

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF PUBLIC WORKS  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2005 AND 2006*

**AUDITORS OF PUBLIC ACCOUNTS**

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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December 29, 2010

**AUDITORS' REPORT  
DEPARTMENT OF PUBLIC WORKS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2006**

We have examined the financial records of the Department of Public Works for the fiscal years ended June 30, 2005 and 2006. 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.

Raeanne Curtis has served as DPW Commissioner since September 5, 2007. Prior to Ms. Curtis, James T. Fleming served as DPW Commissioner until his resignation.

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.

In accordance with Public Act 05-251, the Commissioner of Administrative Services, in consultation with the Secretary of the Office of Policy and Management, developed a plan for the Department of Administrative Services to provide personnel, payroll, affirmative action and business office functions for the Department of Public Works. This transfer of functions became effective during August 2005.

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.

**Legislative Changes:**

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

Section 1(g) of Public Act 04-141, amended Section 4b-91, of the General Statutes, effective October 1, 2004, by making changes to the procedures for bidding on and awarding of public construction contracts. The Act changed the procedures required in order to award a no-bid contract by requiring the DPW Commissioner to submit the names of three contactors to the construction services awards panel. The panel selects one contractor with whom the Commissioner must negotiate the contract. The Commissioner must submit the subsequent contract to the State Properties Review Board. The Act also expanded the duties of the Commissioner of the Department of Public Works to include responsibility for the sale or sublease of State agencies' office space.

Special Act 05-1, of the June Special Session, authorized \$380 million in new General Obligation bonds for capital improvements and other purposes. In accordance with Section 21, subsection (d), of the Act, \$12.5 million was awarded to The Department of Public Works for remediation and encapsulation of asbestos, and other infrastructure repairs and improvements in State buildings.

Public Act 05-287, amended Section 4a-59a, of the General Statutes to allow the Commissioners of Administrative Services and Public Works to extend for a period of one year a contract with a value of \$50,000, when the contract is for building support services.

Public Act 06-194, amended Section 3-20 of the General Statutes, (the “State General Obligation Bond Procedure Act”) to require that a statement of the full cost of a project when completed, and the estimated operating cost for a structure, equipment or facility to be constructed be submitted to the Office of Policy and Management prior to consideration of the Bond Commission.

**RÉSUMÉ OF OPERATIONS:**

**Revenue and Receipts:**

Receipts net of transfers and adjustments totaled \$12,393,145 and \$54,864,510 during fiscal year 2004-2005 and fiscal year 2005-2006, respectively, compared with \$15,330,922 for fiscal year 2003-2004. Receipts consisted primarily of grant transfers from other agencies to fund various capital projects. These transfers are accounted for in the “Grants and Restricted Accounts Fund” which increased from \$7,887,652 in 2004-2005 to \$52,873,474 in 2005-2006. This increase is largely due to \$48,900,000 designated for technical high school additions and renovations in the 2005-2006 fiscal year. A summary of receipts for the years under review is presented below:

	<b>Fiscal Year Ended June 30,</b>	
<b>General Fund:</b>	<b><u>2005</u></b>	<b><u>2006</u></b>
Rents	\$1,179,195	\$1,451,314
Sale of Property	(169,500)	30,500
Non-Federal receivable collections	0	37,680
Refunds	52,174	211,603
Miscellaneous	1,714	30,185
<b>Total General Fund</b>	<u>1,063,583</u>	<u>1,761,282</u>
<b>Other Funds:</b>		
Grants and Restricted Accounts Fund	7,887,652	52,873,474
Funds Awaiting Distribution	3,441,910	229,754
<b>Total Other Funds</b>	<u>11,329,562</u>	<u>53,103,228</u>
<b>Total Receipts</b>	<u>\$12,393,145</u>	<u>\$54,864,510</u>

The negative amount shown for “Sale of Property” during the 2004-2005 fiscal year is the result of a transfer of funds received in the previous year for the sale of property.

The “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. In the fiscal year ended June 30, 2005, the State of Connecticut sold Fairfield Hills to the town of Newtown and deposited \$3,352,787 to the Fund. Total deposits to the Fund were \$3,441,910 in fiscal year 2004-2005, and \$229,754 in fiscal year 2005-2006. Transfers and payments from the Fund were \$3,166,583 and \$336,344, respectively, in the 2004-2005, and 2005-2006 fiscal years. Additional comments concerning the use of the Funds Awaiting Distribution are contained in the “Condition of Records “ section of this 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 increased from \$140,900,479 in the 2004-2005 fiscal year, to \$216,901,283 in the 2005-2006 fiscal year. The most significant change was associated with public works projects, which increased from \$98,805,591 in the 2004-2005 fiscal year, to \$165,504,011 in the 2005-2006 fiscal year. Those increases can be attributed in part to \$69 million for additions and renovations to State Technical High Schools. 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:

**Expenditure by General Type:**

	<u>2004-2005</u>	<u>2005-2006</u>
General Fund	\$40,957,036	\$50,342,243
Less General Fund monies used in public works projects	<u>(17,978)</u>	<u>(254,126)</u>
General Fund for operating expenditures	40,939,058	50,088,117
Plus Capital Equipment Purchase Fund	<u>171,804</u>	<u>69,152</u>
Total Operating Expenditures	41,110,862	50,157,269
Total General, Special Revenue and Capital Project Funds	98,805,591	165,504,011
Agency Fund – Funds Awaiting Distribution	<u>984,026</u>	<u>1,240,003</u>
<b>Total Expenditures</b>	<u>\$140,900,479</u>	<u>\$216,901,283</u>

**Operating Expenditures:**

	<u>2004-2005</u>	<u>2005-2006</u>
Personal Services	\$10,856,676	\$10,669,096
Property Management	11,272,370	16,318,512
Utilities	7,787,217	11,433,146
Rents and storage	7,707,880	8,506,118
Miscellaneous	<u>3,486,719</u>	<u>3,230,397</u>
Total	<u>\$41,110,862</u>	<u>\$50,157,269</u>

**Public Works Project Expenditures:**

	<u>2004-2005</u>	<u>2005-2006</u>
Acquisitions	\$ 827,107	\$ 4,234,109
Design	13,277,980	23,983,666
Construction	79,540,874	118,908,804
Equipment	647,188	6,377,477

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Art	345,350	286,975
DPW Fees	3,222,870	4,506,476
Claims	1,056,006	3,403,374
Telecommunications	(136,082)	3,793,647
Miscellaneous	24,298	9,483
Total	<u>\$98,805,591</u>	<u>\$165,504,011</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>2004-2005</u>	<u>2005-2006</u>
General Fund	\$ 17,978	\$ 254,126
Special Revenue Funds	12,409,793	72,356,366
Capital Project Funds	<u>86,377,820</u>	<u>92,893,519</u>
Total	<u>\$ 98,805,591</u>	<u>\$165,504,011</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>2004-2005</u>	<u>2005-2006</u>
Veterans Home-Master Plan		\$ 1,700,916
Community Colleges-Consolidated Campus Development		10,825,511
Community Colleges-Campus Additions/Renovations	\$ 2,431,259	5,627,283
Judicial- Juvenile Detention center additions	5,941,356	3,232,131
ECSU-Science Bldg-Pre Design		7,550,224
ECSU-Asbestos Survey Smith Library	8,099,869	
SCSU-Additions & renovations-Engleman Hall	5,023,790	1,940,313
SCSU-Project Study Buley Library Renovations	4,041,805	13,269,610
SCSU-West Campus Steam & Elect. Lines	1,651,625	
WCSU-Higgins Hall renovation-Danbury	17,135,886	1,338,716
CCSU-Gallaudet Hall- Renovations	3,956,546	4,703,245
CCSU-New utility Tunnel	1,098,803	2,800,000
DPW-Lead Based Paint Abatement/Energy Conserv.	2,595,801	2,247,060
DPW-Stamford Courthouse	4,090,147	4,806,057
DEP State Parks Putnam Mem. Imp.	1,685,168	
Dept of Ed. Tech. High Schools-Add/Renovations	8,878,755	69,247,773

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, 2005, and 2006, is presented below:

**Capital Projects Revolving Fund:**

	<u>2004-2005</u>	<u>2005-2006</u>
Funding Sources :		
Project costs recovered	\$3,194,432	\$4,512,041
Cost not related to specific projects recovered:		
From the General Fund	2,485,371	1,906,021
Recoveries of fringe benefit costs	<u>689,323</u>	<u>986,911</u>
Total Funding	6,369,126	7,404,973
Less expenditures – project costs	(6,642,184)	(7,079,858)
Funding in excess of expenditures		325,115
Expenditures in excess of funding	(273,058)	
Cash Balance, beginning of fiscal year	<u>(2,094,153)</u>	<u>(2,367,211)</u>
Cash Balance, end of fiscal year	<u><u>\$(2,367,211)</u></u>	<u><u>\$(2,042,096)</u></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 \$22,127,331 on June 30, 2005, and \$24,907,949 on June 30, 2006.

## CONDITION OF RECORDS

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

### **Expenditures:**

*Criteria:* Proper internal control dictates that prices for goods/services on the vendor invoice should be verified to contracts or agreements.

*Condition:* We examined 22 expenditure transactions for the fiscal years ended June 30, 2005 and 2006. One invoice examined for moving and storage services was billed at rates that did not agree to the master contract.

We expanded our sample to include invoices for moving and storage services provided through the fiscal year ended June 30, 2009. The expanded sample contained eleven invoices. Each of the invoices in the expanded sample was either billed at an incorrect rate, or did not contain sufficient information to substantiate the charges.

*Effect:* Risk is increased that the Department may pay costs that exceed the pricing allowed by contract.

*Cause:* It appears that proper internal control procedures were not followed by the accounts payable staff.

*Recommendation:* The Department of Public Works should implement internal control procedures to ensure that contract cost reviews are made of the costs on vendor invoices and are in agreement with the applicable master agreement. (See Recommendation 1.)

*Agency Response:* “DPW General Accounting Unit Procedures for Processing Vendor Payments state that the amount billed be verified per contract terms. The process was reviewed with Financial Management Staff to ensure compliance with internal procedures.”

### *Auditors’ Concluding*

*Comments:* The process was not sufficient to prevent the errors noted in the *Condition* above.

**Claims by the State:**

- Background:* In fiscal year 2005, claims paid by the State to contractors totaled \$5,958,000. Claims paid in 2006 totaled \$3,711,000. The original claims totaled \$15,101,037 and \$9,606,819 respectively.
- Criteria:* Good business practice requires the establishment and application of formally approved construction claims procedures by a claims unit independent of the construction unit.
- Good business practice also requires that formal policies and procedures be established to encourage the systematic review of project records 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:* A Claims Procedure Manual has not been prepared. The DPW has requested an Attorney General Opinion regarding access to this manual under the Freedom of Information Act.
- The DPW does not have formal procedures requiring a routine review of project records to determine if there is potential for claims by DPW against any construction consultant and/or contractor.
- 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:* The 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. In addition, the DPW has concerns that a claims manual would provide outside parties with information and be utilized to develop strategies to defend against the State's claims.
- Recommendation:* Construction claim 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 potential for claims against construction consultants and/or construction contractors. (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 the Office of the Commissioner and is independent from day-to-day project management. Development of a “Claims Manual” is desirable, however, dependent 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 Sections 4-61 or 3-7 of the General Statutes. Advice and counsel from the Office of the Attorney General is an integral part of the claim review process. The Department has added an additional authorized position to perform contractor audit functions.”

**Lease Changes Without Approval:**

*Criteria:* The State Properties Review Board is required by Statute to provide oversight of State real estate activities involving the acquisition, development and assignment or leasing of real estate for housing the personnel, offices or equipment of agencies of the State. The Board approves transactions that involve the lease or sale of surplus real estate by the Department of Public Works, Department of Transportation and other State agencies; approves the acquisitions of farms in fee simple; and approves agricultural development rights proposed by the Department of Agriculture. The Board also reviews and approves contracts with consultants for major capital projects prior to their employment by the Department of Public Works.

*Condition:* The Department of Public Works (DPW) allowed a lessee to lease up to 3,760 square feet of expansion space without the approval of the State Properties Review Board (SPRB). The Department also allowed a rent abatement totaling \$337,468 based on renovation costs. The leasing of the expansion space, and the abatement of the rent were done without required approval of the State Properties Review Board.

On September 5, 2003, the DPW Property Management Supervisor notified the Chairman of the State Properties Review Board that the expansion option was exercised, and subsequent renovation work performed without the SPRB approval. On September 25, 2003, the Board returned the case to DPW with a request for additional information. The Board requested confirmation that the rent was current and that there was no back rent due to the State, and confirmation of the number of square feet in the expansion space.

The parties agreed that the rent was current and no back rent was due to the State. The expansion space encompasses 6,406 net useable square feet instead of the original 3,760 square feet.

The amended lease was executed on October 31, 2005, and approved as to form by the Office of the Attorney General on December 15, 2005.

*Effect:* It appears that lease terms were agreed to by the Department of Public Works without the required approval of the State Properties Review Board.

It appears that the difference between actual square footage of the allowed expansion space and the actual expansion space was not calculated, and rental payments on the additional space were abated by the amount of the renovation costs.

*Cause:* The Department allowed unauthorized changes to the terms of the lease.

*Recommendation:* The Department of Public Works should obtain proper authorization and approval for any changes to the terms of a lease. This approval should include prior review and approval by the State Properties Review Board. (See Recommendation 3.)

*Agency Response:* “The Department acknowledges that this occurred and is currently in compliance. Once the Leasing Unit was made aware of the issue, it was rectified.”

**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 had not received State Facility Plans submitted by State agencies to OPM until the Fall of 2008. The Department gave OPM a review of the plans by December 1, 2008. However, the DPW did this review in a manner that isn’t in report form. The DPW documented their review by entering written comments on the agencies’ plans received from OPM. DPW’s comments entered onto the plans may address one issue, but do not show DPW’s analysis for all relevant issues per the statute, including: 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. Consequently, there is no way to assess the accuracy and efficiency of the review. For our audited period, these criteria were not met. For the fiscal years 2005 and 2006, the Department did not receive State Facility Plans from OPM, which had received them from the State agencies, and the Department did not perform a review of the plans.

When leased space or the cost forecast exceeded the approved plan by 10 percent or more, approval of the State Bond Commission and the Governor was not sought, as required by statute.

*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.

*Cause:*

DPW apparently thought that their review by inserting comments on the agencies’ plans that DPW received from OPM was sufficient reporting.

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.

*Recommendation:* The Department of Public Works 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 Department believes that we are currently in compliance with the requirements of General Statute 4b-23. Public Act 08-154 addressed the requirement to obtain approvals from the Bond Commission, Governor, and the SPRB that were brought to the Department of Public of Works during the last review.”

*Auditors’ Concluding Comments:*

The Department’s response does not address the following deficiencies:

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, as amended by Public Act 08-154.

When the forecasted 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 required by Section 4b-23, as amended by Public Act 08-154.

**Non-Compliance with Section 4b-23 – Adoption of Regulations:**

*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), shall 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 point an approval is needed "...what information shall be required, who shall provide the information and the criteria for granting the approval."

- Condition:* As of July, 2010, the required Regulations have not been finalized. The Department of Public Works is working with the Office of Policy and Management in developing these regulations.
- Effect:* DPW has failed to comply with a statutory provision requiring it to adopt regulations regarding the leasing of offices, space and other facilities.
- Cause:* DPW informed us that, as of June 2009, a draft update of their 1986 Leasing Manual is currently being reviewed internally by their legal unit, and that when the review has been completed, regulations will be finalized in line with their revised leasing policies and procedures.
- Recommendation:* The Department should continue to work towards 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."

**Non-Compliance with Section 3-21d – Capital Project Reporting:**

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

Section 3-21d of the General Statutes also mandates that: “The chief administrative officer of the department, institution or agency of the state shall also file a report with the co-chairpersons 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 2004-2005, the Department completed 37 public works construction projects at a cost of \$86,494,364, for fiscal year 2005-2006 the Department completed 38 public works construction projects at a cost of \$150,136,998, and for fiscal year 2006-2007, the Department completed 34 public works construction projects at a cost of \$76,680,340. The 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 109 projects. Furthermore, for the fiscal years ended June 30, 2006 and 2007, annual reports on completed capital works projects were not submitted to the requisite joint standing committee of the General Assembly.

*Effect:* The DPW is not in compliance with the mandates of Section 3-21d of the General Statutes.

*Cause:* The DPW has no formal policies or procedures addressing compliance with 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 6.)

*Agency Response:* “The Department of Public Works will develop a new quarterly report to be submitted to the Secretary of the State Bond Commission 30 days after the end of each quarter. The subject report will provide the preliminary financial status with regard to bond funds expenditures; i.e., Capital Assets values and major project expenditure items for all project that have reached acceptance in the prior quarter. The report shall include (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 This will effectively provide the required data within nintey days. The quarterly reports will then be

combined to provide the required annual report to the co-chairpersons of the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue and bonding as required by General Statute 3-21d. The report will be provided in the fall and will cover the previous budget year. The time period covered and the general data will be coordinated with the State Properties Review Board annual report.

**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:* Periodic reviews of subcontractor agreements with contractors are performed by the DPW. However, formal reports of these reviews are not prepared. If there are major discrepancies, the agreements are sent back to the contractors to be corrected. In the case of minor discrepancies, notes of these are made in the file. A transmittal memo is prepared in lieu of a formal report that sets 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 of Public Works should comply with the requirements of subsection (e) of Section 4b-95 of the General

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Statutes relating to DPW's responsibility for reviewing general contractor's subcontracts. (See Recommendation 7.)

*Agency Response:* "The Department of Public Works contends that we are in compliance. Prior to approving contracts, DPW reviews each subcontractor agreement and requires corrections at the time that the General Contractor submits the subcontracts. However, formal reports of these reviews are not prepared. Findings become part of the project file."

*Auditors' Concluding Comments:* Section 4b-95 of the General Statutes requires that a written report be prepared.

### **Capital Project 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 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 2008, the Fund had a negative cash balance of approximately two million dollars. A comprehensive report of the total unreimbursed charges receivable (unreimbursed Fund payments) at June 30, 2007, 2008 and 2009 was not available.

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.

DPW has established a schedule for processing billings for projects financed by other State and quasi-public agencies. A preliminary comparison of the scheduled billing date to the actual billing date shows inconsistent results.

*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.

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.

*Cause:* DPW has established a schedule for processing billings for projects financed by other State and quasi-public agencies. The billing schedule has not been strictly adhered to. In July 2007, the Department implemented a new computer system which eliminates many of the manual transactions required by the old system. Comprehensive reports of the unreimbursed charges receivable either were not generated or not retained.

*Recommendation:* 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. (See Recommendation 8.)

*Agency Response:* "The Core-CT Contracts and Projects modules have been implemented since July 2007. The system is used to process billings on a bi-weekly basis. Unreimbursed charges or the DPW Fee deficits are reconciled quarterly."

*Auditors' Concluding Comments:* Accurate supported financial data was not available.

**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.

The Capital Projects Financial Reporting System was replaced when the Core-CT project tracking system was implemented in July 2007.

*Condition:* Core-CT modules which were implemented in July 2007 replaced the existing legacy applications and reduced the reliance on manual operations and the potential errors associated with manual operations.

The July 2007 transfer to the Core-CT system did not eliminate the manual operations required to process fee reimbursement transactions incurred prior to the conversion.

The pre Core-CT system consisted of four component systems. There were 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.).

The Department was not able to provide us with a comprehensive report of the unreimbursed charges for fiscal years ended June 30, 2007, 2008 and 2009.

*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. The Department transferred to the Core-CT system in July 2007. The lack of interconnectivity between the Core-CT system and the project accounting system does not facilitate the production of a comprehensive report of the unreimbursed charges.

*Recommendation:* The Department should continue to 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 9.)

*Agency Response:* “The Department agrees with this recommendation. Since 2007 DPW has been using the Core-CT module to its fullest capacity. Data from prior years is not able to be loaded to Core-CT necessitating the continued use of spreadsheets.”

### **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.

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.

- 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.
- 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.
- Recommendation:* The Department should improve its procedures over the timely reporting of facility project costs to client agencies. (See Recommendation 10.)
- 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 turn over letter is now consistently provided to the appropriate agency. This occurs shortly after substantial completion and prior to the Client Agency initial use of the facility.”

**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 September 17, 2009, approximately \$8.2 million of property sales and approximately \$3.6 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 \$470,000 due to the General Fund.

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.

*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.

*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.

*Recommendation:* The Department of Public Works should discontinue the use of the Funds Awaiting Distribution Fund (FAD) for transacting State property operations. (See Recommendation 11.)

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

DPW submitted a Budget Expansion Option for the 2012 and 2013 Biennium Budget to establish the “Real Estate Expenses for the Disposal of State Property Account” which would eliminate the use of the FAD.”

**Governor’s Residence Conservancy, Inc.:**

*Background:* The Governor’s Residence Conservancy, Inc. has loaned a collection of antiques, art objects, carpets and other items to the DPW for use at the Governor’s Residence. The Department of Public Works has responsibility for the inventory’s custody, control, security and maintenance.

*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...”

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

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:*

The DPW representative acts as the primary custodian of the items added to the Governor’s Residence location by the Conservancy. The value of the property at the Governor’s Residence attributed to the Conservancy was reported on the September 30, 2009, DPW CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form as \$504,685. We were not able to trace this value to a listing of the inventory. It is the State’s responsibility to report the value of the contents of the Governor’s Residence. An annual inventory was not taken.

The DPW does not have written procedures detailing how inventory items conveyed by the Governor’s Residence Conservancy are to be added to the inventory displayed at the Governor’s Residence or returned to the Conservancy. The procedures would detail how the transfer of custody from the Conservancy to the DPW is documented. This should include documentation of the description and valuation of the item as well as its corresponding location and tag number. The item should be added to the inventory listing. An appraisal of the item when required should be made to establish the valuation of the item. When an item is returned to the Conservancy, procedures would require written documentation of its transfer from the DPW’s custody. A physical inventory should be taken annually and the valuation of the Governor’s Residence Conservancy inventory items at the Governor’s Residence entered onto the CO-59 Reporting Form.

Our review of the available listings and inventory most notably revealed two items that had been added to the residence but were not inventoried, a rug purchased by the Conservancy for \$6,575, on May 14, 2007, and a watercolor painting of the Governor’s Residence, purchased for \$1,400, on December 4, 2006. We also noted some items were not tagged.

*Effect:*

Without written procedures, items may be purchased and displayed that are not properly accounted for and consequently, not properly secured. In the absence of adequate inventory records, there is a greater risk that Conservancy property located at the Governor’s Residence could be unaccounted for. Without accurate valuations,

the DPW CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form may not be filed properly.

*Cause:* It appears that the Department did not place adequate importance on developing written procedures to document the addition and deletion of Conservancy items at the Governor's Residence. We did not determine the cause for the lack of an annual inventory that documented the value of the inventory.

*Recommendation:* The Department should develop and implement written procedures to provide accountability of the antiques, art objects, carpets and other items loaned to the State by the Governor's Residence Conservancy, Inc. The Department should conduct an annual inventory of the Residence and report the value of Governor's Residence Conservancy, Inc, collection on the Form CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form. (See Recommendation 12.)

*Agency Response:* "The Department of Public Works follows "The State of Connecticut Property Control Manual". A listing exists of items loaned to the State by the Governor's Residency Conservancy, Inc. Annually an inventory of the Residence will be conducted and the value will be updated and included in the CO-59."

*Auditors' Concluding Comments:* The Auditors of Public Accounts' examination of the inventory of personal property loaned to the Governor's Residence by the Governor's Residence Conservancy revealed deficiencies. These deficiencies should be corrected. The Department of Public Works should develop and implement written procedures to provide accountability for these items. In the future, the Department of Public Works should conduct an annual inventory of all Governor's Residence Conservancy items and accurately report the value on the Form CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form.

### **Equipment inventory:**

*Criteria:* Section 4-36 of the General Statutes states that "Each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June thirtieth, of all of the following property owned by the state and in the custody of such agency: (1) Real property, and (2) personal property having a value of one thousand dollars or more."

Sound business practice requires clear and accurate accounting and tracking for physical assets from purchase through disposition. As physical assets comprise a significant portion of the asset base of the State, accurate inventory valuation is essential to produce accurate financial statements. GAAP dictates that inventory be carried at historical cost with a separate account for accumulated depreciation.

The State of Connecticut Property Control Manual (PCM) states that assets should be assigned a Department specific identification number, that the records regarding the asset in Core-CT should be amended to include this information, that the identification number should be in some manner affixed to the item, and that the numbers should be affixed in a consistent manner that makes the number visible for inventory purposes without disturbing the function of the asset.

The PCM further states that all inventory data must be reconciled to the Core-CT Asset Management Module and that the reconciliation may be traced to source documents. Additionally, the PCM states that a “person should be assigned responsibility for each asset as the custodian”.

*Condition:*

We conducted our test of inventory in December, 2009, and January, 2010. We physically inspected 19 assets. We found that the Core-CT Asset Module inventory reports provided by the Department appear to be inaccurate and incomplete:

- Although included on the inventory, one of the nineteen assets physically inspected (a 40” LCD flat screen monitor) had no State asset identification tag affixed. In addition, three other similar items of equipment inventory (40” LCD flat screen monitors) that were located near the item being tested had State asset identification tags assigned, but not affixed.
- For some of the items checked, serial numbers were not listed. Item descriptions weren’t sufficiently detailed.
- Inventory valuation as reported on form CO-59 could not be traced to supporting documentation.
- The CO-59 lists a value of \$504,685, “Other Property Owned With Trustee Funds”, which is the Conservancy inventory. The document for these items did not list individual valuations for all items. There are 67 items totaling \$504,685, of Conservancy inventory.
- Our testing revealed that 13 items totaling \$19,216 consisting of 12 computers and one item of highway machinery, were not included in the inventory until the following fiscal year.
- The Department’s Form CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form showed \$24,150 in

deletions. The agency's backup was not consistent, and their itemized deletions showed \$70,395 in deletions.

- DPW's purchase of the Capitol Area System District Heating and Cooling Loop, on Capitol Avenue in Hartford, dated November 4, 2008, was not included in the Department's June 30, 2009 inventory listing. The purchase price for this system was \$10,600,000.

*Effect:* In the absence of adequate inventory records, including State inventory tags, there is a greater risk that the physical assets of the Department could be lost, misplaced, stolen and/or unrecorded. Assets can not be identified in the absence of an asset tag. In the absence of supporting documentation and accurate valuations, items may not be properly accounted for and consequently, not properly insured. The annual property valuation for the State Agency may not be accurate.

*Cause:* We could not determine the reason why the Department did not adequately perform inventory and property control procedures.

*Recommendation:* The Department of Public Works should maintain, reconcile and report inventory assets as prescribed by the State of Connecticut Property Control Manual. (See Recommendation 13.)

*Agency Response:* "The Department of Public Works will continue to maintain and reconcile and report assets as prescribed by "The State of Connecticut Property Control Manual".

*Auditors' Concluding*

*Comments:* The Auditors of Public Accounts examination of the Department of Public Works' equipment inventory revealed deficiencies which we detailed. These deficiencies should be corrected. In the future, the Department of Public Works should properly maintain, reconcile, and report inventory assets as prescribed by the State of Connecticut Property Control Manual.

## RECOMMENDATIONS

*Status of Prior Audit Recommendations:*

- **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.”** This recommendation is not being repeated.
- **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.** This recommendation is being repeated. (See Recommendation 2.)
- **The Department needs to improve the management and the oversight of construction change orders.** This 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 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.** 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 not being repeated.
- **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 6.)
- **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.** This recommendation is not being repeated.
- **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. This recommendation is being repeated. (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. (See Recommendation 9.)
- **The Department should improve its procedures over the timely reporting of facility project costs to client agencies.** This recommendation is being repeated. (See Recommendation 10.)
- **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 11.)
- **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.** This recommendation is being repeated. (See Recommendation 12.)
- **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.** This recommendation is not being repeated.
- **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.** This recommendation is not being repeated.
- **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.** This recommendation is being repeated. (See Recommendation 7.)
- **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.** This recommendation is not being repeated.

- **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.** This recommendation is not being repeated.

*Current Audit Recommendations:*

1. **The Department of Public Works should implement internal control procedures to ensure that contract cost reviews are made of the costs on vendor invoices and are in agreement with the applicable master agreement.**

Comment:

Our review of expenditures revealed that the Agency did not routinely review contractual provisions prior to making payments. This practice resulted in payment errors.

2. **Construction claim 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 potential for claims against construction consultants and/or construction contractors.**

Comment:

The Department lacks a Claims Procedure Manual. Without formal procedures there is a heightened risk that construction claims and disputes against the State will not be managed in the State’s best interests.

3. **The Department of Public Works should obtain proper authorization and approval for any changes to the terms of a lease. This approval should include prior review and approval by the State Properties Review Board.**

Comment:

The DPW allowed a lessee to lease expansion space and gave a rent abatement without the required review by and approval of the State Properties Review Board.

4. **The Department of Public Works 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 did not receive the State Facility Plans from OPM until the Fall of 2008. The DPW performed a review of the plans as required, but did not prepare the required report. In the case of leased space cost forecasts exceeding the Plan by 10 percent, required approvals were not obtained from the State Bond Commission and the Governor.

- 5. The Department should continue to work towards 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 2010, the required Regulations have not been finalized.

- 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.**

Comment:

According to DPW Annual Reports to the State Properties Review Board, for the 2004-2005 fiscal year, the Department completed 37 public works construction projects at a cost of \$86,494,364, and for the 2005-2006 fiscal year, the Department completed 38 public works construction projects at a cost of \$150,136,998. The Department has not reported to the Secretary of the State Bond Commission the data required by statute relating to these 75 projects. Furthermore, the related data on an annual basis was not presented to the requisite joint standing committee of the General Assembly.

- 7. The Department of Public Works 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.**

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.

8. **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 2008, the Fund had a negative cash balance of approximately \$2 million. At June 30, 2006 the balance of unreimbursed charges receivable (unreimbursed Fund payments) was approximately \$25 million. A comprehensive report of the total unreimbursed charges receivable at June 30, 2007, 2008 and 2009 was not available. 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.

9. **The Department should continue to 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 implemented Core-CT to account for Capital Projects in July 2007. The implementation of Core-CT did not eliminate the manual operations required to process fee reimbursement transactions incurred prior to the conversion.

10. **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 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 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 breakdown required to determine which cost elements should be capitalized and which should be expensed.

**11. The Department of Public Works should discontinue the use of 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. Real property receipts, when applicable, 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 September 1, 2009, approximately \$8.2 million of property sales and approximately \$3.6 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.

**12. The Department should develop and implement written procedures to provide accountability of the antiques, art objects, carpets and other items loaned to the State by the Governor's Residence Conservancy, Inc. The Department should conduct an annual inventory of the Residence and report the value of Governor's Residence Conservancy, Inc, collection on the Form CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form.**

Comment:

The DPW representative acts as the primary custodian of Governor's Residence Conservancy, Inc, inventory on display at the Governor's Residence. Although the DPW has responsibility for the care and safeguarding of these items, the DPW does not have written procedures detailing the control of this extensive inventory.

**13. The Department of Public Works should maintain, reconcile and report inventory assets as prescribed by the State of Connecticut Property Control Manual.**

Comment:

Our examination of the Department of Public Works' equipment inventory revealed deficiencies which we detailed. These deficiencies should be corrected. In the future, the Department of Public Works should properly maintain, reconcile, and report inventory assets as prescribed by the State of Connecticut Property Control Manual.

## **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, 2005 and 2006. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2005 and 2006, 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Department of Public Works' internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws,

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regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation numbers 1 – Payables not compared to master contract prior to payment, 2 – Lack of a claims procedure manual, 3 – Lease changes without approval, 8 and 9 – Management and financial reporting of the Capital Project Revolving Fund, 11 - Incorrect use of the Funds Awaiting Distribution Fund, 12 – Inadequate control of Governor's Residence inventory, 13 – Equipment inventory deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

### **Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Department of Public Works complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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*" 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 report on 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 did the Department submit an annual report to the General Assembly for 2006 and 2007 on those completed projects.
- The Department of Public Works failed to finalize regulations regarding the leasing of offices, space or other State facilities as required by subsection (o) of Section 4b-23.

We also noted certain matters which we reported to Agency management in the accompanying “Condition of Records” and “Recommendations” sections of this report.

The Department of Public Works’ responses to the findings identified in our audit are described in the accompanying “Condition of Records” section of this report. We did not audit the Department of Public Works’ responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of Agency management, 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.

Josepha M. Brusznicki  
Principal Auditor

Approved:

Robert G. Jaekle  
Auditor of Public Accounts

Kevin P. Johnston  
Auditor of Public Accounts