

# STATE OF CONNECTICUT



***AUDITORS' REPORT  
DEPARTMENT OF PUBLIC WORKS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004***

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

## Table of Contents

---

<b>INTRODUCTION</b> .....	1
<b>COMMENTS</b> .....	1
FOREWORD.....	1
RÉSUMÉ OF OPERATIONS:.....	2
Revenues and Receipts .....	2
Expenditures:.....	3
Expenditures by General Type .....	4
Operating Expenditures .....	4
Public Works Projects Expenditures .....	4
Capital Projects Revolving Fund.....	5
PERFORMANCE EVALUATION.....	6
Compliance with set-aside Program Regulations.....	7
<b>CONDITION OF RECORDS</b> .....	10
Claims Against and by the State .....	10
Capital Projects - Insurance Certificates.....	11
Property Leases - Insurance Certificates.....	12
Change Order Administration .....	14
Non-compliance with Section 4b-23 - State Facility Plan.....	16
Non-compliance with Section 4b-23 - Subsection (o).....	19
Capital Projects - Project Tracking .....	20
Non-compliance with Section 3-21d of the Connecticut General Statutes.....	22
Annual Report to the State Properties Review Board.....	23
Capital Projects Revolving Fund... ..	24
Management of the Revolving Fund.....	24
Revolving Fund - Financial Reporting System .....	29
Real Property Reporting to Client Agencies.....	30
Processing of Operations through the Funds Awaiting Distribution .....	33
Governor's Residence - Inventory of Personal Property.....	34
Use of Construction Contracts Lacking the Attorney General's Approval.....	36
Cost and Insurance Reporting of Real Property .....	37
Compliance with the Statutory Requirement to Review General Contractors' Subcontracts.....	39
Problems Associated with Construction Projects Carried out at the American School for the Deaf.....	40
The Use of Specialty Contractors on the Stamford Courthouse Construction Project.....	43
The Absence of an Architect's Signature on Payment Certification.....	43
Construction Prepayments .....	45
<b>RECOMMENDATIONS</b> .....	47
<b>INDEPENDENT AUDITORS' CERTIFICATION</b> .....	58
<b>CONCLUSION</b> .....	61

November 21, 2007

**AUDITORS' REPORT  
DEPARTMENT OF PUBLIC WORKS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

We have examined the financial records of the Department of Public Works for the fiscal years ended June 30, 2003 and 2004. 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.

## ***Auditors of Public Accounts***

---

James T. Fleming has served as DPW Commissioner since September 2003. Theodore R. Anson served as DPW Commissioner during the earlier part of our audit period.

The State Properties Review Board, under various State Statutes (e.g., Sections 4b-3 and 4b-23 of the Connecticut General Statutes) must review and 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.

The 2002-2003 fiscal year was the last fiscal year for which the State used its legacy SAAAS accounting system. During the 2003-2004 fiscal year, the State began using a new and more comprehensive system, - "Core-CT." Core-CT is comprised of several Fiscal, Payroll and Human Resource Management modules. The SAAAS and Core-CT systems use widely different account titles. We have presented data from both the fiscal years under review using Core-CT account titles as far as was practicable.

Section 81 of Public Act 04-2 of the May Special Session of the 2004 General Assembly established the "Grants and Restricted Accounts Fund" (12060) to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in SAAAS in the General Fund as "Federal and Other Grants."

### **RÉSUMÉ OF OPERATIONS:**

#### **Revenues and Receipts:**

Receipts totaled \$19,207,523 and \$15,330,922 during fiscal year 2002-2003 and fiscal year 2003-2004, respectively, compared with \$16,505,261 for fiscal year 2001-2002. A summary of receipts for the years under review is presented below:

<b>General Fund:</b>	<b>Fiscal Year Ended June 30,</b>	
	<b><u>2002-2003</u></b>	<b><u>2003-2004</u></b>
Rents	\$1,322,982	\$1,213,757
Sale of Property	40,000	391,900
Non-Federal Receivable collections	4,433,093	1,570,962
Refunds	584,509	38,227
Restricted Contribution Accounts	10,092,709	0
Miscellaneous	27,482	3,335
<b>Total General Fund</b>	<b>16,500,775</b>	<b>3,218,181</b>

<b>Other Funds:</b>		
Inter Agency/Intra Agency Grants - Tax Exempt Proceeds	2,368,616	0
Capital Projects Funds	1,806	17,559
Funds Awaiting Distribution	336,326	176,000
Fringe Benefit Recovery Fund	0	2,629
Grants and Restricted Accounts Fund		11,916,553
<b>Total Other Funds</b>	2,706,748	12,112,741
<b>Total Receipts</b>	<b>\$19,207,523</b>	<b>\$15,330,922</b>

Receipts consisted primarily of grant transfers from other agencies to fund various capital projects. During the 2002- 2003 fiscal year, grant transfers were accounted for as General Fund “Restricted Contribution Accounts”. During the 2003-2004 fiscal year, grant transfers were accounted for in the “Grants and Restricted Accounts Fund”. Inter Agency/Intra Agency Grants – Tax Exempt Proceeds Fund receipts in the 2002-2003 fiscal year consist of bond money transfers from client agencies for various public works projects administered by DPW on behalf of the client agencies. In the 2003-2004 fiscal year, a policy change was made. These transactions were treated as bond fund allotment transfers instead of receipt transfers. Accordingly, this type of receipt did not exist in the 2003-2004 fiscal year.

Receipts deposited to the “Funds Awaiting Distribution” Fund decreased from \$477,503 in fiscal year 2001-2002, to \$336,326 in fiscal year 2002-2003, to \$176,000 in fiscal year 2003-2004. 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 (i.e., operating accounts and public works project accounts.) The operating accounts consisted primarily of General Fund accounts used for Agency operating expenditures. The public works project accounts consisted primarily of capital project funds used to account for DPW’s significant public works projects.

Overall, expenditures decreased from \$308,763,868 in the 2001-2002 fiscal year, to \$274,672,179 in the 2002-2003 fiscal year, to \$149,603,606 in the 2003-2004 fiscal year. The most significant change was associated with public works projects, which fell from \$261,354,102 in the 2001-2002 fiscal year, to \$233,448,956 in the 2002-2003 fiscal year, to \$104,458,268 in the 2003-2004 fiscal year. The wide variation in the annual level of public works project expenditures reflects changes in bond monies made available and in the number of active major projects.

A summary of expenditures for the two audited years is presented below:

*Auditors of Public Accounts*

---

**Expenditure by General Type:**

	<u>2002-2003</u>	<u>2003-2004</u>
General Fund	\$52,077,737	\$43,463,445
Less General Fund monies used in public works projects	<u>12,226,914</u>	<u>(103,141)</u>
General Fund for operating expenditures	39,850,823	43,566,586
Plus Capital Equipment Purchase Fund	<u>103,372</u>	<u>109,144</u>
Total Operating Expenditures	39,954,195	43,675,730
Public Works Projects	233,448,956	104,458,268
Agency Fund – Funds Awaiting Distribution	<u>1,269,028</u>	<u>1,366,467</u>
<b>Total Expenditures</b>	<u>\$274,672,179</u>	<u>\$149,500,465</u>

**Operating Expenditures:**

	<u>2002-2003</u>	<u>2003-2004</u>
Personal Services	\$9,733,677	\$10,289,270
Property Management	11,500,470	12,982,073
Utilities	7,607,904	8,834,676
Rents and storage	7,005,843	8,148,097
Miscellaneous	<u>4,106,301</u>	<u>3,421,614</u>
Total	<u>\$39,954,195</u>	<u>\$43,675,730</u>

**Public Works Project Expenditures:**

	<u>2002-2003</u>	<u>2003-2004</u>
Acquisitions	\$3,499,798	\$399,199
Design	26,656,072	16,573,658
Construction	173,858,527	80,427,409
Equipment	798,605	3,267,457
Art	522,255	153,142
DPW Fees	4,600,108	1,988,844
Claims	31,345	992,489
Telecommunications	1,792,450	593,482
Miscellaneous	1,724,613	62,588
Grant transfers	<u>19,965,183</u>	<u>0</u>
Total	<u>\$233,448,956</u>	<u>\$104,458,268</u>

Public works project expenditures are charged primarily to Capital Projects Funds. Smaller amounts are charged to Special Revenue Funds and the General Fund. A summary of public works project expenditures by funds follows:

	<u>2002-2003</u>	<u>2003-2004</u>
General Fund	\$12,226,914	\$ (103,141)
Special Revenue Funds	5,172,252	11,019,480
Capital Project Funds	<u>216,049,788</u>	<u>93,541,929</u>
Total	<u>\$233,448,954</u>	<u>\$104,458,268</u>

Public Works Project grant transfers to other State agencies were made primarily for projects administered by other agencies pursuant to subsection (a) of Section 4b-52 of the General Statutes. The bulk of 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>2002-2003</u>	<u>2003-2004</u>
Community Colleges - Compressed video for IT labs	\$6,016,859	\$ 0
Community Colleges-New arts/science center	8,901,839	1,182,782
Community Colleges-Consolidated campus development	11,105,486	725,930
Community Colleges-Campus Additions/Renovations	10,493,054	1,432,233
Judicial- Juvenile Detention center additions	12,746,366	2,378,596
SCSU-Additions & renovations-Engleman Hall	20,440,008	7,522,837
SCSU-Air conditioning Davis Hall	16,066,713	0
WCSU-Higgins Hall renovation-Danbury	0	16,029,858
CCSU-Copernicus Hall- Renovations	9,649,837	4,936,210
CCSU-New utility Tunnel	20,584,926	12,126,553
CCSU-Renovations to Sheridan Hall	7,012,192	1,611,571
Corrections-Air conditioning MH unit Hartford	9,634,720	6,129,009
Corrections-McDougall CI 600 bed expansion	12,004,454	0

Some of the public works projects expenditures noted above were initially recorded in a revolving fund (The Capital Projects Revolving Fund). Employees working on public works projects are initially paid out of that Fund. Subsequently that cost is allocated (or charged back) to applicable public works project accounts or (for general administrative or general technical support services to State agencies) to a General Fund operation account. The Fund's revolving (or charge back) provision was intended to be the means of financing the future Agency payroll cost of public works project employees. However, the Fund has been operating in a deficit (negative cash balance) position for several years. A summary of the Fund's transactions for fiscal years ending June 30, 2003 and 2004, is presented below:

**Capital Projects Revolving Fund:**

	<u>2002-2003</u>	<u>2003-2004</u>
Funding Sources :		
Project costs recovered	\$4,623,057	\$1,996,925
Cost not related to specific projects recovered:		
From the General Fund	2,034,701	2,430,289
Recoveries of fringe benefit costs	<u>503,109</u>	<u>494,989</u>
Total Funding	7,160,867	4,922,203
Less expenditures – project costs	<u>7,427,889</u>	<u>6,131,646</u>
Expenditures in excess of Funding	(267,022)	(1,209,443)
Cash Balance, beginning of fiscal year	<u>(617,689)</u>	<u>(884,711)</u>
Cash Balance, end of fiscal year	<u>\$(884,711)</u>	<u>\$(2,094,154)</u>

The negative cash balances result from the failure for various reasons to charge back or to 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 \$14,891,745 on June 30, 2003, and \$18,495,498 on June 30, 2005.

**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 in previous audit reports. The audit report for fiscal years ended June 30, 1999 and 2000, 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 opined that “It appears that reports are not completely accurate and are not in complete compliance with the requirements of the General Statutes.” A follow up audit for the fiscal years ended June 30, 2001 and 2002, concluded that “The Department is not complying with certain regulatory requirements for the administration of the State’s Set-Aside Program.”

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 results. These reports are submitted to the Commissioner of Administrative Services, the Commission of Human Rights and Opportunities (CHRO), and to specific members of the General Assembly. The CHRO monitors State agencies’ results versus their annual set-aside goals. CHRO is required to prepare an annual report concerning goal achievement for submission to, among others, “...cochairpersons and ranking members of the joint standing committees of the General Assembly having cognizance of matters relating to planning and development and government administration and elections.” For various reasons the Department did not submit the quarterly reports required for 2002-2003 fiscal year and as a result, CHRO was not able to include any data from the Department in its annual report for the 2003-2004 fiscal year. However, the Department did submit quarterly reports for the 2002-2003 and for the 2004-2005 fiscal year. Pursuant to subsection (n) of Section 4a-60g, the failure to submit quarterly reports for the 2003-2004 fiscal year is a violation of Section 46a-77 of the General Statutes.

Because the Department did not submit quarterly data for the 2003-2004 report to the CHRO, the following schedule, which reflects on an annual basis, set-aside data as reported to specific members of the General Assembly, compares the 2002-2003 with the 2001-2002 fiscal year.

	<u>For Fiscal Year Ended June 30,</u>	
	<u>2002</u>	<u>2003</u>
Value of contracts	\$171,976,368	\$172,172,553
Set-Aside Goal – 25 percent of Contracts	42,994,092	43,043,138



---

Set-Aside Contracts Awarded	46,499,867	8,666,694
Percentage of Set-aside Goal Achieved	108%	20%
Minority/Women Contract Goal – 25 percent of Set-Aside Goal	10,748,523	10,760,785
Minority/Women Contracts Awarded	25,501,271	4,808,616
Percentage of Minority/Women Set-aside Goal Achieved	237%	45%

Based on the data that DPW submitted to CHRO, DPW met its set-aside goals for the 2001-2002 fiscal year but not for the 2002-2003 fiscal year. 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 a regulatory requirement.

**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 submitted a draft of new regulations for review but until they have been ratified the “old” DECD regulations continue to apply.
- Criteria:* Subsection (c) of Section 32-9f-3a of the State regulations states that a set-aside contract shall not be accepted “...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:* The Department’s “informal” construction contracts (contracts for \$500,000 or less) have been generally restricted to set-aside contractors. However, for these contracts, the Department does not routinely require that winning set-aside contract bids not exceed the ten percent ceiling over “...the price which could be anticipated in general bidding...”
- Effect:* The Department’s failure to comply with this requirement might lead to the State having to pay more than is required.
- Cause:* We were unable to determine specific reasons for the exception noted above.
- Recommendation:* The Department should follow the regulatory requirement that a winning bid restricted to set-aside contractors “not be accepted 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.”  
(See Recommendation 1.)

*Agency Response:* “The Auditor’s have properly reflected the Set-aside contracting activity reported by the DPW for Fiscal Year 2003 and Fiscal Year 2004. However, the department’s review of its reporting shows material inaccuracies so as to significantly understate set-aside contractor participation in FY 2003.

A review of our records indicates the following participation based on contract awards:

	<i><b>FY 2003</b></i>	<i><b>FY 2004</b></i>
Value of Contracts	\$171,731,387	\$55,771,373
Set-aside Goal (25% of Contracts)	\$42,932,847	\$13,942,843
Set-Aside Contracts Awarded	\$44,345,237	\$21,702,085
% of Goal Achieved	103.3%	155.7%
MBE/WBE Goal (25% of Set-aside Goal)	\$10,733,212	\$3,485,711
MBE/WBE Awards	\$15,399,729	\$4,304,132
% of MBE/WBE Goal Achieved	143.5%	123.5%

The Auditors recommend that the Department follow all regulatory requirements of the State’s Set-aside program. The Auditors have based their review of DPW compliance against regulations developed by the Department of Economic and Community Development in the mid 1990’s. The program was transferred to the Department of Administrative Services in 1999 and to CGS Section 4a-60 of the General Statutes in 2001. The DPW suggests that the regulations are significantly outdated to the point that they are obsolete and ineffective. So much so, the DAS does not refer to the regulations in its annual briefing of program requirements to State agencies required under 4a-60h.

The department has long determined that, to meet the statutory mandates of the set-aside program and respond to the CGS Section 4a-60g “serious need to help small contractors...” certain contracts would be set-aside in their entirety for participation by set-aside contractors only. The resulting bid is awarded to the lowest responsible and qualified set-aside bidder whose bid is within the budgetary constraints of the project. The department does, in instances where there is a concern that a proper community of set-

aside vendors does not exist to provide proper competition for a specific project, solicit bids from all interested bidders which results in set-aside contractors competing in the open market for DPW contracts.”

*Auditors’ Concluding  
Comments*

The set-aside regulations are still in effect. Subsection (g) of Section 4-168 makes it clear that, when there is a statutory transfer of functions, powers or duties from the agency named in the existing regulations to another agency, existing regulations continue in effect but should be amended to reflect those changes. The fact that DAS failed to amend set-aside regulations does not mean that the regulations are no longer valid.

## CONDITION OF RECORDS

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

### CLAIMS AGAINST AND BY 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.

Good business practice also requires that formal policies and procedures be established to encourage the systematic review of project records with a view to routinely determining if there is a likely basis for potential claims by the State against construction consultants and/or contractors

*Condition:* The Department's "Strategic Business Plan, January 2000 through June 2003" dated November 2000, called for the drafting of a procedure manual dedicated to the processing of contractors' claims. As of June 2006, a draft of the procedure manual has been prepared but it has not been finalized or put into practice. The manual's focus is on the avoidance and resolution of claims against DPW. In addition, DPW should establish formal procedures requiring a routine review of project records to determine if there is a likely basis for potential claims by DPW against any construction consultant and/or contractor.

As of June 2006, there was no claims unit as such but there was an employee who was responsible for certain administrative liaison functions in connection with Claims against the State. Additionally, a Deputy Commissioner has been assigned the responsibility for Claims Management and has aided in the setting up of an "Outside Claims Advisory Team." Unfortunately, pending the resolution of certain ethics related issues, the Team was unable to perform all of the functions envisioned for it.

*Effect:* Without approved written construction claims procedures there is a heightened risk that construction claims and disputes against the State will not be managed in the State's best interests. In the absence of formal policies and procedures covering claims to be made by the State there is a heightened risk that potential claims will not be identified, or, if identified, will not be pursued.

*Cause:* DPW's financial and human resources are, of course limited, nevertheless, it appears that within existing resources DPW may not have allocated a sufficiently high priority to claims management activities.

*Recommendation:* Construction claims procedures should be finalized and put into practice. Such procedures should include a requirement for 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. A claims unit independent of the management of day-to-day construction project activities should be established. (See Recommendation 2.)

*Agency Response:* "The Department has a claims unit to intake and monitor all claims submitted. The supervisor of the unit reports directly to a Deputy Commissioner and is independent from day-to-day project management. Development of a "Claims Manual" is desirable, however, dependant on funds available and the hiring of consultant assistance. At this time, other operational priorities are consuming the available funds. Protocols exist for the handling of claims whether submitted under the CGS 4-61 claim statute or the CGS 3-7 compromise claim statute. The Department is considering, pending available funding and authorized positions, additional staff to perform contractor audit functions to develop an in-house expertise not reliant on outside consultants."

*Auditors' Concluding  
Comments:*

As of April 2007, the Claims Unit basically consists of one manager with part time secretarial assistance. The one manager works on both claims and agency administered projects. Based on our discussion with that employee, it is our understanding that the "protocols" consist of a check list based on material in the drafted Claims Manual.

**CAPITAL PROJECTS - INSURANCE CERTIFICATES:**

*Criteria:* The Insurance Guidelines of the State Insurance Risk Management Board (SIRMB) states "All contractors should be required to maintain reasonable insurance coverage and provide written proof of this protection..." and "One way to ensure compliance with the insurance guidelines is to require the contractor to furnish a Certificate of Insurance..."

In regard to construction contractors, DPW's "General Conditions of the Contract for Construction" (the Conditions) states "The Contractor shall not start work under the contract until they have obtained insurance ..." and "The Contractor shall send certificates

of liability insurance to the...DPW.” and “The Contractor shall...maintain in full force and effect. at all times during the life of the contract...insurance coverage...”

Good business practice requires that DPW monitor that its contractors provide certificates of insurance in the form required in a timely manner. Because DPW is responsible for numerous construction projects, a spreadsheet or a database should be maintained to monitor insurance data. Such a spreadsheet or database should enable the user to identify instances where required annual certificates have not been received. In such instances standard reminder letters should be issued or other action taken as appropriate.

*Condition:* As of June 2006, DPW had no working spreadsheet or database to record and monitor the receipt and review of annual insurance certificates from construction contractors.

We examined the files for six construction contracts for the presence of insurance certificates. In all six cases the original certificates required before the State could sign-off on the contract were in place. However, seven of the twelve certificates required to demonstrate continuing subsequent insurance coverage were not in the files.

*Effect:* The Department’s failure to monitor proof of continued insurance coverage increases the possibility that a construction company’s insurance policy might be inadequate or have lapsed and the Department was unaware of it. This could expose the State to potential uninsured liabilities.

*Cause:* During the audited period the Department didn’t have procedures in place to identify expiring coverage on open construction contracts.

*Concluding Comments:* Subsequent to the completion of our audit field work the Department informed us that it has developed a database application that will identify expiring coverage on open construction contracts and trigger letters requesting renewal certificates. Accordingly, no recommendation is made at this time.

**PROPERTY LEASES - INSURANCE CERTIFICATES:**

*Criteria:* The State Insurance Risk Management Board advises that a lessor (“landlord”) should provide and maintain, at no cost to the State (“tenant”), defined levels of Commercial General Liability Insurance for claims arising out of acts or omissions of the lessor.

In addition, the lessor should provide and maintain standard fire and casualty insurance, including special form coverage.

The standard lease agreement used by the Department requires that "...The Lessor shall provide certificates of insurance annually to the Lessee evidencing the coverage that this article requires...."

Good business practice requires a lessee to monitor that its lessors provide copies of certificates of insurance in a timely manner. A lessee should review the copies provided to ensure that the insurance policies are current, and that they contain the required minimum coverage. Because DPW is responsible for numerous property leases, a spreadsheet or a database should be maintained to monitor lease related data. Such a spreadsheet or database should enable the user to quickly determine instances where required annual insurance certificates have not been received. In such instances, standard reminder letters should be issued or other action taken as appropriate.

*Condition:* As of June 2006, DPW had no functional spreadsheet or database in use to record and monitor the receipt and review of the annual insurance certificates required in connection with property lease agreements. The Department was unable to provide us with a summary of instances in which the required copies of insurance certificates had not been received for the 2002-2003 and 2003-2004 fiscal years.

We requested copies of the insurance certificates relating to ten specified current leases for the 2002-2003 and 2003-2004 fiscal years. After a period in excess of a month the Department had been able to provide us with copies of only seven of the eighteen certificates required (39 percent). Of these seven, only five (28 percent) satisfied the requirements of the standard lease contract.

*Effect:* The Department's failure to monitor proof of continued insurance coverage in connection with property leases increases the possibility that a lessor's insurance policy might not provide the required coverage, or that the policy might have lapsed and the Department was unaware of it. This could expose the State to potential uninsured liabilities.

*Cause:* The Department told us that the problem arose from understaffing. In addition, the Department may not have given this area sufficient priority.

*Concluding Comments:* Subsequent to the field work portion of this audit, the Department has taken steps to implement a new database and to update

insurance review. We will evaluate implementation during our next review. Accordingly, no recommendation is made at this time.

**CHANGE ORDER ADMINISTRATION:**

*Criteria:* Change orders represent changes to construction contracts. Good business practice requires that change orders are reasonable in nature and cost, are subject to a systematic review by qualified trained staff, are supported by a multi-level approval process and by contemporaneously prepared documentation, and are subject to a quality control or quality assurance program.

Good business practice also requires that policies and procedures relating to the management of change orders be regularly updated and disseminated as required, and that oversight of the change order process be supported by maintaining an adequate information system to analyze and control change order costs.

*Condition:* We judgmentally selected a sample of 29 change orders from ten construction projects. The scope of our review was limited initially to twenty four change orders from eight construction projects because we experienced a delay of more than five months before being provided with documentation relating to four of the five “outstanding” change orders from two projects, despite repeated requests. As of June 30, 2006, DPW has been unable to provide us with documentation relating to the 29<sup>th</sup> change order.

Our review of 28 change orders noted 12 instances where the change order documentation provided was not adequate to fully support an item of cost on a change order. These deficiencies varied in magnitude individually from less than a thousand dollars to more than eighty thousand dollars, and totaled \$293,141 which represents twelve percent of the 28 change orders.

Our review of 28 change orders also noted four instances in which change orders appear to have been wrongly designated as “Job Condition” when a designation as “Document Deficiency” might have been more appropriate. The correct designation of change orders is important because designation as a “Document Deficiency” might support a financial claim being made by the State, whereas designation as “Job Condition” might support a financial claim being made against the State. In addition, from a procedural perspective, it should be noted that the three different designation types have different level of authorization requirements. Document Deficiencies, for instance, require the signatory authorization of the Administrator of Client Teams. The use of an incorrect designation can lead to lessened oversight by the Department’s management.



We noted five instances where a change order for more than \$100,000 appears to have been authorized for the Department solely by a Project's Manager's signature. Department procedures required in addition the signature of the Administrator of Client Teams in these instances. We also noted four instances where a change order for more than \$25,000 (but less than \$100,000) appears to have been authorized for the Department solely by a Project's Manager's signature. Department procedures required in addition the signature of a Supervising Project Manager in these instances.

We noted seven instances in which the documentation provided to us did not include the Change Order Transmittal form. This form provides essential information, including evidence that the change order documentation had been reviewed by a Construction Administrator where appropriate, and indicates the change order designation.

In addition to the problems associated with the change orders tested in our sample, we reviewed another situation in which a change order of \$768,669 was processed as part of a final close-out payment of \$800,000. The Department's procedures requires that a change order of this magnitude needs to be approved by the Department's Administrator of Client Teams before the documentation is forwarded to the accounting unit for processing. However, despite the lack of such approval, the close-out payment, which included the change order, was made.

The Agency did not have a current Policy and Procedures guide for the management of change orders during the audited period, nor did it have a formal change order quality control or quality assurance program. (However, we are informed that as of June 2006, a draft guide has been produced and is being reviewed internally prior to issuance.)

*Effect:*

The comparatively large number of instances noted where the documentation and authorizing signatures required to support change orders was insufficient increases the possibility that errors or even irregularities may have occurred and gone undetected.

A large change order expenditure was made without the requisite prior authorization. As required by Section 2-90 of the General Statutes, we reported this unauthorized expenditure of State funds to the Governor on March 23, 2004.

*Cause:*

Due in part to limitations in staffing and funding, in recent years the Department has not been able to provide the level of resources that the oversight of construction change orders merits.

In regards to the large change order expenditure, it appears that in an effort to give a high priority to that payment certain important controls were overlooked.

*Recommendation:* The Department needs to improve the management and the oversight of construction change orders. (See Recommendation number 3.)

*Agency's Response:* "The Department has developed, as of September 1, 2006, a Change Order Manual establishing the policies and procedures governing change order processing and approval and the document requirements in support of the change.

Regarding the early release of final payment including a large change order that did not follow the required approval process, as the Auditors note, the situation was the subject of a letter to the Governor. The Department responded fully to the situation and took appropriate action to minimize future unsubstantiated release of payments to vendors."

**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 (Plan.)

*Criteria:* Section 4b-23, subsection (a), of the General Statutes requires that "Each agency and department shall...establish a plan for its long range facility needs and submit ...to the Secretary of the Office of Policy and Management, and a copy thereof to the Commissioner of Public Works...."

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 plans and requests submitted pursuant to subsection (a) of this section 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 the maintenance, improvement and replacement of State facilities."

Section 4b-23, subsection (l), of the General Statutes requires that when the space to be leased or the forecast cost of a project exceeds the square footage amount or the cost level in the approved Plan by ten percent or more, 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.”

*Condition:*

The Department has not been provided with an opportunity to review the proposed Plan, 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 reviewing agencies’ requests.

We reviewed twelve agency requests for leased space. In six instances leased space had been included in the Plan. In all these six instances the square feet requested exceeded the Plan square footage by more than ten percent. In total, the Plan square footage for these six spaces was 67,228 square feet. The approved requests totaled 116,145 square feet which is 73 percent over Plan. In none of these six instances was approval sought from the State Bond Commission or the Governor.

Also, DPW hasn’t requested the approval of the State Properties Review Board (SPRB) when the forecast 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 two cases, we noted that DPW presented a project to the Bond Commission that exceeded ten percent of both the cost budget and project square footage in the Plan. In neither case was State Properties Review Board approval sought. It should be noted that effective July 1, 2005, OPM no longer includes capital (construction) projects in the State Facility Plan. The Plan, after that date, consists primarily of leases only.

*Cause:*

DPW’s failure to review proposed State Facility Plan submissions appears to be the result of OPM’s instituting an electronic filing system. State agencies electronically file their plans directly to OPM. OPM, apparently because of time limitations, prepares the Plan without getting DPW’s input. DPW can’t access the electronic filing system to review agency’ submissions.

It is not clear why the DPW has still not established procedures for obtaining all required approvals before proceeding with lease projects or construction projects whose square footage or costs are ten percent or more than the amounts listed in the State Facility Plan.

*Effect:*

DPW has not been 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 cost 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 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 with the approved State Facility Plan and to obtain approvals (from the State Bond Commission, the Governor, and the State Properties Review Board) for certain deviations from the Plan. (See Recommendation 4.)

*Agency Response:* “The Auditors note that DPW does not obtain (1) State Bond Commission approval when square footage exceeds the Facility and Capital Plan (FACCAP) – the State Plan by 10 percent; and, (2) SPRB approval when the forecast cost to complete a project exceeds the plan by more than the 10 percent. This is a misinterpretation of the intent of this statute as it pertains to Leases and Capital Construction projects.

DPW does not receive Bond Funds for Leases. Any lease over 10 percent is approved by OPM via the Emergency Certification Request (ECR) form and by OPM and SPRB again via final Lease approval. Leases cap the amount allowed for Tenant Improvement. Also, per OPM, FACCAP pertains only to leases, so we are only reviewing lease space requests by Agencies. OPM is now sending those over to us when they receive them from the agencies.

For capital projects, OPM, the Governor and the Bond Commission approve, through the normal procedures of a Bond Commission request, projects that exceed the original plan. The SPRB is not a “party of cognizance” for capital construction projects, as such plays no role in the approval of a construction project, except to the extent that the SPRB approves design consultant contracts, design-build contracts and amendments to those contracts.

The Auditors note that DPW does not have established procedures for obtaining all required approvals before proceeding with lease projects. There are very explicit procedures. OPM will not sign off on anything that is not included in or exceeds FACCAP without a New/Expanded Space Request Form or an ECR, as well as the Request for Space (RFS). The six instances of non-compliance noted by the Auditors did follow the proper approval path as required in the RFS and ECR procedure.”

*Auditor's Concluding*

*Comments:*

DPW's response lists a number of examples of approvals that are obtained for leases and capital projects. However none of its examples pertain to our findings, which are that:

1. When space to be leased exceeds the square footage amount in the approved plan by ten percent or more, the approvals of the State Bond Commission and the Governor were not obtained as required by Section 4b-23.
2. When the forecast cost to complete approved capital projects or the square footage amounts of capital projects exceeded the levels of the approved plan by ten percent or more, the approval of State Property Review Board was not obtained as explicitly required by Section 4b-23.

**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 (SPRB), adopt regulations regarding State leasing of offices, space or other facilities. The regulations are to set forth the procedures that DPW, OPM and SPRB 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 2006, the required Regulations had not been finalized.

*Cause:*

DPW informed us that, as of June 2006, 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:*

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 5.)

*Agency Response:* “The Department is in the process of completing the required regulations.”

## **CAPITAL PROJECTS – PROJECT TRACKING:**

*Background:* DPW’s computerized Project Tracking Application (PTA) was “...designed to assist the 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 25<sup>th</sup> of each month. The goal is to use and update the system in real time....”

In order for the project tracking application to be of value, it is necessary that its data base be reasonably complete and up-to-date as new transactions and events occur.

*Condition:* In 27 of 30 instances examined there was a variance of at least \$100,000 between project construction costs paid as per the July 2005 PTA data base, and the corresponding data per the fiscal unit. In eleven of these instances the variance exceeded one million dollars. In twelve of these instances the variance exceeded 50 percent. Nine of ten Project Managers associated with these projects told us that the reason for the variance was that, for a variety of reasons, they had not kept the PTA data base up-to-date.

A DPW “Missing Data Report” dated August 2005, noted 38 instances of missing data (reflecting deficiencies in records relating to seven data base fields.) This is a considerable improvement over the results of a November 2003 report that noted 217 instances. However, it should be noted that these reports do not address errors in cumulative data or illogical data, which numerically are more numerous than incidents of missing data. For example, our review of the August 2005 PTA data base noted 42 instances where a date was given for “substantial completion” but the “% construction completed” field was less than 95 percent which is the cut-off point for substantial completion. Indeed, in 26 of the 42 instances the “% construction completed” field was given as 0 percent. We also noted seven cases where the “% total construction completed” field was 95 percent or more, but the “% paid” field was given as 0 percent. We also noted twelve instances with “% paid” fields reading from 45 percent up to 100 percent where a “SOV Approval Date” was not given. An approved Statement of Values (SOV) is required before construction costs can be approved for payment.

*Effect:* During the period under review the PTA data base was not sufficiently up-to-date to provide the information required to enable project managers and their management to track construction work in progress and closed out construction projects.

*Cause:* For a variety of reasons Project Managers are not entering the data required into the PTA data base 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 6.)

*Agency Response:* “From the current Project Tracking System User Manual: “The Project Tracking application has been designed to assist the 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.” And further, “The Tracking System Reports are used as part of the Bureau of Design and Construction Capital Projects Management and oversight. The Supervising Project Managers may use the reports for general workload reviews. The Deputy Commissioner’s secretaries use the summary reports to direct outside agency and contractor inquires to the projects assigned to a Project Manager. DPW Financial uses summary reports at several times each year to cross check DPW projects with their financial reports to the Comptroller. There are several important summaries that are used in preparing the year end DPW reports for the SPRB and the State Legislature.”

Since the Project Tracking Application was implemented in 2000, for reasons similar to the predecessor tracking application, it has not functioned as the project management tool initially envisioned. 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. The tracking system provides point-in-time information which forms the basis for development of more detailed reports as noted above. The Department has instituted a Project Financials Workbook (Excel worksheets) to track the critical information regarding the financial status of each project.”

*Auditor’s Concluding*

*Comments:* DPW indicates that the primary use of the tracking system is to provide an overview of the work in progress. This can only be achieved by having accurate, timely data entered on a consistent basis.

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

*Criteria:* Section 3-21d of the General Statutes mandates that with effect from 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 DPW’s Annual Reports to the State Properties Review Board for fiscal year 2002-2003, the Department completed 59 public works construction projects at a cost of \$134,175,052, and for fiscal year 2003-2004, the Department completed 30 public works construction projects at a cost of \$148,931,712. DPW is responsible for accounting for these projects. However, it has not reported to the secretary of the State Bond Commission the data required by statute relating to these 89 projects. Furthermore, the related data on an annual basis was not presented to the requisite joint standing committee of the General Assembly.

*Cause:* DPW has no formal policies or procedures addressing compliance with Section 3-21d of the General Statutes.

*Effect:* DPW 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 7.)

*Agency Response:* “The Department acknowledges its lack of reporting on closed projects and will comply with the requirements of Section 3-21d.”

**ANNUAL REPORT TO THE STATE PROPERTIES REVIEW BOARD:**

*Criteria:* Subsection (a) of 4b-2 of the General Statutes requires the Commissioner of the Department of Public Works to submit a report to the State Properties Review Board (Board) on September first annually “which shall include all pertinent data on his operations 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 ...”

Pursuant to the State of Connecticut 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:* In the Department’s annual reports to the Board, the costs reported under “Section G Public Works Projects Completed” as supported by “Schedule G Construction Projects Completed” reflect only amounts paid to construction contractors. Ancillary costs paid for Architects, Engineers, and Construction Managers were not included. In fiscal 2003, ancillary costs exceeded eleven million dollars, and in fiscal 2004, they exceeded five million dollars.

*Effect:* 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 legislators 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. The Asset Value Memoranda compiled by the Project Accounting Unit are also of value.)

*Recommendation:* The Department should improve the completeness of its annual reporting of closed project cost data to the State Properties Review Board by including ancillary cost data. (See Recommendation 8.)

*Agency Response:* “The annual report filed for fiscal year 2006 activity included additional information as noted in the recommendation. However, the annual report is not a financial report and is not represented as such. The Department questions the relevance of Generally Accepted Accounting Principles in the development of the annual report to the SPRB. The report is intended to provide information regarding the activities of the Department. Asset value information is a function of the State’s Core-CT financial system including the Asset Management module.”

*Auditor’s Concluding  
Comments:*

Subsection (a) of Section 4b-2 of the General Statutes requires, in part, an annual report to the Board, “which shall include all pertinent data”. We believe that accurate cost figures of capital projects are important and pertinent data. Moreover, subsection (c) of that statute requires DPW’s commissioner to “Keep and maintain proper financial records with respect to real estate acquisition activities for use in calculating the costs of his operations.” The inclusion of this subsection in the Section requiring an annual report on DPW’s operations indicates that the Legislature expects the report to contain appropriate costs figures.

## **CAPITAL PROJECTS REVOLVING FUND:**

### **MANAGEMENT OF THE REVOLVING FUND:**

*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...”.

Section 4-97 of the General Statutes provides that no appropriation is to be used for any other purpose than the express purpose of the appropriation.

The fact that the Legislature established the Revolving Fund (Fund) as a revolving fund means that the Fund was intended to be replenished. That is, Fund charges for projects are to be

reimbursed, to the extent possible, by those projects. All appropriate project costs paid through the Fund should be billed to project accounts.

DPW is responsible for the proper maintenance and accountability of the Fund.

The Revolving Fund incurs payroll related costs for public works projects 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 of June 2006, the Fund had a negative cash balance of approximately two million dollars. The balance of unreimbursed charges receivable (unreimbursed Fund payments) was approximately \$25 million.

One employee's time is not being billed out or included in unfunded charges receivable. Because of an oversight, that employee was not required to fill out Fund timesheets. (The time sheet is used to generate Fund billings and unfunded charges.) That employee's annual pay (including fringe benefits) amounted to approximately \$100,000 as of December 2004.

In addition to that employee's pay, the Fund incurred other costs that are not billed to the benefiting projects. Other unreimbursed costs include employee mileage reimbursements (\$40,115 in the 2004-2005 fiscal year) and overtime (\$11,006 in the 2004-2005 fiscal year.)

During the audited period, two Property Management Division employees who worked almost exclusively on General Fund duties were paid from the Fund. Their costs have been reimbursed by the General Fund's Facility Design Expenses Appropriation. Their duties do not involve facility designs. Accordingly, their salaries should be charged to the General Fund's Personal Services Appropriation and not the specific appropriation for facility design expenses. As of December 2004, their annual salary and fringe benefits totaled approximately \$250,000.

The General Fund's Facility Design Expense Appropriation reimburses the Fund for work done by billable employees that are administrative in nature and are not charged to a particular project. However, General Fund reimbursements are not applied as reductions to the receivable balance when collected. This is because a procedure to apply these collections was, inadvertently,

never established. During fiscal year 2003-2004, approximately \$1.6 million was billed to and collected from that General Fund appropriation. However, that collection did not reduce the unfunded charges receivable balance. The total unfunded charges receivable for administrative billings, as of March 2006, amounted to approximately \$10.5 million. It appears that all of or a large portion of that figure should not continue to be included as a receivable of the Fund.

There was a pattern of late billings for projects financed by other State and quasi-public agencies. For instance, we noted examples of billings over six months after the transaction period.

*Effect:*

Project expenses were understated by the fact that certain project related costs paid by the Fund were not billed to the project accounts.

Accounting data (for instance, the total of unfunded charges receivable) for the Fund are inaccurate. Accurate account information is necessary to make policy decisions.

Expenditures were borne by the Fund that should have been borne by the General Fund or by Capital Project Funds. This is a misuse of Fund resources.

Salary costs were charged to the wrong General Fund appropriation. As noted above, this is a violation of Section 4-97 of the General Statutes.

The failure to bill all project costs to applicable projects results in an increase of the Fund deficit and/or additional General Fund subsidies to cover the deficit.

It should be noted that effective July 2006, DPW transferred the employees inappropriately charged to the Revolving Fund to the General Fund. However, other aspects discussed above continue.

*Cause:*

DPW failed to adequately account for Fund transactions. For instance, in prior audits we recommended that DPW regularly reconcile the Fund's unreimbursed charges receivable to project billings and receipts. If that were done, some of these problems could have been revealed.

*Recommendation:*

The Department should improve its administration of the Public Works Capital Projects Revolving Fund. All project costs and, when applicable, the applicable General Fund appropriation should be billed. Billings for projects financed by other State and quasi-public agencies should be processed in a timely manner. Also, all applicable collections should be credited to the unfunded charges

receivable balance. In addition, The Department should regularly reconcile the Fund's unreimbursed charges receivable to project billings and receipts. (See Recommendation 9.)

*Agency Response:*

“The Auditor’s have raised a number of issues relative to the management of the fund – (a) a project management employee charged to the Revolving fund not submitting timesheets and recovering salary from projects; (b) several positions assigned to other divisions of the department not properly paid from the Personal Services Appropriation to the DPW; (c) other employee costs charged to the revolving fund not recovered from projects.

With respect to (a) and (c) above, the department semiannually reviews the expenses of the fund against its current billing rate to determine the adequacy of the current rate to fully recover the anticipated costs of the program for the fiscal year. In this review, items of cost not previously identified in the rate structure are captured and built into the rate for the remainder of the fiscal year to ensure full cost recovery. Additionally, any un-recovered costs will eventually be written off (i.e. charged against) the General Fund subsidy that is appropriated for that purpose. The costs identified by the Auditors are ultimately recovered and do not represent a significant understatement of project cost either in total or against the individual projects. With respect to (b), the employees identified were each properly hired and paid as revolving fund employees to perform project work on capital construction projects administered by the DPW. Over time each was placed on temporary assignment in other areas of the DPW to provide the technical skill to that area of the department. The Department carries a General Fund Appropriation (Design and Construction Subsidy account) to cover revolving fund employee costs when they are not working on funded capital projects. These employees were recovered from that fund as is the procedure of the department and the intent of the appropriation. These employees have been made permanent in the other areas of the Department and, as a result, their positions transferred to the Personal Services Appropriation as of July 1, 2006.

The Auditor’s reference to the condition of the “unfunded balance report” is accurate. However, information at the project level remains accurate as to the amount outstanding from each project. The department is systematically writing-off these balances as we close projects and return unexpended funds to each bond fund.

Late billings for project time/payroll charges are caused in part by system failures due to the age of the applications and the lack of support for the hardware the applications reside on. High reliance

on manual activities is also a cause of late billings.

A Core-CT solution is currently scheduled for implementation in July 2007 that will reduce the amount of manual intervention required to prepare billings, post the accounting entries and update the amount due from projects.”

*Auditor’s Concluding  
Comments:*

DPW has a mechanism to bill certain Fund expenses not directly allocated to projects. Expenses such as the fringe benefit cost of employees, longevity payments and accumulated leave payment at retirement are billed to projects as part of an “overhead rate”. However, other Fund expenses such as overtime and mileage reimbursements are not billed to projects via the overhead rate. Moreover, these costs could be direct project costs and, if that is the case, should be charged directly to the applicable projects.

The project manager employee, who did not submit time sheets and whose salary was not billed to projects or included in unfunded charges receivable, works in the Property Management Unit, not the Design and Construction Unit. Despite this, he informed us that he works most of his time on capital projects related activities. His salary should be charged directly to the projects he works on. His salary was not reimbursed by the General Fund’s “Facility Design Expenses” appropriation nor charged to the General Fund’s “Personal Services” appropriation. It is true that his salary is recoverable as part of the overhead rate charged to billable projects. However, that just means that the billable projects are overcharged by the amount of his salary. If he worked on specific billable projects, his salary should be charged to those projects. His salary for time not worked on billable projects should be charged to the General Fund’s Facility Design Expenses appropriation if they involve capital projects related activities. If they don’t, his salary should be charged to the General Fund’s “Personal Services” appropriation. The fact that any unrecoverable cost may at some future time be reimbursed by a General Fund subsidy is not relevant. The cost should be charged against the applicable appropriation or project on a current basis and not left for a possible future appropriation of a General Fund subsidy by the State Legislature.

The Property Management Unit employees whose salaries were reimbursed by the General Fund’s Facility Design Expenses appropriation informed us that they either did not work at all or only occasionally worked on construction projects. As employees of the Property Management Unit, their salaries are more appropriately directly charged to the General Fund’s Personal Services appropriation. According to information on file at the Office of Policy and Management, the Facility Design Expenses

appropriation is ... “used to provide support services to state agencies for their construction projects.” It is true that Revolving Fund (Design and Construction) employees provide technical services to the various State agencies including other units of DPW. However, invariably, the technical assistance involves short term assistance amounting to one to four hours concerning technical architectural, engineering or construction issues. The transfer of employees to serve in the Property Management Unit for a number of years to perform property management functions does not constitute temporary technical assistance. As stated above, the purpose of the Revolving Fund is to finance the costs associated with capital projects. It is inappropriate to use the Revolving Fund for property management salaries. Salaries of property management employees should be charged to the Personal Services Appropriation of the General Fund.

**REVOLVING FUND – FINANCIAL REPORTING SYSTEM:**

*Criteria:* DPW’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 consists 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-CT 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:* DPW concurred with our prior audit recommendation to develop and implement system improvements that would provide a more reliable platform with less dependence on manual processes but were unable to proceed at that time due to the lack of appropriate Core-CT functionality. We understand that the appropriate functionality is now available and DPW hopes to have incorporated it before the end of the 2007 calendar year.

*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 10.)

*Agency Response:* “The Department in general agrees with the recommendation. Core-CT modules are currently scheduled for implementation in July 2007 that will replace the existing legacy applications and reduce the reliance on manual operations and the potential errors associated with manual operations. We would note that the legacy applications, while old and subject to breakdowns, in general function in the manner originally intended.”

## **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 a requirement for the timely reporting of construction cost data to State Agency clients who are responsible for the reporting of those assets as items of inventory.

According to generally accepted accounting principles (GAAP), expenditures for new buildings and building additions should be capitalized (added to the inventory of capital assets) but repairs should be expensed in the year in which they occur. Detailed documentation is needed to support the determination as to which costs should be capitalized and which should be expensed.

When a State agency construction project is sufficiently complete to allow the facility to be occupied and/or used, a Certificate of Substantial Completion (DPW Form 781) is issued. To provide the State agency with cost data for inventory purposes, an



“Insurance Notification/Transfer Form” (DPW Form 784) should be prepared and sent to the occupying agency, State Comptroller and State Insurance Risk Management Board.

The State “Property Control 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 capitalizable additions to buildings.

*Condition:*

DPW reports project costs at three major landmarks in a project’s life. These are the issuance of an “Insurance Notification/Transfer Form”, the issuance of a “Certificate of Completion”, and a “Project Accounting Closeout.” The “Insurance Notification Transfer Form” gives an estimate of the construction costs for the prime contractor only. Other cost elements such as design costs, hazardous material removal costs, costs for construction not performed by the prime contractor, and, allocated DPW labor costs, are not included. Such omitted costs are often material. Agencies that rely solely upon “Insurance Notification Transfer Form” cost data for annual inventory reporting are underreporting the cost of its buildings.

The full cost of a construction project is provided in connection with the issuance of a Certificate of Completion. However, we were told that a Certificate of Completion might not be issued until a year after the issuance of a Certificate of Substantial Completion, and in cases involving litigation, the time period could be much longer. This means that any initial CO-59 underreporting of additions to buildings at the substantial completion stage might not be corrected for two or more years in extreme cases. As a result, State buildings on the State’s inventory were underreported by approximately 36 million dollars on June 30, 2003, and by approximately nine million dollars as of June 30, 2004.

In addition, the Insurance Notification/Transfer Forms and the Certificates of Completion cost data provided to State agencies give a single dollar figure and do not provide the breakdown required to determine which cost elements should be capitalized and which should be expensed.

*Cause:*

DPW’s procedures do not call for a sufficiently comprehensive or timely accounting of facility project costs to be provided to client agencies until a certificate of completion is issued, and even then it does not require that data be presented to distinguish between project costs that should be capitalized and those that should be expensed.

## *Auditors of Public Accounts*

---

*Effect:* The Department's current procedures for reporting facility project costs to client State agencies can lead to the underreporting of costs and/or material delays in the reporting of costs.

*Recommendation:* The Department should improve its procedures over the timely reporting of facility project costs to client agencies. (See Recommendation 11.)

*Agency Response:* "The Department has taken steps to improve both the timeliness and completeness of information at substantial completion to include a detailed worksheet of the "estimated cost to complete" to assist agencies, as well as the Insurance and Risk Management Board, to identify new/improved assets at the point that the project is turned over to the agency for occupancy. We continue to supply a second portion of information at the point that the construction contract is closed by final payment so that an agency might update its asset information.

The Auditors state DPW procedure "...does not require that data be presented to distinguish between project costs that should be capitalized and those that should be expensed." The DPW respectfully offers that the responsibility for the classification of expenses for the purposes noted by the Auditors rests with the owner agency and their asset management specialists, not the DPW as the constructing agency. We do work with agencies to provide project expenditure detail at a level appropriate to their needs."

### *Auditor's Concluding Comments:*

DPW is responsible for capital project accounting and reporting to client agencies. Capital projects accounting includes the identification of capitalized costs. In the client agencies, it is business office personnel, not asset management specialists, who are responsible for determining capitalized costs for financial reporting. Business office personnel in the client agency might not be that familiar with what is involved in a project. In addition, projects might include both capitalized costs such as additions and non-capitalized costs such as repairs or renovations. Without some form of breakdown by DPW, the client agency might not be able to realistically allocate costs between capitalized and non-capitalized components. In addition, the capitalizations of real assets are reviewed by the State Comptroller's Office to ensure that State financial statements accurately reflect capitalized costs. Personnel in that Office are not familiar with individual projects.

---

**PROCESSING OF OPERATIONS THROUGH FUNDS AWAITING  
DISTRIBUTION:**

*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).

Except as provided by Sections 17a-451d through 17a-451f of the General Statutes, proceeds of real property sales should be promptly deposited as General Fund revenue. Sections 17a-451d, 17a-451e, and 17a-451f, effective July 6, 2001, May 6, 2004, and July 1, 2004, respectively provide that sales of Norwich Hospital and Fairfield Hills Hospital real property are required to be deposited to specific State accounts of the Department of Mental Health and Addiction Services (DMHAS.) DMHAS can make mental health related expenditures from these accounts. However, there is no provision in SAM or in State law for agencies to use FAD to hold any money that properly should be deposited to the General Fund as revenue, or to use FAD to make "off budget" operational expenditures.

*Condition:* Since December 1996, DPW has been depositing real property sales receipts to FAD instead of to the General Fund. It also has been paying related real property expenses out of FAD. Real property receipts, when applicable, should be recorded as General Fund revenue when received. Property sales expenses for these properties should be paid out of funds budgeted or bonded for that purpose. DPW records show that as of June 30, 2005, approximately \$8.2 million of property sales and approximately \$3.4 million of property sales related expenses have been processed through FAD. Of the \$8.2 million in property sales, \$4.1 million was for sales of Fairfield Hills Hospital real property. The \$4.1 million was transferred to DMHAS. This leaves approximately \$700,000 due to the General Fund.

*Cause:* This practice started because there were large unbudgeted revenues and expenditures related to the sale of surplus State property, such as closed State hospitals. Expenditures related to such real estate transactions include legal, consultancy and appraisal fees,

environmental studies and mitigation work. 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 should not use the Funds Awaiting Distribution Fund (FAD) for transacting State property operations. (See Recommendation 12.)

*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."

*Auditor's Concluding Comments:* This improper use of pending receipts (Funds Awaiting Distribution) resulted in that fund receiving millions of dollars that should have been deposited to the General Fund and expending it for the expenses of property sales. DPW has no authority to divert receipts in this way or to make off-budget expenditures or to use pending receipts in this manner.

**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 states in part that "The land, buildings, furnishings and improvements of the Governor's official residence shall be maintained by the Commissioner of Public Works..."

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. In addition a photographic record of Works of Art and Historical Treasures should be kept to assist with any insurance claims.

The State “Property Control Manual” requires that for Works of Art and Historical Treasures “Appraisals for all permanent collection pieces exceeding \$10,000 must be conducted every five (5) years by an expert in the field. Fine art pieces that are close to the threshold should be reviewed prior to the next appraisal period to determine if the item has appreciated in value and would then qualify for an appraisal.”

*Condition:*

DPW provided us with four inventory lists of personal property at the Governor’s Residence that had been prepared in November 2004. These were (a) an inventory of 238 items that were described as being “Conservancy” property, (b) an inventory of 232 items described as “State” property, (c) an inventory of 37 items described as “on-loan fine arts items”, and (d) an inventory of 37 items described as being located in the “Terry Road Guest House.” A review of the first two of these lists revealed that only 263 of 470 “Conservancy” and “State” items were recorded as tagged, and there was only one instance where the purchase price was noted.

Appraisals of Works of Art and Historical Treasures have not been made and photographic records are not kept.

DPW has not provided the State Insurance and Risk Management Board with enough information to ensure that all items of personal property at the Governor’s Residence are adequately covered by insurance.

*Cause:*

DPW has not taken the steps required to establish reasonable controls over the inventory of personal property at the Governor’s Residence, or the additional controls needed in the case of Works of Art and Historical Treasures.

*Effect:*

The records provided to us concerning the inventories of personal property at the Governor’s Residence are incomplete and cannot be relied upon to determine the value of the inventory of personal assets for financial accounting or insurance purposes. Irregularities, such as damage to items or theft, may have occurred and gone undetected.

*Recommendation:* The Department should establish detailed written procedures concerning the management of the inventory records of personal property items at the Governor's Residence. 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 and Risk Management Board to ensure appropriate insurance coverage. (See Recommendation 13.)

*Agency Response:* "The Department has developed in coordination with the implementation of the Core-CT asset management module, updated inventory control procedures that identify the roles and responsibilities."

**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:* DPW's current standard construction contracts have not been approved in writing by the Attorney General. DPW staff and attorneys from the Attorney General's Office have informed us that a number of years ago the Attorney General's Office approved the standard contract form but that approval was never documented.

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 these contract types.

- Effect:* As of June 30, 2004, standard construction contracts that had not been approved in writing as to form by the Attorney General, amounting to at least \$140,000,000 were in force.
- Cause:* According to the Department “Informally the OAG [Office of the 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.” However, as noted above, this approval was not documented. Once a standard form contract is approved any changes to that contract must be approved by the Attorney General.
- Recommendation:* The Department should establish procedures to require that all versions of contracts, including standard construction contracts, are formally approved in writing as to form by the Attorney General before they are put into use. (See Recommendation 14.)
- Agency Response:* “The Department is working with the Office of the Attorney General to gain formal approval of its construction contract as a “Standard Form Agreement” not requiring individual contract approval-as-to-form except in cases where the standard form is modified.”

#### **COST AND INSURANCE REPORTING OF REAL PROPERTY:**

- Criteria:* The State’s Property Control Manual, as authorized by Section 4-36 of the General Statutes, states that “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.”
- When a State agency building construction project is sufficiently complete to allow its occupancy, a certificate of substantial completion is issued. To provide the State agency with preliminary cost data for inventory purposes, and where applicable, to notify the State Insurance Risk Management Board (SIRMB), an “Insurance Notification/Transfer Letter” should be 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 90 days of occupancy or the carrier could refuse to cover any losses that might have occurred before notification.
- Condition:* A Temporary Certificate of Occupancy for the Stamford Courthouse was issued on July 22, 2002. The project cost at that time was approximately \$78,000,000 of which approximately

\$60,000,000 was for construction costs. The Judicial Department occupied the Courthouse in August 2002. An “Insurance Notification/Transfer Letter” was not issued by the Department until June, 2003. The Insurance Company was informed in August, 2003, some nine months after the ninety day reporting deadline had ended.

A Certificate of Substantial Completion for the Western Connecticut State University New Science Building was issued in June 2005. The project’s cost at that time was approximately \$31,000,000. An “Insurance Notification/Transfer Letter” appears to have been also issued in June 2005, but copies appear not to have been sent to the State Insurance Risk Management Board, or the Office of the State Comptroller. The Insurance Company was finally informed in February 2006, approximately six months after the ninety day reporting deadline had ended.

Several other instances where Insurance Notification/Transfer Letters were issued several months after the ninety day reporting deadline had ended came to our attention. They were associated with construction projects costing less than \$25,000,000 and therefore insurance coverage does not appear to be an issue. However, such delays can lead to under reporting the value of the State’s Real property on the annual CO-59 Fixed Asset report, and over reporting the value of Construction in Progress on the State’s GAAP reports.

*Effect:* Two major State facilities each constructed at a cost well in excess of \$25,000,000 were not adequately covered by insurance for up to nine months. Real property may have been understated on the annual CO-59 fixed asset reports and overstated, as Construction in Progress, on the State’s GAAP reports.

*Cause:* Procedures requiring that Insurance Notification/Transfer Letters are issued with, or shortly after, the issuance of Certificates of Substantial Completion, appear to be lacking.

*Recommendation:* Procedures requiring that Insurance Notification/Transfer Letters are issued and distributed, with, or shortly after, the issuance of Certificates of Substantial Completion should be put in place. (See Recommendation 15.)

*Agency Response:* “The procedure recommended by the Auditors has been put in place.”



**COMPLIANCE WITH THE STATUTORY REQUIREMENT TO REVIEW GENERAL CONTRACTORS' SUBCONTRACTS:**

- Background* Section 4b-95 of the General Statutes deals with general bid form requirements and the general contractor's use of subcontractors. Subsection (a) requires the awarding authority to furnish potential applicants with general bid forms. Subsection (b) stipulates the information and provisions to be contained in the general bid form. Subsection (c) requires that general bids be for the complete work as specified, and shall include the names of the subcontractors, and the dollar amount of each subcontractor contract. Subsection (d) requires that "Failure to correctly state a subcontractor's price shall be cause for rejection of the general bidder's bid."
- Criteria:* Subsection (e) of Section 4b-95 requires the contract awarding authority to periodically review the general contractor's subcontracts to insure compliance with statutory provisions, "...and shall after each such review prepare a written report setting forth its findings and conclusions."
- 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 statutory provisions and does not prepare written reports setting forth its findings and conclusions.
- Effect:* The Department is not in compliance with the requirements of Subsection (e) of Section 4b-95 of the General Statutes as it relates to the DPW's responsibility for reviewing general contractors subcontracts.
- Cause:* The DPW does not have staff specifically responsible for issues relating to contract compliance. As a result contract compliance issues can receive too little priority.
- Recommendation:* The Department should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to DPW's responsibility for reviewing general contractor's subcontracts. (See Recommendation 16.)
- Agency Response:* The Department is in full compliance with the requirements of Section 4b-95, subsection (e). The Auditors have interpreted Subsection (e) to require periodic reviews of subcontracts over the life of the construction project. This interpretation is incorrect, subsection (e) requires only that the department periodically review subcontract agreements to determine that the specific

criteria stated in subsection (b) have been met by the contractor. Those criteria are that, for the named subcontractors required under Section 4b-93 the general contractor has employed the contractors named in his bid, at the amounts listed in his bid and by the timelines specified. The DPW has chosen rather than perform the review periodically, to perform this review of subcontracts for every contract award in excess of \$500,000 requiring the listing of subcontractors according to Section 4b-93”.

*Auditor’s Concluding  
Comments:*

Subsection (e) of Section 4b-95 requires the Department to periodically review the general contractor’s subcontracts for compliance with all of Section 4b-95 subsections not just subsection (b). Subsection (c), for instance prohibits the contractor’s substitution of subcontracts except for “good cause” and with DPW’s permission. Reviews restricted to a single “up front” examination at the contract initiation stage exclude a review of subsequent subcontract substitutions and fail to meet Section 4b-95 requirements.

Moreover, subsection (e) requires the Department to prepare a written report of its reviews “setting forth its findings and conclusions.” The Department failed to prepare written reports. Therefore, the Department has not documented that it did the reviews and what specific criteria were included in the reviews.

**PROBLEMS ASSOCIATED WITH CONSTRUCTION PROJECTS CARRIED OUT AT THE AMERICAN SCHOOL FOR THE DEAF:**

*Criteria:*

Section 4-98 of the General Statutes states in part that “...no budgeted agency ...shall incur any obligation by order, contract or otherwise, except by the issue of a purchase order.”

Good business practice and Department practice requires that project managers review and maintain copies of important documents relating to the bidding and awarding of contracts.

Good business practice requires that construction projects be closely supervised to minimize delays and to control costs.

The Department’s Project Tracking User System was designed “...to assist...in tracking...construction projects managed by the Department...”

In December 2000, on one authorization, the Bond Commission approved bonding of \$1,965,000 for three projects at the American School for the Deaf (“School”.) Of this amount, \$250,000 was earmarked for “Construction of Additional Parking areas.”

*Condition:* Work costing in excess of \$100,000 was undertaken on the parking construction project before a purchase order was issued.

The Department was unable to provide us with copies of bidding documents or definitive evidence that there was a public bid opening.

The contractor's bid indicated that it was based on a 180 day contract period. Although work started in March 2002, it had not been completed by May 2003, when the Department terminated the contract. Another contractor was hired to complete the project.

The project was one of a number of projects managed by the Department at the School that was not on the Department's Project Tracking User System.

A cost of almost \$400,000 was incurred against the parking construction project for which only \$250,000 had been earmarked by the Bond Commission. The applicable bond authorization had earmarked funds for a number of projects. DPW didn't have budgetary controls at the individual project level when the Bond Commission approved a number of projects on one Bond Commission authorization.

*Cause:* Control procedures were either lacking or not followed.

*Effect:* The Department was non-compliant with Section 4-98 of the General Statutes (discussed above) and was not in keeping with required practices concerning document management, cost control, project tracking and bond authorization earmarking.

*Recommendation:* With regard to its management of construction projects at the American School for the Deaf, the Department should comply with the requirements of Section 4-98 of the General Statutes (commitment of funds) and improve its controls in the areas of document management, cost control, project tracking and bond authorization earmarking. (See Recommendation 17.)

*Agency Response:* "The Auditors have identified three areas of concern with respect to projects undertaken at the American School for the Deaf.

- Compliance with Section 4-98, obligations incurred by order, contract or otherwise, except by the issue of a Purchase Order – The Department is in full compliance, all obligations are encumbered by a purchase order. Contractors are advised throughout the bidding process that no work may commence until a purchase order has been issued. A contractor who is compelled

to work prior to the issuance of a purchase order does so at his risk. Under current practice each contractor is provided notice of the contract award and given a separate notice to commence the work.

- Lack of bid documents – during the audit period, the DPW had a business process that allowed bidding on projects valued at less than \$500,000 by technical units of the department to conduct the bid process and recommend award to the low bidder. Since the change in DPW administration in September 2003, all construction bidding activity has been centralized in the Department’s procurement division to ensure a consistent application of the bid laws, procedures and standards. This change has eliminated any perception of inappropriate bidding by units of the DPW.

- Inadequate controls at the individual project level when the Bond Commission approved a number of projects on a single Bond Commission item – the DPW has taken steps to segregate individual project amounts allocated by the Bond Commission when multiple small projects are approved on the same item. In the case of the ASD project mentioned by the Auditor, the project was properly approved by the Bond Commission along with other projects for the campus of the ASD. The amount approved was based on an estimate of the overall project cost prior to bidding. The amount awarded exceeded the budget approved by the Bond Commission. It was the department’s determination that other previously allocated funds for general “master plan implementation” were appropriate to finance the amount in excess of the amount in the original approved bond item. All expenditures were in accord with the language of the authorization of the legislature and in the opinion of the DPW, in accord with the allocation of the Bond Commission.”

*Auditor’s Concluding  
Comments:*

According to the applicable project manager, the bid opening for the parking construction project was held on August 27, 2001, but the work could not start at that time because of the threat of inclement weather before completion. The manager also noted that the School asked for the work to be completed in the spring and summer of 2002. The Contractor started work in March 2002 but DPW did not issue the purchase order until June 2002. If the work was required to be done by the spring or summer of 2002 and the bid was accepted as early as August 2001, why did DPW wait until June 2002 to issue the purchase order? Aside from the requirements of Section 4-98, the delay was not a good business practice. The contractor later filed a claim against DPW. One of the issues in the claim was that the failure to issue the purchase order in a timely manner delayed payments to the contractor. But

even if it is the case that a contractor who does work prior to the issuance of a purchase order does so at his or her risk, it still is inappropriate to delay the issuance of purchase orders until after a contractor has performed work.

**THE USE OF SPECIALTY CONTRACTORS ON THE STAMFORD COURTHOUSE CONSTRUCTION PROJECT:**

- Criteria:* Under subsection 18 of Public Act 96-235, Sections 4b-98 through 4b-99 of the Connecticut General Statutes were repealed effective June 6, 1996. Those sections had authorized the Department to hire specialty prime contractors such as electricians, painters and roofers rather than hiring a general contractor who would be responsible for any subcontracting.
- Condition:* The Stamford Courthouse Construction project was funded and contracted out in phases. The Department did not employ a General Contractor. From December 1997 through December 2000, the Department entered into five specialty construction contracts valued in excess of \$44,000,000. Payments to at least one of these specialty contractors continued until May 2004.
- Cause:* We did not determine a cause for the apparently inappropriate use of specialty construction contractors.
- Effect:* The combination of phased construction and the use of a number of specialty construction contractors apparently lead to delays, cost overruns, coordination problems and “finger pointing” between the contractors. We were informed that this project should have taken three years to complete but took ten years to complete. The delays resulted in payments of contractor’s claims of over four million dollars.
- Conclusion:* We were informed by the Department that they no longer use specialty construction contracts. No evidence came to our attention during this audit to cause us to challenge this assertion. Accordingly, a recommendation does not appear to be necessary at this time.

**THE ABSENCE OF AN ARCHITECT’S SIGNATURE ON PAYMENT CERTIFICATES:**

- Criteria:* Subsection (3) of Section 20-288 of the General Statutes provides that the “practice of architecture” includes “contract administration

of building construction or any other service in conjunction with the designing or contract administration of building construction.”

DPW requires its construction contractor to use a standard billing form. That form has an “Architect’s Certificate of Payment” section. In that section, the architect signs to certify the accuracy of the billings, or the architect can certify to a decreased payment. This is a crucial control mechanism that insures that the work was done and that it agrees to the architectural plans.

*Condition:*

DPW made construction payments on billings that lacked an architect’s signed certification.

In September 2005, a DPW administrator issued an internal memo that noted “some PM’s [project managers] have taken it upon themselves to sign-off where the A/E [architect/engineer] is obligated to sign, due to whatever condition. Understand that this is a legal obligation they have to attest to the fact that the issue has been reviewed and approved or approved as noted or disapproved. We cannot undertake this responsibility.” The memo further notes that if, for some reason, the architect will not certify; the project manager should bring that fact to the attention of the Design and Construction Unit management.

Section 01027 of the General Requirements of DPW’s standard contract with construction contractors provides that “Each Application for Payment shall be consistent with previous applications and payments as certified by the Architect and Construction Administrator and paid for by the Owner.” However, the standard architect’s contracts do not require the architect to certify or even approve contractor’s billings. Instead, the contracts only require the architect to “review and return” payment applications within three working days.

*Effect:*

The failure to obtain the architect’s certification on payment applications weakens internal control and could result in overpayments.

Architect’s contracts do not specify the requirement to certify contractor’s payment applications even though this clearly is a DPW requirement.

*Cause:*

One project manager indicated that he didn’t have the architect certify bills to save time and expedite payments. Another indicated that he didn’t realize that the architect was required to certify construction billings. Both indicated that the architect approved those payments. However, the certification’s absence resulted in the architect’s approval being undocumented. In other

cases, the construction project was delayed and DPW's contract with the architect expired.

*Recommendation:* The Department should not pay construction bills absent an architect's signed certification unless the absence is explained and approved by a manager of the Design and Construction Unit. Also, DPW's standard contracts for architectural services should be revised to include the requirement that architects approve and certify construction billings. (See Recommendation 18.)

*Agency Response:* "The Department agrees that contractor partial payment requisitions should not be processed without the certification of the Architect unless authorized by appropriate DPW management. The Department will review the adequacy of its standard contracts with respect to the consultant's requirement to certify and recommend contractors payments during construction. It should be noted that consultants may only recommend, only the Department may approve payment to a contractor."

#### **CONSTRUCTION PREPAYMENT:**

*Criteria:* DPW is responsible to prudently spend State money in its control. For instance, construction payments should not be made prior to the construction work being performed.

*Condition:* DPW signed a "design/build" development agreement with a contractor to design and construct a court building. The agreement price of \$29,509,145 was to be paid based on a payment schedule. This was a departure from DPW's usual procedures of making payments based on work completed.

DPW continued to make monthly payments based on the payment schedule even after construction was halted because of unforeseen environmental problems that resulted in extra costs. The project's budget did not have sufficient funds for these extra costs. Total payments of \$8,320,336 were made to the contractor before DPW stopped making monthly payments. The contract was subsequently cancelled because of legal and ethical questions about that developer. DPW hired a claims examiner to review the developer's costs to ascertain if any payment should be returned to the State. As of June 2006, the results of that review had not been finalized. However, since the agreement provided for payment based on a payment schedule instead of the work actually performed, it is unclear if any portion of the payment can be reclaimed.

A new developer was hired to finish the project at contract price of \$39,623,000.

*Effect:*

The use of a payment schedule instead of the usual process of paying for work actually performed is problematic. In this case, for instance, it resulted in tying up significant amounts of State money that could have been invested. Moreover, extra State money was paid (over \$80,000) to hire a claims examiner to review the developer costs. Moreover, it does not appear that the State received much benefit for the millions it gave the developer. A project manager informed us that the work completed by the developer consisted of design work and environmental remediation on the property. We were told by a number of DPW employees, however, that the design work could not be used because it is the property of the developer. (The applicable development agreement did not provide for the State to own design plans produced by the developer. Development agreements now have a provision that the developer turns over his design to the State. In any case, DPW decided to completely change the building's layout so that the old designs are not usable anyway.)

*Cause:*

A DPW fiscal officer informed us that the use of a payment schedule for construction projects was unusual but not unique. An Agency administrator told us that project managers negotiate with the design/build contractor as to the mode of payment. In some cases, where it was felt that workflow and overhead would be fairly constant over the period of the project, the payment schedule method might have been negotiated. That administrator also told us the DPW no longer uses the payment schedule method for design/build projects.

*Conclusion:*

A recommendation does not appear to be warranted. As noted above, DPW no longer uses the payment schedule method for design/build projects.



## RECOMMENDATIONS

*Status of Prior Audit Recommendations:*

- **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.**  
This recommendation is essentially being repeated. (See Recommendation 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.**  
This recommendation is being repeated in combined form with the previous recommendation. (See Recommendation 2.)
- **The Department of Public Works should improve its monitoring of insurance requirements compliance by its capital project consultants and construction contractors.**  
Progress has been made in this area and the recommendation is not being repeated.
- **The Department of Public Works needs to improve its procedures over the processing of construction change orders.**  
This recommendation is being repeated. (See Recommendation 3.)
- **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.**  
This recommendation has been withdrawn.
- **The Department should establish formal policies and procedures that address the administration of unexpended fund balances on completed bond-funded projects.**  
Good progress has been made in this area and the recommendation is not being repeated.
- **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.**  
This recommendation is being repeated. (See Recommendation 4.)

- **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.**  
This recommendation is being repeated. (See Recommendation 5.)
- **The Department should take action to ensure that its project-tracking database is accurate, complete and up-to-date.**  
This recommendation is being repeated. (See Recommendation 6.)
- **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.**  
This recommendation is being repeated. (See Recommendation 7.)
- **The Department should improve the timeliness and the completeness of its annual reporting of closed project cost data to the State Properties Review Board.**  
This recommendation is being repeated but with a shift in emphasis. (See Recommendation 8.)
- **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.**  
This recommendation is being repeated but with a shift in emphasis. (See Recommendation 10.)
- **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.**  
This recommendation is essentially being repeated as part of Recommendation 9.
- **The Department of Public Works should regularly reconcile its Capital Projects Revolving Fund unreimbursed charges receivables to project billings and receipts.**  
This recommendation is essentially being repeated as part of Recommendation 9.
- **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.**  
The increased rate of closing out projects has helped to decrease this problem and we will not be repeating this recommendation.
- **The Department of Public Works needs to submit its Comprehensive Annual Financial Report (CAFR) financial figures within the State Comptroller's time requirements.**  
The CAFR Construction in Progress Reports were submitted almost three months late but there were difficulties in collecting the data and there was a modest improvement over prior years. In recognition of these mitigating factors we will not repeat our prior year 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.**  
The recommendation is essentially being repeated as Recommendation 11.
- **The Department of Public Works should not use the Funds Awaiting Distribution Fund (FAD) for transacting State property operations.**  
This recommendation is being repeated. (See Recommendation 12.)
- **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.**  
This recommendation has been implemented.
- **The Department should establish detailed written procedures concerning the management of the inventory records of State personal property items at the Governor’s Residence. 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.**  
This recommendation is being repeated. (See Recommendation 13.)
- **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.**  
No material exceptions were noted during the audit period. The recommendation is not being repeated.
- **The Department should comply with the term limits imposed by State Regulations that apply to leaves of absence with pay.**  
No exceptions were noted during the audit period and this recommendation is not being repeated.
- **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.**  
This recommendation is being repeated. (See Recommendation 14.)
- **The Department should follow all statutory and regulatory requirements of the State’s set-aside program.**  
This recommendation is essentially being repeated. (See Recommendation 1.)

*Current Audit Recommendations:*

- 1. The Department should follow the regulatory requirement that a winning bid restricted to set-aside contractors “not be accepted 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.”**

Comment:

The Department’s “informal” construction contracts (contracts for \$500,000 or less) have been generally restricted to set-aside contractors. However, the Department does not routinely require that winning set-aside contract bids not exceed the ten percent ceiling over “...the price which could be anticipated in general bidding...”

- 2. Construction claims procedures should be finalized and put into practice. Those procedures should include a requirement for 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. A claims unit independent of the management of day-to-day construction project activities should be established.**

Comment:

The Department’s “Strategic Business Plan, January 2000 through June 2003” dated November 2000, called for the drafting of a procedure manual dedicated to the processing of contractor’s claims. DPW has prepared a draft. However, as of June 2006, the draft has not been finalized or completed. The procedural manual draft’s focus is on the avoidance and resolution of claims against DPW. In addition, DPW should establish formal procedures requiring a routine review of project records to determine if there is a likely basis for potential claims by DPW against any construction consultant and/or contractor. As of June 2006, there was no claims unit as such but there was an employee who was responsible for certain administrative liaison functions in connection with Claims against the State. Additionally, a Deputy Commissioner has been assigned the responsibility for Claims Management and has been aided by the setting up of an “Outside Claims Advisory Team.” Unfortunately, pending the resolution of certain ethics related issues, that Team was unable to function as envisaged.

- 3. The Department needs to improve the management and the oversight of construction change orders.**

Comment:

We selected a sample of 29 change orders from ten construction projects. We experienced a delay of more than five months before being provided with documentation relating to four of the change orders from two projects. In addition, as of June 30, 2006, DPW has been unable to provide us with documentation relating to one of our sample. For 12 of the 28 change orders reviewed, the documentation provided was not adequate to fully support an

item or items of cost. We noted four instances in which change orders appear to have been misclassified. The correct classification of change orders is important because different classifications require different levels of authorization. We noted five instances where a change order for more than \$25,000 appears to have been authorized for the Department solely by a Project's Manager's signature. Department procedures required the signature of a supervising Project Manager in three of these instances, and the signature of the Administrator of Client Teams in the other two instances. In addition, a change order amounting to \$768,669 was processed without the requisite prior authorization of DPW's Administrator of Client Teams. The Agency did not have a current Policy and Procedures guide to the management of change orders during the audited period, nor did it have a formal change order quality control or quality assurance program

4. **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 with the approved State Facility Plan and to obtain approvals (from the State Bond Commission, the Governor, and the State Properties Review Board) for certain deviations from the Plan.**

Comment:

The Department has not been provided with an opportunity to review the proposed Plan, 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 reviewing agencies' requests. We reviewed twelve agency requests for leased space. In six instances leased space had been included in the Plan. In all six instances the square feet requested exceeded the Plan square footage by more than ten percent. In none of these instances was approval sought from the State Bond Commission or the Governor. Also, DPW hasn't requested 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.

5. **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 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. As of June 2006, the required Regulations have not been finalized.

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

Comment:

According to the Project Tracking Application (PTA) User Manual, “You [project managers] are required to review and update the project fields by the 25<sup>th</sup> of each month. The goal is to use and update the system in real time....” However, in 29 of 30 instances we examined there was a variance of at least \$100,000 between project construction costs paid as per the July 2005 PTA data base, and the corresponding data per the fiscal unit. In eleven of these instances the variance exceeded one million dollars. In thirteen of these instances the variance exceeded 50 percent. A DPW “Missing Data Report” dated August 2005, noted 38 instances of missing data (reflecting deficiencies in records relating to seven data base fields.) This is a considerable improvement over the results of a November 2003 report that noted 217 instances. However, it should be noted that these reports do not address errors in cumulative data or illogical data, which numerically are more numerous than incidents of missing data.

- 7. 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:

According to DPW Annual Reports to the State Properties Review Board, for the 2002-2003 fiscal year, the Department completed 59 public works construction projects at a cost of \$134,175,052, and for the 2003-2004 fiscal year, the Department completed 30 public works construction projects at a cost of \$148,931,712. The Department has not reported to the secretary of the State Bond Commission the data required by statute relating to these 89 projects. Furthermore, the related data on an annual basis was not presented to the requisite joint standing committee of the General Assembly.

- 8. The Department should improve the completeness of its annual reporting of closed project cost data to the State Properties Review Board by including ancillary cost data.**

Comment:

In the Department’s annual reports to the Board, the costs reported under “Section G Public Works Projects Completed” as supported by “Schedule G Construction Projects Completed” reflect only amounts paid to construction contractors. Ancillary costs paid for architects, engineers, and construction managers were not included. In fiscal 2003, ancillary costs exceeded eleven million dollars, and in fiscal 2004, they exceeded five million dollars.

- 9. The Department should improve its administration of the Public Works Capital Projects Revolving Fund. All project costs and, when appropriate, the applicable General Fund appropriation should be billed. Billings for projects financed by other State and quasi-public agencies should be processed in a timely manner. Also, all applicable collections should be credited to the unfunded charges receivable balance. In addition, the Department should regularly reconcile the Fund's unreimbursed charges receivable to project billings and receipts.**

Comment:

As of June 2006, the Fund had a negative cash balance of approximately \$2 million. The balance of unreimbursed charges receivable (unreimbursed Fund payments) was approximately \$25 million. We noted that one employee's time is not being billed out or included in unfunded charges receivables. In addition, the Fund incurred other costs that are not billed out to the benefiting projects. Examples include employee mileage reimbursements (\$40,115 in the 2004-2005 fiscal year) and overtime (\$11,006 in the 2004-2005 fiscal year.) During the audited period, two Property Management Division employees who worked almost exclusively on General Fund duties were paid from the Fund. The General Fund's Facility Design Expense Appropriation reimburses the Fund for work done by billable employees that are administrative in nature and are not charged to a particular project. However, General Fund reimbursements are not applied as reductions to the receivable balance when collected. During fiscal year 2003-2004, approximately \$1.6 million was billed to and collected from that General Fund appropriation. However, that collection was not credited to the unfunded charges receivable balance. The total unfunded charges receivable for administrative billings, as of March 2006, amounted to approximately \$10.5 million. It appears that all of or a large portion of that figure should not continue to be included as a receivable of the Fund. We noted a pattern of late billings for projects financed by other State and quasi-public agencies. A regular reconciliation of the Fund's unreimbursed charges receivable to project billings and receipts could help insure that project billings processed through the system and the resulting unreimbursed charges receivable amounts are accurately recorded.

- 10. 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 Department's Capital Projects Financial Reporting System consists of four component systems. There are three major stand-alone DPW legacy systems: Time and Attendance, Project Tracking, and Fee Billing, as well as (formerly) the State's legacy State Agency Appropriation Accounting System and (currently) the State's Core-CT 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.

**11. The Department should improve its procedures over the timely reporting of facility project costs to client agencies.**

Comment:

The Department reports project costs at three major landmarks in a project's life. These are the issuance of an "Insurance Notification/Transfer Form", the issuance of a "Certificate of Completion", and at "Project Accounting Closeout." The "Insurance Notification/Transfer Form", which is supposed to be issued contemporaneously with the "Certification of Substantial Completion" gives an estimate of the construction costs for the prime contractor only. Other cost elements such as design costs, hazardous material removal costs, costs for construction not performed by the prime contractor, and, allocated DPW labor costs, are not included. Such omitted costs are often material. Agencies that rely solely upon "Insurance Notification/Transfer Form" cost data for annual inventory reporting are underreporting the cost of additions to "buildings." The full cost of a construction project is provided in connection with the issuance of a Certificate of Completion. However, we were told that a Certificate of Completion might not be issued until a year after the issuance of a Certificate of Substantial Completion, and in cases involving litigation, the time period could be much longer. This means that any initial CO-59 underreporting of buildings at the substantial completion stage might not be corrected for two or more years in extreme cases. The Insurance Notification/Transfer Forms and the Certificates of Completion cost data provided to State agencies give a single dollar figure and do not provide the kind of break down required to determine which cost elements should be capitalized and which should be expensed.

**12 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 FAD instead of to the General Fund. It also has been paying related real property expenses out of FAD. State statutes provide that sales of Fairfield Hills and Norwich Hospital real property are to be deposited to the credit of the Department of Mental Health and Addiction Services (DMHAS) as spendable money. All other 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 and not paid from FAD. DPW records show that as of June 30, 2005, approximately \$8.2 million of property sales and approximately \$3.4 million of property sales related expenses have been processed through FAD. Of the \$8.2 million in property sales, \$4.1 million was for sales of Fairfield Hills Hospital. The \$4.1 million was transferred to DMHAS leaving approximately \$700,000 due to the General Fund.

- 13. The Department should establish detailed written procedures concerning the management of the inventory records of personal property items at the Governor’s Residence. 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 and Risk Management Board to ensure appropriate insurance coverage.**

Comment:

The Department provided us with four inventory lists of personal property at the Governor’s Residence that had been prepared in November 2004. A review of the first two of these lists revealed that only 263 of 470 “Conservancy” and “State” items were tagged, and there was only one instance where the purchase price was noted. Appraisals of Works of Art and Historical Treasures have not been made and photographic records are not kept. The Department has not provided the State Insurance and Risk Management Board with enough information to ensure that all items of personal property at the Governor’s Residence are adequately covered by insurance.

- 14. The Department should establish procedures to require that all versions of contracts, including standard construction contracts, are formally approved in writing as to form by the Attorney General before they are put into use.**

Comment:

Section 3-125 of the General Statutes gives the Attorney General supervision of all civil legal matters of State agencies. 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. Accordingly, it is standard practice by State agencies to have the Attorney General approve their individual contracts or when applicable, their standardized contracts. Individual DPW construction contracts have not been approved by the Attorney General. Moreover, as of June 30, 2006, an up-to-date approval by the Attorney General of DPW’s standardized construction contracts has not been documented.

- 15. Procedures requiring that Insurance Notification/Transfer Letters are issued and distributed, with, or shortly after, the issuance of Certificates of Substantial Completion should be put in place.**

Comment:

When the State constructs a building costing \$25 million or more, the State is specifically required to notify the insurance carrier within 90 days of occupancy or the carrier could refuse to cover any losses that might incur before notification. The State Insurance and Risk Management Board (SIRMB) is responsible to notify the insurance carrier. DPW notifies SIRMB when a construction project is ready for occupancy by issuing an "Insurance Notification/Transfer Letter." That letter is also used for State inventory reporting purposes.

A Temporary Certificate of Occupancy for the Stamford Courthouse was issued on July 22, 2002. The project cost at that time was approximately \$78,000,000 of which approximately \$60,000,000 was for construction costs. The Judicial Department occupied the Courthouse in August 2002. An "Insurance Notification/Transfer Letter" was not issued by the Department until June, 2003. The Insurance Company was informed in August, 2003, some nine months after the ninety day reporting deadline had ended. A Certificate of Substantial Completion for the Western Connecticut State University New Science Building was issued in June 2005. The project's cost at that time was approximately \$31,000,000. An "Insurance Notification /Transfer Letter" appears to have been also issued in June 2005, but copies appear not to have been sent to the State Insurance and Risk Management Board, or the Office of the State Comptroller. The Insurance Company was finally informed in February 2006, approximately six months after the ninety day reporting deadline had ended. Several other instances where Insurance Notification/Transfer Letters were issued several months after the ninety day reporting deadline had ended came to our attention. They were associated with construction projects costing less than \$25,000,000 and therefore insurance coverage does not appear to be an issue. However, such delays can lead to under reporting the value of the State's real property on the annual CO-59 Fixed Asset report, and over reporting the value of Construction in Progress on the State's GAAP reports.

- 16. The Department should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to DPW's responsibility for reviewing general contractors' subcontracts.**

Comment:

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

- 17. With regard to its management of construction projects at the American School for the Deaf, the Department should comply with the requirements of Section 4-98 of the General Statutes (commitment of funds) and improve its controls in the areas of document management, cost control, project tracking and bond authorization earmarking.**

Comment:

Work costing in excess of \$100,000 was undertaken on a project for the American School for the Deaf (School) before a purchase order was issued. Before an expenditure is made, Section 4-98 requires the issuance of a purchase order, which commits available funds to insure that funds are available for the expenditure when it is later made. The Department was unable to provide us with copies of bidding documents or definitive evidence that there was a public bid opening. The contractor's bid indicated that it was based on a 180 day contract period. Although work started in March 2002, it had not been completed by August 2003, when the Department terminated the contract for cause. Another contractor was hired to complete the project. A cost of almost \$400,000 was incurred against the project for which only \$250,000 had been earmarked by the Bond Commission. The applicable bond authorization had earmarked funds for a number of projects. DPW didn't have budgetary control at the individual project level when the Bond Commission approved a number of projects on one Bond Commission authorization.

- 18. The Department should not pay construction bills absent an architect's signed certification unless the absence is explained and approved by a manager of the Design and Construction Unit. Also, DPW's standard contracts for architectural services should be revised to include the requirement that architects approve and certify construction billings.**

Comment:

DPW made significant construction expenditures during the audited period. The architect's certification of construction bills is a crucial control mechanism over these expenditures. However, some contractors' billings were paid without the architect's certification and some certifications were signed by a DPW project employee instead of the architect. DPW's standard architectural contracts do not require architects to certify or even approve contractor's billings. Instead, the contracts only require the architect to "review and return" these billings within three working days.

## 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, 2003 and 2004. 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, 2003 and 2004, 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, 2003 and 2004, 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 3-21d 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.
- The Department of Public Works failed to adopt regulations regarding the leasing of offices, space or other State facilities as required by subsection (o) of Section 4b-23.

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 projects’ change orders.
- Inadequate monitoring of compliance with contractual insurance requirements by lessors and construction contractors.
- Inadequate policies and controls over claims management.
- Inadequate policies and controls over the Capital Projects Revolving Fund.

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

### *Auditors of Public Accounts*

---

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 projects' 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