA in this finding.

There is no business meaning to annual reporting of change orders by fiscal year. Each DPW Capital project is independently funded as a specific project. The change order rates are only meaningful when applied to a specific project. Providing a new management report of change order amounts by fiscal period would be independent of the fluctuating DPW construction volume and the necessary project specific detail. This requested report would be an unproductive use of limited DPW resources."

*Auditors' Concluding
Comments*

As noted above, DPW reports change order rates in its "Annual Report to the State Properties Review Board" (Annual Report), which is required by Section 4b-2 of the General Statutes. The State Properties Review Board then submits that report with the Board's comments to the Governor and the State Legislature. In

that report, DPW reports change orders as a component cost of completed projects. That is, the change order rates and totals presented reflect the total cost of all change orders for all years for all projects that were completed in that given fiscal year. This is a completed project focused ratio. There is, however, another method of calculating change order rates that would provide meaningful data. This alternative ratio reflects the total of all change orders for a given year for all projects that had construction activity. This is a fiscal year processed focused ratio. It provides a “snapshot” of change orders processed in a given year. This information is useful for analytical and performance measures. The difference between these ratios could be significant.

For example, in one instance, we noted a project that was completed in fiscal year 2000-2001 that had change orders in excess of five million dollars over the life of the project. However, the bulk of the change orders occurred in fiscal years 1995-1996, 1996-1997 and 1997-1998 but they were not reflected in change order rates and totals in DPW’s annual reports in those years. In another instance our review of DPW’s active project database noted five large projects ongoing as of June 30, 2001, with a total original contract amount of \$82,297,000, that had change orders totaling \$12,023,396. Because these projects were not completed, the change orders associated with these projects were not reported as part of the fiscal year 2000-2001 change order rate and total. Instead, they will be reported at a future date in the fiscal years in which the projects are completed. We also noted that at a legislative hearing (April 2, 2003, informational hearing on State bidding procedures) the issue of change orders was discussed. In that hearing the former DPW commissioner indicated that DPW was “...running about 6.1 percent in change orders.” Such a statistic would be misleading unless one was interested in knowing specifically what percentage of completed projects are made up of change orders. If instead, the legislature had been interested in knowing the actual change orders being processed, the fiscal year processed method should have been used.

CONSTRUCTION PROJECTS AND AGENCY ADMINISTERED PROJECTS – UNEXPENDED BALANCES:

Criteria: Section 4b-1 of the General Statutes, with certain detailed exceptions, makes the Department responsible for administering State capital improvement projects.

Pursuant to various public and special acts, the Legislature has authorized bonds for a variety of capital improvement projects. Bond-authorizing acts are generally specific as to projects or other purposes. Unexpended balances remaining from completed projects may not be used to finance unauthorized projects. (That

is, projects not falling within the scope of the bond-authorizing act.)

The Department has a fiduciary responsibility for returning unexpended balances to the appropriate bond fund through a reversion allotment process.

Condition: We reviewed 38 DPW administered construction projects that had been reported as “closed”, to the State Properties Review Board (the Board) from SFY 1995 through SFY 1999, and noted that 28 of the 38 had unexpended balances at May, 2004, totaling \$2,069,553.

DPW administered projects are administered by DPW’s Design and Construction Unit. In addition, other State agencies as well as other units of DPW can self-administer their own projects pursuant to Section 4b-52 of the General Statutes. We reviewed 12 DPW self-administered projects reported to us as having been completed for at least twelve months, and noted that seven of them had unexpended fund balances at May, 2004, totaling \$134,252.

Cause: The Department has no formal policies or procedures addressing the administration of unexpended fund balances on completed bond-funded projects.

Effect: A failure to return unexpended fund balances remaining on completed bonded projects increases the chance that bond fund balances will be used for unauthorized purposes. In addition, such a failure suggests that the Department is not fully meeting its fiduciary responsibility relating to the administration of bond-funds.

Recommendation: The Department should establish formal policies and procedures that address the administration of unexpended fund balances on completed bond-funded projects. (See Recommendation 6.)

Agency Response: “The Department of Public Works is currently updating its agency administered project manual. This updated version will include a section for a closeout report from the agency with appropriate accounting information. Upon receipt of the closeout report, the process will be followed by a submission to DPW financial management for final adjustment of funding.

Since June 2004, the Department has been systematically closing old projects and returning the unexpended fund balance to its respective source. To February 2005, approximately \$1.5 million has been returned to the available reserves balance of capital project authorizations.”

NON-COMPLIANCE WITH SECTION 4b-23 STATE FACILITY PLAN:

Background: Section 4b-23 of the General Statutes sets out the roles and responsibilities of the Secretary of the Office of Policy and Management and the Commissioner of Public Works with regard to the State Facilities Plan which is synchronously prepared with and corresponds to the biennial capital budget.

Criteria: Section 4b-23, subsection (b), of the General Statutes requires that on or before December first of each even-numbered year, the Commissioner of Public Works shall provide the Secretary of the Office of Policy and Management with a review of the State Facilities Plan requests submitted by State agencies for consistency with realistic cost factors, space requirements, space standards, implementation schedules, priority needs, objectives of the Commissioner of Public Works and the need for maintenance, improvement and replacement of State facilities.

Section 4b-23, subsection (l), of the General Statutes requires the Department to monitor the amount of leased space being requested and the costs of all proposed and approved facility projects. When the space to be leased or the forecasted costs of a project exceeds the square footage amount or the cost levels in the approved State Facility Plan by ten percent or more, the approval of the State Bond Commission, the Governor, and the State Properties Review Board is required before the project may proceed.

Condition: The Department has not been provided with an opportunity to review the proposed State Facility Plans, although its input has been sought with regard to specific major facility projects. Typically, State agencies file computerized requests to the Office of Policy and Management (OPM) on-line and OPM prepares the Plan without the Department of Public Works' review of agencies' requests.

The Department does not request approval from the State Bond Commission and the Governor when the actual leased space requested by an agency exceeds the square footage in the Plan by ten percent or more. We noted at least four agency requests for leased space that either had not even been listed in the plan or exceeded the total in the Plan by more than ten percent. In addition, we noted one request for space that exceeded the space for that agency in the Plan by more than ten percent. DPW processed these without the specific approval of the State Bond Commission or the Governor.

Also, DPW doesn't request the approval of the State Properties Review Board (SPRB) when the forecasted cost to complete approved projects or the square footage amounts exceed the levels in the approved Plan by ten percent or more. In at least one case, we noted that DPW presented a project to the Bond Commission

that exceeded ten percent of both the budget and square footage in the Plan. The State Properties Review Board was not notified and consequently did not give its approval of these changes.

Cause: DPW's failure to review proposed State Facility Plan requests appears to be the result of OPM's instituting an electronic filing system. State agencies electronically file their plan requests directly to OPM. OPM, apparently because of time limitations, prepares the Plan without getting DPW's input. DPW can't access this system to review requests by other agencies. We did not determine why DPW failed to implement a procedure for obtaining all required approvals before proceeding with approved projects whose square footage or costs were ten percent or more than the amounts listed in the State Facility Plan.

Effect: The Department is not in compliance with the statutory provision relating to reviewing the State Facilities Plan request and, with the statutory provision requiring approvals in instances where the forecast leased space or the forecast project costs exceeds by ten percent the square footage or the project cost per the State Facility Plan.

Recommendation: The Department 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 Statutes. Section 4b-23 requires DPW to review State Facility Plan requests submitted by State agencies to the Office of Policy and Management. Section 4b-23 also requires DPW to monitor compliance to the approved State Facility Plan and to obtain approvals (from the State Bond Commission, the Governor, and the State Property Review Board) for certain deviations from the plan. (See Recommendation 7.)

Agency Response: "DPW agrees with the Auditor's recommendation and anticipates that this will be addressed by the regulations DPW is in the process of developing along with its revised leasing policies and procedures as noted in Recommendation number 8.

Currently all real estate transactions such as leases receive signatures by OPM, SPRB, DPW, the affected agency, and the AG [Attorney General]. This addresses the questions of approval for exceeding the FACCAP [State Plan] square footage of an agency's request by ten percent or exceeding the cost for a lease, as all stated signatures are required before a transaction such as a lease is executed.

In addition, all initial agency requests for space require an indication on the required form that the request is in compliance with the FACCAP or if it exceeds 10 percent. If a request is not in the FACCAP or in compliance with the FACCAP, it is treated as an

Emergency Request for Space (4b-23(k)) and OPM and SPRB's approvals are received prior to executing the lease.

The audit points out cases where projects exceeded ten percent in budget and square footage. DPW would like the opportunity to review these items identified by the Auditors.”

*Auditor's Concluding
Comments:*

DPW's response about getting various signature approvals does not address our particular findings concerning compliance with subsection (l) of Section 4b-23. Our findings were that:

- DPW doesn't request approval from the State Bond Commission and the Governor when the actual leased space requested by an agency exceeds the square footage in the Plan by ten percent or more. This was not discussed in the Agency's response.
- DPW doesn't request the approval of SPRB when the cost or space of an approved project exceeds the levels for that project in the Plan by ten percent or more. Subsection (l) of Section 4b-23 requires that DPW monitor the leased space and cost of all proposed projects to ensure compliance (within ten percent) to the levels in the Plan. However, DPW does not monitor actual project parameters to Plan parameters. In addition, subsection (l) further specifies that when actual space or cost levels exceed by ten percent or more the Plan levels then the approval of the Secretary of the Office of Policy and Management, the Properties Review Board, the State Bond Commission and the Governor shall be required to continue the project. In the case noted in our finding, DPW presented a project to the Bond Commission that exceeded ten percent of both the budget and square footage listed in plan for that project. DPW presented the expanded project to the Bond Commission without disclosing that the project was in excess of the ten percent. Nevertheless, the Bond Commission, the Secretary of OPM, and the Governor approved the expanded project. However, DPW did not submit the expanded project to the State Properties Review Board for its approval as required.

As requested, we gave DPW details of projects that exceeded the parameters in the plan.

NON-COMPLIANCE WITH SECTION 4b-23 – SUBSECTION (o):

Criteria:

Subsection (o) of Section 4b-23 of the General Statutes requires that not later than January 1988, DPW, in consultation with the Secretary of the Office of Policy and Management (OPM) and the State Properties Review Board (Board), adopt regulations

regarding State leasing of offices, space or other facilities. The regulations are to set forth the procedures that DPW, OPM and the Board must follow in carrying out their leasing responsibilities.

Subsection (o) of Section 4b-23 also requires that the regulations specify, for each step in the leasing process at which an approval is needed "...what information shall be required, who shall provide the information and the criteria for granting the approval."

Condition: As of June 2004, the required Regulations have not been drafted.

Cause: The Department informed us that a draft update of their 1986 Leasing Manual is currently being reviewed internally and that when the review has been completed, regulations will be finalized in line with their revised leasing policies and procedures.

Effect: The DPW has failed to comply with a statutory provision requiring it to adopt regulations regarding the leasing of offices, space and other facilities.

Recommendation: The Department should give a higher priority to the adopting of regulations regarding the leasing of offices, space and other facilities pursuant to subsection (o) of Section 4b-23 of the General Statutes. (See Recommendation 8.)

Agency Response: "The current DPW Administration agrees with the audit recommendation and has made adopting leasing regulations a top priority. DPW is simultaneously reviewing its current procedures as drafted for the revision of the 1986 Leasing Manual to ensure that they are in synch with statutory requirements. Due to certain ambiguities in 4b-23, DPW anticipates that clarification will be needed with regards to the roles and responsibilities of OPM, SPRB and DPW as outlined."

CAPITAL PROJECTS – PROJECT TRACKING:

Background: The Department's computerized Project Tracking Application (PTA) database was designed to assist project management teams, the administration and client agencies, in tracking the progress and outcomes of design and construction projects managed by the Department of Public Works.

Criteria: According to the PTA User Manual, "You are required to review and update the project fields by the 25th of each month...." In order for a project tracking application to be of value to its intended users it is necessary that its data base be kept reasonably up-to-date as new transactions and events occur that have an effect on the status of construction projects.

Condition:

In at least three instances, the database showed change order totals that were less than the actual amount as indicated by Department accounting records. Change order totals per the accounting records exceeded the database totals by over \$1 million. This demonstrated that the database records were not up-to-date and that the database could not reliably be used to get contemporaneous data on change orders

Our examination of tracking report records and letters of substantial completion for a sample of 27 construction projects noted 24 cases where the two sets of data did not agree. In one instance the letter of substantial completion reported the cost of the project as \$41,260,000 but the tracking report reported zero percent completion and a zero dollar cost-to-date.

Our examination of tracking report records of a sample of 25 construction projects for completeness noted:

Five instances where the percentage completion and the payments to date were given as zero but data from the construction accounting unit showed project expenditures of between \$2.7 million and \$51 million.

Six instances where the amount paid to date was given as zero but the total percentage construction completed was given as from 70 percent to 100 percent. (In these instances the amounts paid according to the construction accounting unit, varied from approximately \$81,000 to approximately \$49,000,000.)

In one instance, the database indicated that the amount paid and the total construction completed was zero. However, the amount paid per the accounting records exceeded \$50 million.

There were four instances where the contract starting date was omitted, five instances where the contractor's name was omitted, sixteen instances where the date of the last payment was omitted, and fourteen instances where the "Statement of Values" (SOV) date was omitted. (Payments cannot be made until the SOV has been received.)

A regular Departmental review of data missing from the PTA records undertaken in November 2003, noted 217 instances of data fields not containing the required information. These instances included the name of the town, the starting date, and the date of substantial completion. (This review by the Department was limited to identifying missing data and did not address instances in which data fields contained out-of-date or illogical information.)

Effect:

The PTA's usefulness to project management teams, the administration and client agencies is severely diminished by out-of-date and missing data.

Cause: Project Managers are not entering the data required in a timely manner as required by the Department.

Recommendation: The Department should take action to ensure that its project-tracking database is accurate, complete, and up-to-date. (See Recommendation 9.)

Agency Response: “DPW concurs that the Project Tracking Application needs more staff and management attention. Staff attrition has impacted the use of the Project Tracking Application. DPW management is reviewing the business rules and instructions for the Project Tracking Application and will be making adjustments in the use of this system.

The current reporting of key project metrics will be retained in the project tracking application. Some project detail will be reduced as the detail duplicates information contained in other project specific reports. The primary use of the tracking system is to provide an overview of the work in progress - not drill down detail on the specific project.”

NON-COMPLIANCE WITH SECTION 3-21d OF THE CONNECTICUT GENERAL STATUTES:

Criteria: Section 18 of Public Act 01-7 of the June Special Session (codified as Section 3-21d of the General Statutes) mandates that effective July 1, 2001, “The chief administrative officer of the department, institution or agency of the state responsible for any public works construction project administered by the Department of Public Works under Section 4b-1, with an estimated cost of more than ten thousand dollars and receiving any portion of its funding from the proceeds of bonds issued under the State General Obligation Bond Procedure Act shall file a report with the secretary of the State Bond Commission forthwith upon completion or acceptance of any such construction project, and in no event later than ninety days thereafter...” The report must provide the following information: 1) The estimated total cost of the construction project, or the actual amount of the project, if ascertainable; (2) the amount, if any, required to be held in retainage and the reason for such retainage; and (3) the amount of any bonds authorized by the State Bond Commission and allotted by the Governor to such project which remains unexpended.

Section 3-21d of the General Statutes also mandates that: “The chief administrative officer of the department, institution or agency of the state shall also file a report with the cochairpersons of the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue and bonding on

or before January 1, 2002, and each year thereafter, on any such projects which have been reported to the secretary of the State Bond Commission.”

- Condition:* According to the report of the State Properties Review Board for fiscal year 2001-2002, the Department completed 61 public works construction projects that it had administered for other State agencies. These projects were reported as having a combined cost of \$86,446,838. In addition, the Department completed eleven facility projects at a combined cost of \$524,129. The Department has not reported the data required by statute relating to these seventy-two projects to the secretary of the State Bond Commission. Furthermore, the related data on an annual basis has not been presented to the requisite joint standing committee of the General Assembly.
- Cause:* The Department has no formal policies or procedures addressing compliance with Section 3-21d of the General Statutes
- Effect:* The Department is not in compliance with the mandates of Section 3-21d of the General Statutes
- Recommendation:* The Department 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. (See Recommendation 10.)
- Agency Response:* “The Department agrees with this recommendation and will comply with the reporting requirements at individual construction contract closeout and commencing with the report due January 1, 2006.”

ANNUAL REPORT TO THE STATE PROPERTIES REVIEW BOARD:

- Criteria:* Subsection (a) of 4b-2 of the General Statutes requires the Department to submit a report to the State Properties Review Board (Board) on September first annually. That report is required to include “...all pertinent data...concerning realty acquisitions...”. In addition, “On or before October first of each year, the board shall submit such report with recommendations...to the Governor and the members of the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budget of state agencies and to state finance, revenue and bonding.”

Pursuant to generally accepted accounting principles and the State Comptroller’s Property Control Manual, real property should be reported at the total cost necessary to place the asset in its intended

location in a ready for use condition. This means that in addition to construction costs, ancillary costs such as design, personnel, legal and hazardous material removal costs should be reported as components of acquisition costs.

Condition: The annual reports were not submitted to the State Properties Review Board until late in November of 2001 and 2002.

In the Department's annual reports to the Board, the costs reported reflect only amounts paid to construction contractors. Ancillary costs were not included. In fiscal 2001, ancillary costs exceeded twelve million dollars, and in fiscal 2002, they exceeded eight million dollars. In addition, the fiscal 2002 report omitted four completed projects costing more than thirty-seven million dollars.

Effect: The Board was unable to comply with its statutory mandate to report on or before October first, because the Department did not provide the data to the Board until November.

The Department's annual reports to the Board materially understated the cost of completed projects. This weakens the ability of the Board, the Governor, and State Legislature to understand the true cost of the Department's real estate acquisitions.

Cause: Cost Data for closed projects was derived from the Department's project tracking database. That database records direct construction costs but not ancillary costs. (Data regarding ancillary costs, which as noted above can be significant, should have been obtained from the State's SAAAS system (or currently the Core-CT system.)

Recommendation: The Department should improve the timeliness and the completeness of its annual reporting of project cost data to the State Properties Review Board. (See Recommendation 11.)

Agency Response: "The Department agrees that it should file the annual report to the SPRB on or before the September 1st statutory deadline. The department has historically reported only construction contract cost data in the annual report. This information is not intended nor is it represented as an accounting of total project cost."

*Auditor's Concluding
Comments:*

This report is required by subsection (a) of Section 4b-2 of the General Statutes, which requires the report to contain "all pertinent data" on DPW's operations concerning realty acquisitions. We believe that total project costs are "pertinent data" that should be reported to the Board, Governor, and the Legislature. Since subsection (c) of Section 4b-2 requires DPW to "keep and maintain proper financial records with respect to real estate acquisition

activities for use in calculating the costs of ...operations,” we are sure that DPW has such information readily available.

LEASE-OUT OF STATE FACILITIES:

Background: Under Section 4b-1, subsection (5), of the General Statutes, the Commissioner of Public Works, subject to certain statutory provisions, may lease property and space to house State agencies.

Under Section 4b-38 of the General Statutes, the Commissioner of Public Works, subject to certain statutory provisions, may lease State-owned land or buildings for municipal or private use.

Criteria: Good business practice requires that lease receivables due should be regularly updated and monitored by the use of a system that would serve as a control account.

Condition: DPW does not have a centralized accounts receivable system that regularly monitors lease receivables due.

Effect: The lack of centralized records of lease receivables due could lead to persistently late payments or to a loss of revenue and the under-reporting of receivables due.

Cause: The Agency has computerized billing and accounts receivable systems. However, monthly lease payments due are not incorporated into the accounts receivable system.

Concluding Comments: Subsequent to our review, the State implemented a State-wide Core-CT accounts receivable (data processing) module. This has enabled DPW to implement a lease receivable system. Accordingly, no recommendation is made at this time.

CAPITAL PROJECTS REVOLVING FUND (CPR FUND):

CPR FUND - REPORTING SYSTEM:

Criteria: The Department’s Capital Projects Financial Reporting System (the system) is used to facilitate the processing of charges made to the Capital Projects Revolving Fund and should be capable of providing management with the types of information and reports needed to facilitate decision making and planning.

Condition: The system is made up of four component systems. These are three major stand-alone DPW legacy systems: Time and Attendance, Project Tracking, and Fee Billing, and (formerly) the State’s legacy State Agency Appropriation Accounting System and (currently) the State’s CORE system. There is little

interconnectivity between these components. As a result, certain data needs to be entered twice with a resultant need to reconcile data between different components. Manual intervention is required in order to transfer data from one component to another or to merge reports from different components. The resulting reports must be carefully reviewed and adjustments made. Duplicate entry, manual intervention, reviewing and adjustment are time consuming and labor intensive activities.

The system does not facilitate the production of an aging of unreimbursed charges receivable report, or a classification of receivables by type report (such as projects in design not yet bonded, technical services provided to other State agencies, completed projects with no funding available, etc.).

Effect: Because of the ineffectiveness of the processing system, manual intervention is required. This creates an administrative burden and increases the risk of undetected errors. In addition, the system does not provide certain important information required by management and oversight bodies.

Cause: The processing system consists of component units with limited interconnectivity, and can't produce data needed for effective management.

Recommendation: The Department should review its processing system for the Capital Projects Revolving Fund in order to reduce the level of manual operations required to process billing transactions and to increase the usefulness of information provided by its system. (See Recommendation 12.)

Agency Response: "The Department concurs with this recommendation and is proceeding to develop and implement system improvements that will provide a more reliable platform with less dependence on manual processes. The department delayed action on this initiative in anticipation of a Core-CT solution. Through the implementation of Core-CT it has become clear that that enterprise solution is not forthcoming."

PROMPT BILLING OF NON-DEPARTMENT CONTROLLED FINANCING SOURCES:

Criteria: Section 4b-1a of the General Statutes authorized the Commissioner of Public Works "...to establish and administer a fund to be known as the Public Works Capital Projects Revolving Fund, which shall be used for the financing of the costs of and associated with capital projects...".

The Revolving Fund incurs payroll related costs for public works projects that are financed by other State and quasi-public agencies. These costs must be regularly billed and recovered on a timely basis, and credited to the revolving fund.

Good business practice suggests that costs incurred in a given month should be billed no later than the end of the succeeding month.

Condition: As discussed in the preceding audit finding, the system is inefficient and relies upon manual intervention. This has slowed the process and, as noted in our prior audit report, has led to irregular billing often several months after transactions occurred. The pattern of late billings continued into this audited period. For example, for the 2001-2002 fiscal year, DPW billed CHEFA (a quasi-public agency) on four occasions for a combined total of \$565,997. These four billings were, on average, almost three months after the transaction month. This is almost two months more than the one-month grace period that we believe would normally be acceptable as reasonable.

Effect: Tardy billings increase the chances of undetected errors occurring. Also, by not billing promptly, a risk exists that specific bond funds will be depleted and the over-budget costs will not be recovered.

Cause: As noted above, DPW relies on different computer systems that do not fully interact with each other to process Capital Projects Fund transactions. The process is time consuming and error prone.

Recommendation: The Department of Public Works (DPW) should make procedural and system improvements to ensure the prompt billing of charges incurred for public works projects financed by funds controlled by other State and quasi-public agencies. (See Recommendation 13.)

Agency Response: “The Department concurs with this recommendation and is proceeding to develop and implement system improvements that will provide a more reliable platform with less dependence on manual processes.”

RECONCILIATION OF RECEIVABLES TO PROJECT BILLINGS AND RECEIPTS:

Criteria: Significant costs and subsequent reimbursements are processed through the Capital Projects Revolving Fund. The Department is responsible for ensuring that project billings processed through the fund and the resulting unreimbursed charges receivable amounts are accurately recorded.

Good Business Practice suggests that receivables should be regularly reconciled to project billings and receipts.

Condition: Our prior audit noted that the Department did not regularly reconcile its receivables to project billings and receipts. To that recommendation, DPW responded, “The Department will establish a systematic reconciliation process...” Our current audit found that no such process is in place and the Department still does not regularly undertake such reconciliations.

Effect: In the absence of a regular reconciliation of receivables to project billings and receipts there is an increased risk of errors in project billings and recoveries. Capital project balances may be incorrectly stated.

Cause: Weaknesses in the Department’s Capital Projects Financial Reporting System described in the two preceding audit findings makes it cumbersome and time consuming to reconcile receivables to project billings and receipts.

Recommendation: The Department of Public Works (DPW) should regularly reconcile its Capital Projects Revolving Fund unreimbursed charges receivables to project billings and receipts. (See Recommendation 14.)

Agency Response: “The Department will provide an annual reconciliation as has been recommended by the Auditors of Public Accounts. The Department believes that its reconciliation process as each payroll is processed from the billing system provides a reasonable ability to detect errors. We acknowledge that errors occur due to the reliance on manual processes.”

RECONCILIATION OF AGENCY FINANCIAL DATA WITH THE STATE COMPTROLLER’S RECORDS:

Background: During the period under review the financial activities of State agencies were recorded both centrally in the records of the State Comptroller and separately in the records of each State agency. The centralized accounting records were used to produce the State’s financial statements.

Criteria: It is important that the centralized accounting records are accurate. It is also important that the Department’s accounting records are accurate. It is good business practice to timely reconcile Agency records to the centralized records of the State Comptrollers’ Office. Any errors noted should be corrected.

Article Fourth, Section 24 of the Constitution of the State of Connecticut states in part the State Comptroller “shall prescribe the

mode of keeping and rendering all public accounts.” Section 3-112 of the General Statutes provides, in part, that the State Comptroller shall “...Establish and maintain the accounts of the state government.” In the State Accounting Manual, the State Comptroller indicated it is the responsibility of the Chief Fiscal Officer of each state agency to reconcile the agency’s records with those of the Comptroller. Any error discovered in this reconciliation (other than one which affects only the agency records) should be reported to the Accounting Services Unit of the State Comptroller’s Office. During the period under review, the Department should have regularly compared its accounting records to the State Comptroller’s centralized records, identified any differences, determined the reasons for such differences, and either notified the State Comptroller or corrected Agency records for any error noted.

Condition: The Department compared its project account balances to the balances per the corresponding records of the State Comptroller as of June 30, 2003. Numerous differences were noted. However, in a number of cases the reason for the differences and subsequent corrections had not been identified and corrected.

Effect: The failure to reconcile accounting records and to make required adjustments weakens the assurance that public works project account balances and the State’s centralized records are correctly stated.

Cause: Insufficient priority appears to have been given to the need for regularly comparing the Department’s accounting records to the State Comptroller’s centralized records, and identifying differences, determining causes and posting adjustments.

Recommendation: The Department should make the adjustments necessary to correct the remaining account discrepancies between its accounting records and the centralized State records as of June 30, 2003. The Department account balances as maintained on the State’s new Core-CT system should be adjusted appropriately. (See Recommendation 15.)

Agency Response: “The Department anticipates reconciliation and correction of the major errors detected by the Auditors of Public Accounts in its review. We acknowledge that there remain numerous errors, our initial review suggested that these errors were of an internal nature and do not materially effect the financial statements of the State or the financial position of individual capital projects administered by the Department.”

COMPREHENSIVE ANNUAL FINANCIAL REPORT – REPORTING CONSTRUCTION-IN-PROGRESS:

- Background:* The State Comptroller is responsible for the preparation of the Comprehensive Annual Financial Report (CAFR) consistent with Generally Accepted Accounting Principles (GAAP.)
- Criteria:* To assist the State Comptroller with the preparation of the CAFR report, State Agencies are required to provide specified financial data by the due dates established and communicated by the State Comptroller.
- Condition:* The Department failed to submit its construction-in-progress data to the State Comptroller by the due dates established. The construction-in-progress data for the 2000-2001 fiscal year was due September 4, 2001. DPW submitted it on December 18, 2001. The construction-in-progress data for the 2001-2002 fiscal year was due on September 6, 2002. It was submitted on December 10, 2002 but was revised and resubmitted on January 8, 2003.
- Cause:* We did not determine a cause for the late submission.
- Effect:* The Department is non-compliant with the Comptroller’s mandate concerning due dates for financial reporting purposes. The late submission of the construction-in-progress totals could weaken financial reporting by resulting in CAFR reports not being timely prepared and/or by reducing the time devoted to the review and analyzing of reported figures.
- Recommendation:* The Department of Public Works needs to submit its Comprehensive Annual Financial Report (CAFR) financial figures within the State Comptroller’s time requirements. (See Recommendation 16.)
- Agency Response:* “The Department agrees that it should and will endeavor to timely file its annual construction-in-progress and other year-end financial reports according to the requirements of the State Comptroller. Staff limitations and a reliance on manual compilation methods often delay the filing of these reports.”

REAL PROPERTY REPORTING TO CLIENT AGENCIES:

- Criteria:* Per Section 4b-51, subsection (a), of the General Statutes, the Commissioner of the Department of Public Works is responsible, subject to certain defined exceptions, for the remodeling, alteration, repair or enlargement of State Agency real assets. Inherent in this responsibility is the Department’s responsibility for the timely reporting of construction cost data to its State Agency clients who are responsible for inventory reporting of those assets.

According to generally accepted accounting principles (GAAP), expenditures for new facilities and building additions should be capitalized (added to the inventory of capital assets) but repairs should be expensed in the year in which they are incurred. Building improvements present an accounting challenge because they may include elements that are additions and those that are repairs. According to the State Comptroller's Property Control Manual (Manual), the main criteria for capitalizing building improvements is that such improvements must extend the useful life or enhance the value of the facility. Furthermore, the Manual states "Agency personnel will review capital projects and determine which are true additions or betterments to existing buildings versus those which are merely repairs and maintenance. This decision must be made on a case by case basis." A detailed accounting/audit trail is needed to support the determination as to which costs should be capitalized and which should be expensed as repairs.

When a State agency building construction project is sufficiently complete to allow its occupancy and use, a certificate of substantial completion is issued. In order to provide the State agency with preliminary cost data for inventory purposes, and where applicable, to notify the State Insurance Risk Management Board (SIRMB) to provide building insurance, a letter of substantial completion, form CA-900E (an "Insurance Notification/Transfer Letter") should be prepared and sent to the occupying agency, the State Comptroller and the SIRMB. For buildings costing \$25 million or more, the State is specifically required to notify the insurance carrier within ninety days or the carrier could refuse to cover any losses incurred to the building in question.

The Manual requires the preparation of an annual inventory report of real and personal property (the CO-59 report.) Such reports are required to include the cost of additions including capitalizable real property improvements.

Condition:

The Department currently reports project costs at three major landmarks in the project life. These are upon the issuance of a "letter of substantial completion", upon the issuance of a "certificate of completion", and at "accounting closeout."

A letter of substantial completion gives an estimate of the construction costs for the general contractor only. Other cost elements such as design costs, hazardous material removal costs, and costs for construction not performed under the contract with the major contractor are not reported on even though such costs can be significant. They are reported on in the certificate of completion. A certificate of completion is issued when a facility project is completed and all reasonably anticipated final payments have been made. We were told that a certificate of completion

might not be issued until a year after the issuance of the letter of substantial completion, and in cases involving ongoing or anticipated litigation, the time period could be much longer.

The Department's project closeout documents (letters of substantial completion and certificates of completion) provided to State agencies do not properly provide the information required to determine which costs should be capitalized and which costs should be expensed.

We noted that a certificate of substantial completion was issued for the Connecticut Juvenile Training School in September 2001. However, the related letter of substantial completion was not prepared until September 2002, and not distributed until November 2002. As a result the SIRMB was unable to specifically notify their insurance carrier about this building until November 2002.

We noted that DPW's CO-59 report for the SFY 2001 included an addition to real property of \$671,000 supported by a letter of substantial completion for an elevator addition project. We also noted that DPW's CO-59 report for the SFY 2003 included an addition of \$1,365,436 in respect of the same project based upon a certificate of completion. The certificate of completion reported the total cost of the project including the cost previously reported in the letter of substantial completion. Because the originally reported \$671,000 was not deducted from the "completion" figure, that part of the reported property additions were "double-counted" leading to a \$671,000 overstatement of real property asset costs.

Cause:

The Department does not provide a complete accounting of facility project costs to client agencies until a certificate of completion is issued, and even then it does not provide the data required to distinguish between project costs that should be capitalized and those costs that should be expensed. Copies of certificates of substantial completion are not always prepared and forwarded to State Agency clients in a timely manner. The Department has no written procedures requiring that certificate of completion cost data be adjusted appropriately in cases where intermediate cost data has previously been reported.

Effect:

The Department's current procedures for reporting facility project costs to client State agencies leads to material delays in the reporting of significant costs, leads to the reporting of certain repair costs as capitalized improvements, and in at least one material instance lead to a building costing approximately forty-nine million dollars being uninsured for about a year. The Department's lack of internal control procedures can lead to their double-counting costs initially reported in letters of substantial completion on their annual CO-59 reports.

Recommendation: The Department should improve its procedures relating to the reporting of facility project costs to client agencies and to its own CO-59 real property reporting. (See Recommendation 17.)

Agency Response: “DPW concurs that improved financial detail is appropriate and necessary as part of the value reporting to User Agencies done as part of the DPW’s Design and Construction Bureau’s “letter of Substantial Completion”. DPW will expand the detail in this letter to include the design costs and other significant project improvement costs.”

PROCESSING OF OPERATIONS THROUGH PENDING RECEIPTS:

Criteria: Section 3-112 of the General Statutes provides that the State Comptroller shall prescribe the mode of keeping and rendering all public accounts of the State. The State Accounting Manual (SAM) defines Pending Receipts as “...monies received by State agencies that are to be held in suspense until the final disposition is determined.” Examples of pending receipts given include: surety deposits, collections of fees where immediate distribution is uncertain, receipts without significant identification to properly determine the source, incorrect or in dispute receipts, and, cash receipts determined unacceptable after the payee has left the office. SAM requires that Pending Receipts be deposited to an Agency Fund, entitled “Funds Awaiting Disposition.” (FAD).

There is no provision in the SAM for agencies to use the FAD to hold as revenues any money that properly should be deposited to the General Fund or to other State funds, or to use the FAD to make “off budget” operational expenditures.

Condition: Since December 1996, DPW has been depositing real property sales receipts to the FAD instead of to the General Fund. It also has been paying related real property expenses out of the FAD. Real property receipts should be recorded as General Fund revenue when received. Property sales expenses should be paid out of monies budgeted or bonded for that purpose. As of March 26, 2004, approximately \$4.1 million of property sales and approximately \$3.7 million of property sales related expenses have been processed through the FAD. Agency records show a balance due to the General Fund of approximately \$450,000.

Cause: This practice started because there were large real estate expenditures such as legal consultancy and appraisal fees, and environmental studies and mitigation work related to the sale of surplus State property, such as certain closed State hospitals. DPW is working with the Office of Policy and Management (OPM) on the above-mentioned sale of surplus State property. OPM will make the decision regarding when the sales initiative will be considered completed. At that time, it is anticipated that the net

balance in the FAD will be transferred to the General Fund, and DPW will go back to depositing property sales revenue directly to the General Fund.

Effect: General Fund revenues and related expenditures have been understated. Making operational expenditures from the FAD weakens budgetary control. DPW has failed to follow the State Comptroller's mandates.

Recommendation: The Department of Public Works (DPW) should not use the Funds Awaiting Distribution Fund (FAD) for transacting State property operations. (See Recommendation 18)

Agency Response: "The Department continues to process a minimal number of property disposition charges through the FAD. This is done with the consent of the OPM in accord with the past practice and the original conceptual agreement between the DPW, OPM and the Office of State Comptroller."

CONTRACTUAL PAYMENTS FOR SERVICES – FACILITIES OPERATIONS:

Background: Pursuant to Sections 4b-1 and 4b-12 of the Connecticut General Statutes, DPW is responsible, with some exceptions, for facilities management including maintenance and security of State buildings in the greater Hartford area and certain properties outside of the Hartford area. DPW directly manages some of this property and in other cases it uses outside professional property management firms. As noted in the "RÉSUMÉ OF OPERATIONS" section of the report, DPW made significant contractual services expenditures to private property management firms. In each of the two audited years, such payments exceeded \$10,000,000.

Criteria: Section 3-117, subsection (a), of the General Statutes provides, in part, that "Each claim against the state shall be supported by vouchers or receipts for the payment of any money exceeding twenty five dollars at any one time, and an accurate account, showing the item of such claim, and a detailed account of expenses, when expenses constitute a portion of it, specifying the day when and purpose for which they were incurred."

The State Comptroller through the State Accounting Manual states that State agencies are responsible for implementing procedures that contain proper internal control policies over their expenditures.

Article 1.1 of Exhibit A to Personal Service Agreements between DPW and certain Property Management Organizations requires that "The contractor shall act in a fiduciary capacity with respect to the proper protection of, and account for, the State's assets."

Condition: We noted several instances where inventorial items were purchased without a description of their intended location or specific purpose. Such items included air conditioners (\$990), stepladders (\$1,031) and a sprayer (\$497). Such items should be listed on DPW's inventory as equipment or as "controllable items".

The DPW does not require that a sample of Property Management Organizations' monthly expenditures are subjected to monitoring and detailed review to ensure that they are supported by the required authorizing signatures and adequate documentation, and that they comply with contractual terms where applicable.

Cause: DPW appears to be relying too much upon Property Management Organizations acting in a fiduciary capacity with respect to the State's assets and are not adequately discharging their own responsibility for monitoring and reviewing Property Management Organizations' monthly expenditures.

Effect: In the absence of adequate internal controls, the risk of errors and, or, irregularities occurring and going undetected is increased.

Concluding Comments: We brought these problems to DPW's attention and suggested they establish written procedures including taking a sample of such expenditures for greater review and obtaining more detailed backup documentation. DPW subsequently adopted such procedures. Accordingly, we will not repeat this recommendation but will revisit this issue during our next audit.

GOVERNOR'S RESIDENCE:

THE GOVERNOR'S RESIDENCE CONSERVANCY:

Background: Under subsection (2) of Section 4-37e of the General Statutes, a foundation is a tax-exempt organization that receives or uses private funds to support or improve a State agency. The Governor's Residence Conservancy (Conservancy) is a foundation supporting the Governor's residence.

Criteria: Section 4b-1 of the General Statutes provides that DPW, with certain exceptions, is responsible for the care and control of State property in Hartford. As such it is the "Executive Authority" (or accountable oversight agency) as defined in Section 4-37e, for the Governor's Residence (Also known as the Governor's Mansion.).

Subsection (5) of Section 4-37f of the General Statutes requires a foundation to "...annually file with the state agency an updated list of the members and officers of such board..."

Subsection (7) of Section 4-37f of the General Statutes requires a foundation to “...use Generally Accepted Accounting Principles (GAAP) in its financial record-keeping and reporting.”

Subsection (8) of Section 4-37f of the General Statutes requires a foundation to have “...a full audit of the books and accounts of the foundation...” The audit report is required to include “...financial statements, a management letter and an audit opinion which address the conformance of the operating procedures of the foundation with the provisions of sections 4-37e to 4-37i...”

Subpart (b) of Section 4-37g of the General Statutes requires the executive authority and the chief financial officer of the Foundation to “...review the audit report ...and ...the executive authority shall sign a letter ...and transmit a copy of the letter and report to the Auditors of Public Accounts.”

Section 4-37j of the General Statutes requires a foundation to develop, in conjunction with the Auditors of Public Accounts, a written policy relating to “...the investigation of matters involving corruption, unethical practices, violation of State laws and regulations, mismanagement, gross waste of funds, abuse of authority or danger to the public safety occurring in such foundation...”

Condition:

The Department did not provide us with the documentation required to demonstrate compliance with the requirements (discussed above) of Sections 4-37f (5) and 4-37g (b).

The modified cash basis of accounting is used by the conservancy for financial record-keeping and reporting. This basis of accounting does not meet the requirements of generally accepted accounting principles required under Section 4-37f (7).

The Conservancy’s audit reports do not provide opinions addressing the conformance of the Conservancy’s operating procedures with the provisions of Sections 4-37e to 4-37i. Such opinions are required under Section 4-37f (8).

The Conservancy does not have a written policy encompassing the areas detailed in Section 4-37j – written policy relating to the investigation of matters involving corruption, unethical practices, violation of State laws, etc.

The Department did not provide us with the documentation required to demonstrate compliance with Section 4-37g, subsection (b) – the executive director is to sign a letter indicating that he has reviewed the audit report and is to transmit the letter and audit report to the Auditors of Public Accounts.

Cause: These problems appear to be the result of inadequate monitoring by DPW of the Conservancy's compliance with the requirements of Sections 4-37e through 4-37j of the General Statutes.

Effect: There are several areas where there is a lack of compliance with statutory requirements. In addition, the Conservancy's financial statements, which consist of a "statement of assets and net assets-modified cash basis" and a "Statement of support and revenue expenses and change in net assets – modified cash basis", provide incomplete financial information. For example, the value of capital assets purchased by or donated to the Conservancy is not detailed and no information on the value of accumulated assets is provided.

Recommendation: The Department should require that the Conservancy use generally accepted accounting principles (GAAP) in its financial record keeping and reporting. Also, the Department should more closely monitor the Conservancy's compliance with its statutory obligations under Section 4-37e through 4-37j of the General Statutes. (See Recommendation 19.)

Agency Response: "The Department has advised the Conservancy of the recommendation of the Auditors of Public Accounts."

GOVERNOR'S RESIDENCE – INVENTORY OF PERSONAL PROPERTY:

Criteria: Section 4b-1 of the General Statutes provides that DPW is responsible, with certain exceptions, for supervising "...the care and control of buildings and grounds owned or leased by the state in Hartford..."

Section 3-10 of the General Statutes provides that the Commissioner of Public Works shall maintain the furnishings of the governor's official residence.

Good business practice requires that all personal property be accounted for, bear an identification tag with a unique inventory number where practical, be included on an inventory listing of personal property, and be regularly examined for existence and condition by a person or persons independent of the process of obtaining and controlling the property. Record keeping requirements include a full description of the asset, the date of acquisition, acquisition cost, current value where applicable, inventory tag number and physical location.

Condition: The Department provided us with three inventory lists of personal property at the Governor's Mansion that had been prepared in May 2004. These were (a) a fine arts inventory of 38 items that were on loan from museums and other sources. (b) An inventory of 227 items belonging to the State, mainly furnishings and fixtures, some

of which appear to be antiques. (c) An inventory of 226 items provided by the Conservancy, mainly furnishings and fixtures, some of which appear to be antiques. Cost or appraised value was not given for any of the 491 items. Identification numbers were not given for approximately half of the 491 items.

An employee who had been assigned to the Governor's Mansion for several years prepared the three inventory lists provided to us. The employee in question had been intimately involved in matters concerning personal property at the residence and as such cannot provide independent support as to the existence and condition of personal property at the Governor's Mansion.

The Department has not provided the State Insurance Risk Management Board with information that would ensure that the fine arts on loan and the items provided by the Conservancy are adequately covered by insurance.

Cause: The Department may not have appreciated the necessity for good inventory control over personal property (especially valuable antiques) at such an important building as the Governor's Mansion.

Effect: We cannot rely upon the completeness or the accuracy of the inventories of personal property at the Governor's Mansion that were provided to us. The contents of the Governor's Mansion may not be adequately covered by insurance.

Recommendation: The Department should establish detailed written procedures concerning the management of the inventory records of State personal property items at the Governor's Mansion. Such procedures should include the use of inventory number tags where feasible, the regular taking of physical inventories by an independent person, obtaining current valuations where appropriate and communication with the State Insurance Purchasing Board to ensure appropriate insurance coverage. (See Recommendation 20.)

Agency Response: "The Department completed an independent inventory in December 2004 to validate inventories conducted by the residence staff. The Department agrees that its inventory policy and procedures should be amended to meet the specific and special needs of the residence. The department has taken the steps necessary to properly insure the personal property assets at the residence."

GOVERNOR'S RESIDENCE –WEAK CONTROLS OVER EXPENDITURES:

Criteria: The State Comptroller's State Accounting Manual (SAM) mandates that "Agencies are responsible to ensure that uniform

accounts payable procedures exist, supported by proper internal controls.”

Section 3-10 of the General Statutes states that “The land, buildings, furnishings and improvements of the governor’s official residence shall be maintained by the Commissioner of Public Works and food, supplies and staff for such residence shall be provided by the commissioner at the expense of the state.”

The Department’s “Guidelines for Expenses, Executive Residence” dated February 22, 1995, (Guidelines), provides guidance to fiscal staff reviewing expenditures for the Governor’s Residence prior to authorizing payment. The Guidelines allow electricity and water costs, is silent as to telephone costs and does not allow costs relating to “Personal expenses of the Governor and his family....”

Section 4-97 of the General Statutes provides that no part of an appropriation shall be used for any other purpose than that for which it was made.

Condition:

The Department pays the residence’s telephone costs of approximately \$10,000 annually. The Guidelines do not specify whether telephone costs of the residence are allowable charges against DPW’s appropriations. However, a telephone system is required for security purposes as well as for residence related business purposes. Nevertheless, these costs are not currently being reviewed for propriety and authorization for payment by an employee familiar with the day-to-day operations at the residence.

The Department paid approximately \$20,000 in each of the two audited years for catering costs. Invoices for catering events are not always supported by sufficient documentation to demonstrate that the events took place at the residence and do not specify the purpose of the events.

In addition to catering costs, the Department paid approximately \$20,000 in each of the two audited years for food for the Governor’s Residence. The bulk of these costs were from charges made to a supermarket. Controls were weak. For instance, many of these purchases were made by State employees working at the residence without a signed independent authorization/approval that these purchases were for the Governor’s Residence. Another option would be to give the Governor a reasonable food/supply allowance payment instead of reimbursing actual expenditures. This would avoid requiring the Governor to submit paperwork, reduce clerical cost at DPW, negate the problem of having State employees purchase food and supplies for the Governor’s Residence without independent authorization or approval by the Governor, etc. This option would require Legislative action in the form of a revision to Section 3-10 of the General Statutes.

We noted that minor payments were made for supplies that might have been for personal use and not for the maintenance of the residence. Also DPW paid the cost of electrical wiring at the residence of a hot tub that was the property of the Governor. Subsequently the cost of disconnecting the hot tub from the residence was also paid for. These payments appear not to be allowable under the Guidelines. However, unlike the Guidelines, Section 3-10 of the General Statutes does not distinguish between residence-related expenditures that are for personal use and those that are not.

Pursuant to Section 3-10 of the General Statutes, the expense to maintain the Governor's residence is charged against DPW's appropriations. (There is not a separate appropriation for the Governor's Residence.) However, since DPW reports to the Governor, DPW does not appear to have the authority to control these expenditures. A separate Governor's Office appropriation for residence's expenses that includes such items as telephone, food, supplies, catering, etc., would improve accountability and provide greater transparency. Such a change would require legislative action in the form of a revision to Section 3-10 of the General Statutes.

Effect:

In the absence of adequate internal controls, expenditures relating to telephone and catering costs may reflect errors or irregularities that were neither prevented nor detected.

In the absence of clearer guidelines the Department might be incorrectly paying for certain costs that are personal in nature rather than related to the maintenance of the residence.

In the absence of a specific residence appropriation, there is less incentive to manage the residence in an efficient and effective manner, and transparency is not encouraged.

Cause:

Controls over certain types of expenditures relating to the Department's administrative responsibility for the Governor's Residence are inadequate.

Section 3-10 of the General Statutes is not sufficiently detailed to provide adequate guidance as to which types of expenditures are allowable. In addition, the Department's Guidelines do not provide sufficient guidance concerning telephone costs and personal costs.

Recommendation:

Internal controls over expenditures for the Governor's Residence need to be strengthened. The Department's responsibility for paying for personal costs needs to be clarified. A specific appropriation should be used for the Governor's Residence. (See Recommendation 21.)

Agency Response: “The Department believes its existing internal control procedures are sufficient in that there is a hierarchical spending approval structure that minimizes the risk of unauthorized purchases. The new DPW administration, appointed September 2003, has exercised its role in the process as an improved control measure. The Department believes that [the] method of appropriating funds for the residence is sufficient.”

LEAVE OF ABSENCE IN EXCESS OF REGULATORY PROVISIONS:

Criteria: State Agencies Regulations Section 5-240-5a(f) states that “An appointing authority may place an employee on leave of absence with pay for up to fifteen days to permit investigation of alleged serious misconduct...the appointing authority shall provide written notice to the employee stating the reasons for the leave, the effective date of the leave and the duration of the leave which shall not exceed fifteen days.”

State Agencies Regulations Section 5-240-5a(h) states that “An appointing authority may, pending disposition of criminal charges...place the employee on leave of absence with pay for up to thirty days....”

Condition: A letter to a DPW employee placing him on leave of absence with pay stated that his leave of absence would be in accordance with State Agencies Regulations Section 5-240-5a(f). However, due to the extended time taken to investigate the alleged serious misconduct the employee was kept on leave of absence with pay for 48 days. The period of 33 days in excess of the 15 days resulted in an additional salary cost to the State of approximately \$17,000.

A letter to a DPW employee placing him on leave of absence with pay would appear to fall under State Agencies Regulations Section 5-240-5a(h) – see above. However, due to the extended time taken to dispose of the criminal charges involved, the employee was kept on leave of absence with pay for 46 days. The period of 16 days in excess of the 30 days resulted in an additional salary cost to the State of approximately \$3,000.

Effect: In these two instances the Department exceeded its regulatory authority with regard to the granting of paid leave of absence to employees.

Cause: The Department does not appear to have been familiar with the statutorily imposed limits that apply to leave of absence with pay under the various provisions of Section 5-240-5a.

Recommendation: The Department should comply with the term limits imposed by State regulations that apply to leaves of absence with pay. (See Recommendation 22.)

Agency Response: “The Department proceeds in sensitive personnel matters with advice and counsel of the State’s human resource and labor relations specialists to ensure due process.”

USE OF CONSTRUCTION CONTRACTS LACKING THE ATTORNEY GENERAL’S APPROVAL:

Criteria: Section 3-125 of the General Statutes states in part “The Attorney General shall have general supervision over all legal matters in which the state is an interested party.” Moreover Section 3-125 also provides that all legal services required by State agencies are to be performed by the Attorney General or under his direction.

Section 4a-59, subsection (e), of the General Statutes states in part “All contracts shall be approved as to form by the Attorney General.” This statute appears to apply explicitly to general purchases (supplies, commodities, etc.) administered by the Department of Administrative Services and not to construction contracts. Nevertheless, it has been standard practice for the Attorney General to approve the various contracts of State agencies.

Condition: The standard construction contract used by the Department has a prepared printed space for the Attorney General’s signature. However, the Department confirmed that standard construction contracts have not borne the Attorney General’s signature or a reference to an approval by the Attorney General for an undetermined number of years.

It should be noted that not all of the Department’s construction contracts are processed through the use of standard construction contracts. Some construction work is processed using design-build contracts or construction management contracts. The Attorney General is approving those contract types.

This situation was reported to the Governor and other State Officials pursuant to Section 2-90 of the General Statutes on March 4, 2003.

Effect: On June 30, 2002, standard construction contracts that had not been approved as to form by the Attorney General, amounting to at least \$147,000,000 were in force.

Cause: It was suggested to us that the standard construction contract might in fact have been approved as to form by the Attorney General

several years ago but that such approval had not been documented. (However, the legal “boilerplate” language to the contract has changed over time and it is important that evidence exists to demonstrate that the Attorney General has approved a particular version of a standard construction contract as to form.)

Recommendation: The Department should establish procedures to require that the Attorney General approve all versions of contracts, including standard construction contracts, as to form before they are put into use. (See Recommendation 23.)

Agency Response: “Informally, the OAG [Office of Attorney General] has advised that the DPW standard form construction contract was approved as-to-form in the past and does not require individual approval as-to-form as contracts are awarded. The OAG is currently reviewing, without approving as-to-form, individual standard form contracts awarded by the Department in the course of its review of affidavits submitted by successful bidders.”

Auditor’s Concluding

Comments: DPW should obtain formal approval for their standard form contract from the OAG. All subsequent changes to that standard form contract should be approved by the OAG.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Department of Public Works should follow State Comptroller and Department of Administrative Services requirements in processing equipment purchases and the equipment inventory should be properly maintained.**
This recommendation is not being repeated. A State-wide Core-CT asset data processing module is being implemented that should enable the Department of Public works to expeditiously comply with inventory requirements.
- **Policies and procedures for the Claims Management Unit, and the process to manage claims, need to be formally established.**
This recommendation is repeated in essence. (See Recommendation 1.)
- **Procedures should be developed and implemented which detail the assessment and accountability process for review of project files for design error damages and the timely collection of monies due the State or the rendering of additional services to the State.**
This recommendation is repeated in essence. (See Recommendation 2.)
- **The Department of Public Works should improve its monitoring of insurance requirements compliance by its capital project consultants and construction contractors.**
This recommendation is repeated in essence. (See Recommendation 3.)
- **The Department of Public Works needs to improve its procedures over the processing of change orders.**
This recommendation is repeated with a broader scope. (See Recommendation 4.)
- **In addition to its total change order reporting by closed projects, the Department of Public Works should routinely compile and report change order totals and rates by category type and by the fiscal year in which they occur. Also that information should be included as part of its budgetary reporting request pursuant to Section 4-67m of the General Statutes.**
This recommendation is repeated in essence. (See Recommendation 5.)
- **The Agency should continue to monitor change orders and hold design firms more accountable for the increased cost due to errors and omissions on their part. In addition, the change order approval form should contain adequate documentation and explanation for the reason for the change order.**
This recommendation is essentially included in our recommendation 4 as revised for this audit and is therefore not repeated as a specific recommendation.
- **The Department of Public Works should improve its reporting of closed projects in the statutorily required report to the State Properties Review Board.**
This recommendation is repeated in essence. (See Recommendation 11.)

- **The Department of Public Works should design and put into operation a centralized accounts lease receivable system.**
This recommendation is not being repeated. The State implemented a State-wide Core-CT accounts receivable (data processing) module. This has enabled the Department of Public Works to implement a lease receivable system.
- **The Department of Public Works should review its processing system for the Capital Projects Revolving Fund in order to reduce the level of manual operations required to process billing transactions and to increase the usefulness of information provided by its system.**
This recommendation is repeated in essence. (See Recommendation 12.)
- **The Department of Public Works should make system improvements to ensure prompt billing of charges incurred for public works projects financed by funds controlled by other State agencies.**
This recommendation is repeated in essence. (See Recommendation 13.)
- **The Department of Public Works should routinely reconcile its Capital Projects Revolving Fund unreimbursed receivables to project billings and collections.**
This recommendation is repeated. (See Recommendation 14.)
- **The Department of Public Works should reconcile its account records to the centralized records of the State Comptroller's Office in a timely manner and correct any errors.**
This recommendation is repeated in essence. (See Recommendation 15.)
- **The Department of Public Works needs to submit its Comprehensive Annual Financial Report financial figures within the State Comptroller's time requirements.**
This recommendation is repeated. (See Recommendation 16.)
- **The Department of Public Works should review its procedures related to real property reporting to client agencies.**
This recommendation is essentially repeated. (See Recommendation 17)
- **The Department of Public Works should meet any conditional requirements of the State Properties Review Board before finalizing any applicable property transaction.**
No exceptions were noted and the recommendation will not be repeated.
- **The Department of Public Works should seek the State Properties Review Board's approval of all leases including any effected by a license agreement.**
No exceptions were noted and the recommendation will not be repeated.
- **The Department of Public Works should not use the Funds Awaiting Distribution Fund for transacting State property operations.**
This recommendation is repeated. (See Recommendation 18.)

- **The Department of Public Works should adopt regulations regarding State leasing of space pursuant to subsection (o) of Section 4b-23 of the General Statutes.**
This recommendation is repeated in essence. (See Recommendation 8.)
- **The Department of Public Works should provide all separated employees with benefits that are in conformance with the Connecticut General Statutes.**
This recommendation is repeated in essence although the nature of the exceptions is different. (See Recommendation 22.)
- **The Department of Public Works should improve its procedures over the processing of contractual payments for services.**
This recommendation is not being repeated. DPW has implemented improved policies and procedures.
- **The Department of Public Works should require that the Governor’s Residence Conservancy use generally accepted accounting principals in its financial reporting and that its audit reports include the additional information required by Section 4-37f of the General Statutes.**
This recommendation is repeated. (See Recommendation 19.)
- **The Department of Public Works should calculate its annual set-aside goals in accordance with the requirements of the General Statutes. Also, the Department should prepare accurate and documented set-aside reports.**
This specific recommendation is not repeated. However a recommendation (number 24) was made concerning other aspects of the set-aside program.

Current Audit Recommendations:

1. **Completed construction claims procedures should be established, approved and put into practice. In addition a claims unit independent of the management of day-to-day construction project activities should be established.**

Comment:

The most recent document that the Department provided us with concerning claims procedures was a Report entitled “Claims Business Process Mapping” dated November 24, 1997. That document has never been completed and submitted for formal approval. As of February 2004, there was no claims unit as such. The establishment and application of formal claims procedures in an independent claims unit would help insure that claims processing is thorough, independent and fair.

2. **Formal procedures should be established and put in place that would require a systematic review of construction project records to determine if there is a likely basis for potential claims against construction consultants and/or construction contractors.**

Comment:

The Department lacks formal procedures requiring a routine review of construction project records to determine if there is a likely basis for potential claims against the design professionals, other construction consultants or the construction contractors associated with construction projects.

- 3. The Department of Public Works should improve its monitoring of insurance requirements compliance by its capital project consultants and construction contractors.**

Comment:

In a number of cases, DPW could not show us copies of required insurance certificates from construction contractors evidencing continued insurance coverage during long-term projects. In at least two cases there was no copy of an initial insurance certificate. In at least three cases, contrary to State requirements, insurance certificates were accepted that did not contain insurance policy numbers.

In a number of cases, insurance certificates for construction consultants indicated that general liability coverage was limited per project; however, no project identification was shown on the certificates. For one consultant contract, insurance coverage did not meet contract requirements, no evidence of valuable paper coverage had been provided and the latest certificates on file had expired. In at least two cases, insurance certificates indicated "Retro Date N/A". We were informed that this signifies full prior acts coverage. However, since N/A could be interpreted as "not applicable", it would be preferable to state on the insurance certificate that there is full prior acts coverage.

- 4. The Department of Public Works needs to improve its procedures over the processing of change orders.**

Comment:

We noted a deficiency or control weakness associated with eleven change orders and two deficiencies or control weaknesses associated with one change order. The Agency does not have a current Policy and Procedures Guide to Change Order Administration and there is no formal change order quality control program.

- 5. In addition to its total change order reporting by closed projects, the Department of Public Works should routinely compile and report change order totals and rates by category type and by the fiscal year in which they occur. That information should be included as part of its budgetary reporting request pursuant to Section 4-67m of the General Statutes. It should also be included in the Annual Report to the State Properties Review Board.**

Comment:

DPW does not include change order amounts and rates as part of its

budgetary performance measures. DPW's Annual Report to the State Properties Review Board presents data for cumulative change orders on projects completed in the reporting year and not on change order costs occurring in the reporting year. This presentation can be misleading because projects may be active for a number of years and therefore the published data is an amalgamation of data from different time periods. We also noted that DPW could not provide us with a breakdown of its change orders by category that agreed in total to the change order amounts reported in its annual report to the State Properties Review Board for the 2001-2002 fiscal year.

6. **The Department should establish formal policies and procedures that address the administration of unexpended fund balances on completed bond-funded projects.**

Comment:

We noted that 28 of 38 DPW administered construction projects reported as "closed", to the State Properties Review Board had unexpended balances at May, 2004, totaling \$2,069,553. In addition, seven of twelve DPW Agency Administered Capital Improvement Facility projects reported as having been completed for at least twelve months, had unexpended fund balances at May, 2004, totaling \$134,252. Unexpended balances of closed projects should be returned to the bond fund that financed those projects.

7. **The Department 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 DPW to review State Facility Plan requests submitted by State agencies to the Office of Policy and Management. Section 4b-23 also requires DPW to monitor compliance to 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.**

Comment:

Section 4b-23, subsection (b), of the General Statutes requires that on or before December first of each even-numbered year, the Commissioner of Public Works shall provide the Secretary of the Office of Policy and Management (OPM) with a review of the State Facilities Plan requests submitted by State agencies for consistency with realistic cost factors, space requirements, space standards, implementation schedules, priority needs, objectives of the Commissioner of Public Works and the need for maintenance, improvements, and replacement of State facilities. Typically, however, the Department has not been provided with an opportunity to review the proposed State Facility Plans. Instead, State agencies file computerized requests to OPM on-line and OPM prepares the Plan without the Department of Public Works' review of agencies' requests.

Section 4b-23, Subsection (l), of the General Statutes requires the Department to monitor the amount of leased space being requested and the cost of all proposed and approved facility projects. When the space to be

leased or the forecasted costs of a project exceeds the square footage amount or the cost levels in the approved State Facilities Plan by ten percent or more, the approval of the State Bond Commission, the Governor, and the State Properties Review Board is required before the project may proceed. The Department does not request required approvals from the State Bond Commission and the Governor for projects where the forecast space to be leased exceeds the square footage in the State Facility Plan by ten percent or more. Also, the Department does not request the approval of the State Properties Review Board when the forecasted cost to complete approved projects exceeds the levels in the approved Plan by ten percent or more. The Department has no written procedures in place for obtaining such approvals before proceeding with such projects.

- 8. The Department should give a higher priority to the adopting of regulations regarding the leasing of offices, space and other facilities pursuant to subsection (o) of Section 4b-23 of the General Statutes.**

Comment:

Subsection (o) of Section 4b-23 of the General Statues requires that not later than January 1988, DPW, in consultation with the Secretary of the Office of Policy and Management (OPM) and the State Properties Review Board (Board), was to adopt regulations regarding State leasing of offices, space or other facilities. The regulations are to set forth the procedures that DPW, OPM, and the Board are to follow in carrying out their leasing responsibility. Also, they are required to specify, for each step in the leasing process for which an approval is needed, what information is required, who shall provide the information and the criteria for granting the approval.

As at February 2005, the required regulations have not been drafted.

- 9. The Department should take action to ensure that its project-tracking database is accurate, complete and up-to-date.**

Comment:

The project-tracking database is an important tool. It provides, or at least should provide, Department management with project status information, important performance measures such as change order amounts, project delays, the cost per square foot of new construction, and the information needed by management to manage the Department and to fulfill its accountability reporting requirements. It is essential that the database be accurate, complete and up-to-date.

However, the records were incomplete and inaccurate. In at least three instances the database change order totals were significantly understated. Dollar values for 24 of 27 letters of substantial completion also differed from the accounting records. Many instances of missing or illogical data were also noted. A regular Departmental review of data missing from the project tracking database records undertaken in November 2003, noted 217 instances of data fields not containing the required information.

- 10. The Department 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.**

Comment:

Section 3-21d of the General Statutes mandates reports concerning completed capital works projects. A report is to be given to the State Bond Commission for each completed project. The report is to include such data as the cost or amount of the construction project, the amount and reason for any retainages held on the project, and the amount unexpended from bonds allotted to the project. Also, annually a report is to be filed with the General Assembly on the projects which have been reported to the State Bond Commission. DPW has not issued these reports.

According to the report of the State Properties Review Board for 2002, the Department completed 61 public works construction projects that it had administered for other State Agencies. These projects were reported as having a combined cost of \$86,446,838. In addition, the Department completed eleven facility projects at a combined cost of \$524,129. The Department has not reported on those projects to the secretary of the State Bond Commission as required. Furthermore, the related data on an annual basis has not been presented to the requisite joint standing committee of the General Assembly as required by Section 3-21d of the General Statutes.

- 11. The Department should improve the timeliness and the completeness of its annual reporting of closed project cost data to the State Properties Review Board.**

Comment:

The annual reports were submitted late to the State Properties Review Board in November of 2001 and 2002. DPW is required to submit the report to the Board by September first of each year. In DPW's reporting of closed construction projects, the costs reported reflect only amounts paid to construction contractors. Ancillary costs were not included. In fiscal 2001, ancillary costs exceeded twelve million dollars, and in fiscal 2002, they exceeded eight million dollars. In addition, the fiscal 2002 report omitted four completed projects costing more than thirty seven million dollars.

- 12. The Department should review its processing system for the Capital Projects Revolving Fund in order to reduce the level of manual operations required to process billing transactions and to increase the usefulness of information provided by its system.**

Comment:

The Capital Project Financial Reporting System is made up of four component systems (three major standalone DPW legacy systems and (formerly) the State's legacy SAAAS or (currently) the State's Core-CT system.) There is little interconnectivity between these components. The resultant duplicate entries, manual interventions, reviews, and adjustments

are time-consuming labor-intensive activities. The system does not facilitate the production of an aging of unreimbursed charges receivable report, or a classification of receivables by type.

- 13. The Department of Public Works should make procedural and system improvements to ensure the prompt billing of charges incurred for public works projects financed by funds controlled by other State and quasi-public agencies.**

Comment:

As discussed in the preceding audit recommendation, the Capital Project Financial Reporting system is inefficient and relies upon manual intervention. This has led to late billings. For example, for the 2001-2002 fiscal year, DPW billed CHEFA (a quasi-public agency) on four occasions for a combined total of \$565,997. These four billings were, on average, almost three months after the transaction month. Tardy billings increase the chances of undetected errors occurring. Also, by not billing promptly, a risk exists that specific capital project funds will be depleted and the over-budget costs will not be recovered.

- 14. The Department of Public Works should regularly reconcile its Capital Projects Revolving Fund unreimbursed charges receivables to project billings and receipts.**

Comment:

The Department does not regularly reconcile its Capital Projects Revolving Fund unreimbursed charges receivables to project billings and receipts. This failure could lead to undetected errors and erroneous project balances.

- 15. The Department should make the adjustments necessary to correct the remaining account discrepancies between its accounting records and the centralized State records as of June 30, 2003. The Department account balances as maintained on the State's new Core-CT system should be adjusted appropriately.**

Comment:

The Department compared its accounting records with those of the State Comptroller for the financial year ending June 30, 2003. Numerous differences were noted. However, in a number of cases the reason for the differences had not been identified and corrected. It is good business practice to timely reconcile Agency records to the centralized records of the State Comptroller and to correct any errors noted. Moreover, the State Comptroller who, under the State constitution, has the authority to "prescribe the mode of keeping and rendering all public accounts" requires that agencies reconcile their records to the State Comptroller's records and notify the State Comptroller if any corrections are needed to her records.

- 16. The Department of Public Works needs to submit its Comprehensive Annual Financial Report (CAFR) financial figures within the State Comptroller's time requirements.**

Comment:

The Department failed to submit its construction-in-progress data to the State Comptroller by the due dates established. The construction-in-progress data for 2000-2001, due September 4, 2001, was submitted on December 18, 2001. The construction-in-progress data for 2001-2002, due September 6, 2002, was submitted in December 2002 but was revised and resubmitted on January 8, 2003. The late submission of the construction-in-progress totals could weaken financial reporting by resulting in CAFR reports not being timely prepared and/or reducing the time devoted to the review and analyzing of reported figures.

- 17. The Department should improve its procedures relating to the reporting of facility project costs to client agencies and to its own CO-59 real property reporting.**

Comment:

The Department currently reports project costs at three major landmarks. These are the issuance of a "letter of substantial completion", the issuance of a "certificate of completion", and at "accounting closeout." A letter of substantial completion gives an estimate of the construction costs for the general contractor only. "Other cost elements" such as design costs, hazardous material removal costs, and costs for construction not performed under the contract with the major contractor are not reported at that time. Such costs can be significant. Those other costs are reported in the certificate of completion. However, a certificate of completion might not be issued until a year or so after the letter of substantial completion. In the interim, the asset cost is understated by the value of the "other cost elements." We noted an instance in which "additions" costing \$671,000 were "double-counted" leading to a \$671,000 overstatement in real property asset costs. We noted an instance in which a letter of substantial completion was issued a year after the certificate of substantial completion. As a result, the State lacked specific insurance coverage for a year for a building costing approximately \$49 million.

- 18. The Department of Public Works should not use the Funds Awaiting Distribution Fund (FAD) for transacting State property operations.**

Comment:

Since December 1996, DPW has been depositing real property sales receipts to the FAD instead of to the General Fund. It also has been paying related real property expenses out of the FAD. Real property receipts should be recorded as General Fund revenue when received. Property sales expenses should be paid out of funds budgeted or bonded for that purpose. As of March 26, 2004, approximately \$4.1 million of property sales and approximately \$3.7 million of property sales related expenses have been processed through the FAD. Agency records show a balance due to the General Fund of approximately \$450,000.

- 19. The Department should require that the Governor's Residence Conservancy use generally accepted accounting principles (GAAP) in its financial record-**

keeping and reporting. Also, the Department should more closely monitor the Conservancy's compliance with its statutory obligations under Section 4-37e through 4-37j of the General Statutes.

Comment:

The Department did not provide us with the documentation required to demonstrate compliance with Section 4-37f (5), which requires the Conservancy to annually file with the DPW an updated list of its members and officers. The modified cash basis of accounting is used by the conservancy for financial record-keeping and reporting. This basis of accounting does not meet the requirements of GAAP required under Section 4-37f (7). The Conservancy's audits performed by an accounting firm do not express opinions addressing the conformance of the Conservancy's operating procedures with the provisions of Sections 4-37e to 4-37i. Such opinions are required under Section 4-37f (8). The Department did not provide us with the documentation required to demonstrate compliance with Section 4-37g (b) – the executive director is to sign a letter indicating that he has reviewed the audit report and is to transmit the letter and the audit report to the Auditors of Public Accounts. The Conservancy does not have a written policy encompassing the areas detailed in Section 4-37j – written policy relating to the investigation of matters involving corruption, unethical practices, violation of State laws, etc.

- 20. The Department should establish detailed written procedures concerning the management of the inventory records of State personal property items at the Governor's Mansion. Such procedures should include the use of inventory number tags where feasible, the regular taking of physical inventories by an independent person, obtaining current valuations where appropriate and communicating with the State Insurance Purchasing Board to ensure appropriate insurance coverage.**

Comment:

The Department provided us with three inventory lists of personal property (furnishings and fixtures and art, etc.) at the Governor's Mansion. Cost or appraised value was not given for any of the 491 items. Identification numbers were not given for approximately half of the 491 items. The three inventory lists had been prepared by an employee who had been assigned to the Governor's Mansion for several years. That employee had been intimately involved in personal property matters at the Mansion and cannot provide independent support for the existence and condition of personal property there. The Department has not provided the State Insurance Risk Management Board with the information required to ensure that the contents of the Mansion were adequately covered by insurance.

- 21. Internal controls over expenditures for the Governor's Residence need to be strengthened. The Department's responsibility for paying for personal costs needs to be clarified. A specific appropriation should be prepared for the Governor's Residence.**

Comment:

The Department's guidelines (guidelines) do not specify whether telephone costs at the Governor's Residence are allowable charges against DPW's appropriation. The Department currently pays approximately \$10,000 annually for such costs. The monthly telephone bills are not currently being reviewed for propriety and are not authorization for payment by an employee familiar with the day-to-day operations at the Residence. The Department pays approximately \$20,000 annually for Residence catering costs. Invoices for catering events are not always supported by sufficient documentation to demonstrate that the events took place at the Residence and do not specify the purpose of the events. Unlike the Guidelines, Section 3-10 of the General Statutes does not distinguish between Residence related expenditures that are for personal use and those that are not. Controls over food purchases were weak. For instance, in some cases State employees purchased food for the Governor's Residence without independent authorization/approval that the food was for the Governor's Residence.

Pursuant to Section 3-10 of the General Statutes, the expenses to maintain the Governor's Residence are charged against DPW's appropriations. (There is not a separate appropriation for the Governor's Residence.) A separate appropriation for the Residence's expenses that includes such items as telephone, food, supplies, catering, etc., charged to the Governor's Office would improve accountability and provide greater transparency.

22. The Department should comply with the term limits imposed by State Regulations that apply to leaves of absence with pay.

Comment:

Two instances were noted in which a Department employee was on a mandatory leave of absence with pay which exceeded the maximum period allowable under State Regulations. The salary overpayments related to these incidents totaled approximately \$20,000.

23. The Department should establish procedures to require that the Attorney General approve all versions of contracts, including standard construction contracts, as to form before they are put into use.

Comment:

Section 3-125 of the General Statutes provides that all legal services required by State agencies are to be performed by the Attorney General or under his direction. The standard construction contract used by the Department has a prepared printed space for the Attorney General's signature. However, the Department confirmed that standard construction contracts have not borne the Attorney General's signature or a reference to an approval by the Attorney General for an undetermined number of years.

- 24. The Department should follow all statutory and regulatory requirements of the State's set-aside program.**

Comment:

Section 4b-95 of the General Statutes provides that agencies periodically review its general contractor's use of subcontracts to insure statutory requirements are being followed. It also requires that agencies prepare written reports of its findings. Except for its up-front reviews of subcontractors when bids are received, the Department does not perform periodic reviews or prepare written reports of its findings. Construction contracts under \$500,000 are generally restricted to set-aside contractors. Bids are solicited from a list of those contractors but the contracts are not advertised as required. Typically, architects prepare cost estimates for construction set-aside bids. However, in such cases, if the winning bid is more than ten percent higher than that cost estimate, the bid was not rejected as required. The Department was unable to provide us with evidence that DECD's required written approval of its competitive bidding procedures had been obtained.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Public Works for the fiscal years ended June 30, 2001 and 2002. 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 audits of the Department of Public Works for the fiscal years ended June 30, 2001 and 2002, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "*Government Auditing Standards*", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Public Works 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 Agency's 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 Public Works is the responsibility of the Department of Public Works' 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, 2001 and 2002, 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 certain instances of noncompliance that are required to be reported under "*Government Auditing Standards*" and which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report. Those findings are as follows:

- The Department of Public Works, contrary to the requirements of the State Comptroller, has been depositing real property sales revenue to the Funds Awaiting Distribution Fund and paying the expenses of real property sales from that Fund.
- The Department of Public Works, contrary to the requirements of Section 4b-23 of the General Statutes, does not review proposed State Facility Plan requests. Further it does not obtain all of the required approvals (Governor, State Properties Review Board, and State Bond Commission, as applicable) when actual leases or capital projects costs exceed by 10 percent or more the amounts in the approved State Facility Plan.

- The Department of Public Works, contrary to the requirements of Section 3-21 of the General Statutes, does not file reports with the State Bond Commission upon completion of each construction project. Nor does the Department annually file a report with the General Assembly on those completed projects.

We also noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying “Condition of Records” and “Recommendations” sections of this report.

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

The management of the Department of Public Works is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and complying 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 Public Works’ 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:

- Inadequate control over capital project change orders.
- Lack of controls over property inventory.
- Inadequate monitoring of compliance with contractual insurance requirements by construction contractors.
- Inadequate policies and controls over claims management.
- Failure to return unexpended fund balances on completed bond-funded projects to the appropriate bond fund.
- Inadequate maintenance of the project-tracking database.

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. However, of the reportable conditions described above, we believe the following reportable conditions to be material or significant weaknesses:

- Inadequate control over capital project change orders.
- Inadequate policies and controls over claims management.

We also noted other matters involving internal control over the Agency's financial operations, 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 courtesy extended to our representatives by the personnel of the Department of Public Works during the course of our examination.

Charles Woolsey
Principal Auditor

Approved:

Robert G. Jaekle
Auditor of Public Accounts

Kevin P. Johnston
Auditor of Public Accounts