

STATE OF CONNECTICUT

**AUDITORS' REPORT
STATE PROPERTIES REVIEW BOARD
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

**AUDITORS OF PUBLIC ACCOUNTS
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February 20, 2004

**AUDITORS' REPORT
STATE PROPERTIES REVIEW BOARD
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

We have examined the financial records of the State Properties Review Board for the fiscal years ended June 30, 2001 and 2002. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the Board's compliance with certain provisions of financial related laws, regulations, contracts, and evaluating the Board's internal control structure policies and procedures established to ensure such compliance. This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

The State Properties Review Board operates under the provisions of various State Statutes – for instance, Sections 4b-3 through 4b-5, 4b-23, and 22-26cc of the General Statutes.

The Board reviews and approves various transactions proposed by State executive branch agencies. The transactions reviewed and approved involve:

- The acquisition of land and buildings for State use.
- Leasing of private buildings for State agencies.
- Sale or lease of surplus State buildings and lands.
- State acquisition of development rights to agricultural land.
- Assignment of State agencies to State buildings.
- Selections of and contracts for design professionals and other consultants for the Department of Public Works (DPW).
- Lease and/or purchase of group homes for Department of Mental Retardation.
- Lease of warehouse/distribution space at the Connecticut Regional Market.
- Leases, operating, or concession agreements at State airports and piers.
- Acquisition of railroad rights-of-way and related facilities.

In addition, the Board is responsible for reviewing the annual DPW report pursuant to Section 4b-2 of the General Statutes. That report is to include all pertinent data on DPW operations concerning realty acquisitions, projected real estate needs of the State, and recommendations for statutory changes. The Board then submits that report with its recommendations, comments, conclusions or other pertinent information to the Governor and various legislators. Also, the Board is responsible for submitting recommendations for the proposed State facility plan and for approving each implementation plan of the State facility plan.

Members of the State Properties Review Board:

Members of the State Properties Review Board, as of June 30, 2002, were as follows:

	Term Expires <u>June 30,</u>
Rowland Ballek, Chairman	2002
Lisa A. Musumeci, Vice Chairman	2002
Pasquale A. Pepe, Secretary	2001
Edwin S. Greenberg	2003
Bennett Millstein	2005
Paul F. Cramer, Jr.	1999

The Speaker of the House of Representatives and the President Pro Tempore of the Senate jointly appoint three members and the minority leaders of the House and Senate jointly appoint the other three. Section 4b-3 of the General Statutes mandates that such appointees have specific experience in the areas of architecture, building construction, engineering, real estate sales and purchases, business matters, and the management and operation of State institution.

Mr. Paul F. Cramer, Jr. continues to serve until his successor is appointed and has qualified. Mr. Pasquale A. Pepe continued to serve until reappointed on January 22, 2003.

Mr. George D. Edwards served as Executive Director of the State Properties Review Board for the two years covered by this review.

RÉSUMÉ OF OPERATIONS:

The Board had receipts of \$80 during the fiscal year ended June 30, 2001. The Board did not have any receipts in the fiscal year ended June 30, 2002.

General Fund expenditures during the fiscal years ended June 30, 2001 and 2002 are presented below:

	<u>2000-2001</u>	<u>2001-2002</u>
Personal services	\$ 329,418	\$ 344,271
Contractual services	157,537	167,794
Commodities	3,461	5,906
Equipment	<u>1,000</u>	<u>996</u>
Total General Fund Expenditures	<u>\$ 491,416</u>	<u>\$ 518,967</u>

Expenditures consisted primarily of salaries and wages to employees, per diem payments to board members as compensation for attendance at meetings and reimbursements to Board members for out-of-pocket expenses related to attending such meetings.

During the fiscal years ended June 30, 2001 and 2002, expenditures of \$8,775 and \$7,654, respectively, were also made from the Capital Equipment Purchase Fund.

PERFORMANCE EVALUATION:

Section 2-90 of the General Statutes provides that each of our audits may include an examination of performance in achieving expressed legislative purposes. To that end, we reviewed the Board's program measures developed pursuant to Section 4-67m of the General Statutes. Section 4-67m requires that for budgetary purposes outcome measures, which shall not be limited to measures of activities, be developed for each agency. The State Properties Review Board uses these three performance measures:

- Number of proposals reviewed and processed,
- Average calendar days to process proposals, and
- Savings to the State as a result of Board actions

During the audited period, the number of proposals reviewed and processed amounted to 672 in 2000-2001 and 635 in 2001-2002. A summary follows:

Number of Transactions

<u>Category:</u>	<u>2000-2001</u>	<u>2001-2002</u>
Department of Public Works:		
Architect/engineering proposals	165	214
Leases for State agencies & leases of State property	72	72
All other	<u>14</u>	<u>11</u>
Total Department of Public Works	<u>251</u>	<u>297</u>
Department of Transportation:		
Acquisitions	320	214
Sales	56	68
All others	<u>34</u>	<u>35</u>
Total Department of Transportation	<u>410</u>	<u>317</u>
All other State agencies	<u>11</u>	<u>21</u>
Totals	<u>672</u>	<u>635</u>

The average number of days to process these proposals amounted to 10.69 in the 2000-2001 fiscal year and 7.62 in the 2001-2002 fiscal years.

The Board calculated its savings to the State for the last five years to be as follows:

<u>Fiscal Year</u>	<u>Savings</u>
1997-1998	\$ 1,224,877
1998-1999	981,993
1999-2000	1,619,239
2000-2001	3,143,291
2001-2002	1,617,272

Individual items of savings during the audited period included the following:

Fiscal Year 2000-2001

Lease modification for the Department of Information Technology (savings include a revision of tax base year)	\$ 989,669
Renegotiation of lease for Department of Insurance	487,984
Revised lease for the Department of Children and Families in New Haven	711,366

Fiscal Year 2001-2002

Revision to lease expansion for Department of Banking – required a tenant improvement allowance	\$ 895,200
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It appears that the Board has developed appropriate outcome measures as required by Section 4-67m of the General Statutes.

CONDITION OF RECORDS

We noted the following areas, which require Agency attention.

Annual Report - Timeliness

- Criteria:* Section 4b-2 of the General Statutes provides that the DPW shall annually submit to the Board on September first a report that includes all pertinent data on DPW's real estate acquisitions, the projected real estate needs of the State, and appropriate recommendations for statutory changes. By October first of each year, the Board is to submit that report with its recommendations, comments, conclusions, and other pertinent information to the Governor and the General Assembly.
- Condition:* The Board did not submit those reports on time. It submitted the 2000-2001 and the 2001-2002 reports in December of both years instead of October first.
- Cause:* The Board's delay was caused by DPW's failure to timely submit the reports to the Board. For both the 2000-2001 and the 2001-2002 reports, the Board did not receive the report until November, which is after their required date to report on it.
- Effect:* The statutory time limit was not met and important data concerning public policy matters did not timely reach the Governor and the Legislature.
- Conclusion:* A recommendation is not warranted. The Board couldn't submit the report on time because of DPW's failure to timely submit its report to the Board. DPW's failure to timely submit the report will be reviewed as part of our audit of DPW.

Time and Attendance Records:

- Criteria:* Sound business practices require that time and attendance information be recorded accurately and that adjustments be properly documented to ensure an adequate accounting/audit trail, accurate reporting of leave balances and the proper payment for unused leave at termination.
- Condition:* The Agency made math errors in calculating employee leave balances for sick and vacation time. Agency adjustments were not explained or documented.
- Effect:* Employees' accumulated leave balances were incorrect.
- Cause:* The Board has lacked a trained fiscal employee.

Recommendation: The Board needs to improve the internal controls over its time and attendance system. (See Recommendation 1.)

Agency Response: “Time and attendance records are prepared using an Excel spreadsheet for each member of the Board’s staff. Biweekly, the spreadsheet is distributed to each employee for review and signature to attest to the accuracy of the Excel data. State Properties Review Board Form 4-99 is used to prepare and document all Excel records. Form 4-99 is a record of employee absence that must be signed by the employee and agency head. The Form includes the period of absence (dates, days and hours) and reason for the absence. Excel spreadsheets and Form 4-99’s are date matched, reviewed for congruity and filed together at the agency office. Copies of the aforesaid are provided to each employee.

The math errors in calculating leave balances for sick and vacation time are being reviewed, by employee, from the inception of employment through the current date. Corrections will be explained and documented. The Board’s internal review of all employee records will be complete on or before October 15, 2003.”

Longevity Records:

Criteria: Longevity payments should be in accordance with collective bargaining contracts, labor relations directives, and/or statutory requirements. One requirement is that service time for semiannual longevity be calculated as of April first and October first of each year.

Condition: The Agency calculated years of service based on the employee’s anniversary date of hire and not on the appropriate longevity cut off dates of April first and October first of each year. Leaves of absence records were not being maintained and ineligible absences were included in years of service. An employee’s eligible war service had not been included in his years of service

Effect: Errors were made in calculating service time for longevity and in the longevity payments themselves.

Cause: The Board has lacked a trained fiscal employee.

Recommendation: The Board needs to improve its procedures over longevity payments to employees. (See Recommendation 2.)

Agency Response: “The errors in calculating longevity and inclusion of ineligible absences in years of service were corrected in accordance with [and after] the [preliminary] Audit Findings.”

Expenditure Coding and Financial Reporting

- Criteria:* Section 3-112 of the General Statutes authorizes the State Comptroller to prescribe the mode of keeping and rendering all public accounts, and to prepare and issue payroll and accounting manuals for use by State agencies. Section 3-115 of the General Statutes requires the State Comptroller to prepare financial statements that reflect the financial activity of all State accounts and funds. Thus, it is imperative for each State agency to keep accurate records and to process its accounting transactions in accordance with State Comptroller's directives.
- Condition:* At the start of our audit examination, management informed us that the State Comptroller's expenditure reviews had detected a number of errors in the Agency's processing of payments. In addition, our audit sample of expenditures revealed account coding errors and the lack of documentation to support a payment.
- Also we noted an internal control weakness. An employee who attests to the receipt of services and who signs the invoices also authorizes the payments for said services. This weakens control and is contrary to the Comptroller's instructions in the State Accounting Manual.
- Effect:* Some expenditure payments were inaccurately reflected in the accounting records of both the Board and the State Comptroller. The discussed internal control weakness could result in unauthorized payments.
- Cause:* The Board has lacked a trained fiscal employee.
- Recommendation:* The State Properties Review Board needs to improve its internal controls over the processing of expenditures. (See Recommendation 3.)
- Agency Response:* "Internal control and documentation weaknesses and account coding errors are being addressed in the following manner:
- Two of the Board's staff members are attending all requisite CORE training classes. CORE is designed to mitigate the above problems.
 - The State Comptroller's *Accounting Manual* is required reading for affected Board personnel.
 - All financial transactions and reports must be cross checked by CORE trained staff members for accuracy and compliance with

accounting standards prior to obtaining agency head approval.

- On August 22, 2003, an application to fill the vacant position of Fiscal Administrative Assistant was transmitted to the Department of Administrative Services.”

Accurate Reporting

Criteria: Good business practices require that State agencies submitting required accounting data to the State Comptroller document the source or sources of that data. The State Comptroller uses such data to prepare financial statements.

Condition: The total of employee accrued vacation hours reported on the Agency’s GAAP Reporting Form for Compensated Absences did not agree with employee leave records as of June 30, 2001 and June 30, 2002.

No back up was available to support the figures reported on the GAAP Form for June 30, 2001. The back up for the June 30, 2002 period consisted of a calculating machine tape. Most of the figures on the tape were not cross referenced to any individual employee.

Effect: The agency under-reported the aggregate total of employee vacation leave hours to the Office of the State Comptroller for each of the fiscal years covered by this review.

Cause: The Board has lacked a trained fiscal employee.

Recommendation: Financial data submitted by the Board to the State Comptroller should be documented. (See Recommendation 4.)

Agency Response: “On August 26, 2003, the Board sent its GAAP Report for the fiscal year ending June 30, 2003 to the Office of the State Comptroller and reserved the right therein, to correct accrued leave balances on or before October 20, 2003. Leave balances will be corrected and documented consistent with recommendations by the Auditors of Public Accounts.”

Inventory Records

Criteria: Section 4-36 of the General Statutes requires each State Agency to establish and keep inventory records in the format prescribed by the State Comptroller and to report annually the value of inventory in its custody as of June 30.

The State Comptroller’s “Property Control Manual” requires State

agencies to establish and maintain a software inventory to track and control their software. The Manual also states that each agency will produce a software inventory report on an annual basis and make the report available to the Auditors of Public Accounts.

The State Comptroller's "Accounting Manual" states that equipment with a value of \$1,000 or more and a useful life at least one year is to be coded as a capital outlay ("capitalized"). Further, the "Accounting Manual" requires equipment costing less than \$1,000 to be coded as a commodity. Capitalized equipment expenditures are recorded as assets and are required to have inventory control.

Condition: During the audited period, the State Properties Review Board purchased a new fax machine to replace its existing machine. The cost of the replaced machine was \$1,474. Although the old fax machine was no longer in the Board's possession, its cost was not deleted from the Board's inventory records.

The Board's inventory listing of capitalized items reflected \$1,024 for two bookcases that cost \$512 dollars each. The bookcases should not have been capitalized because each was under the capitalization threshold of \$1,000. In addition, our current audit examination revealed the Board did not have a software inventory listing.

Effect: The Board's Fixed Asset/Property Inventory Report submitted to the State Comptroller overstated the value of Furnishings and Equipment by \$1,474 on June 30, 2001 and \$2,498 on June 30, 2002.

Controls over software are weak and unauthorized use, including theft and copyright infringement, could occur and possibly go undetected.

Cause: The Board has lacked a trained fiscal employee.

Recommendation: The State Properties Review Board's inventory procedures should be kept in accordance with the State Comptroller's "Accounting Manual" and "Property Control Manual." (See Recommendation 5.)

Agency Response: "In compliance with the State Comptroller's Property Control Manual, a software inventory record was [subsequently] completed and the accounting of capitalized assets and commodities corrected as stipulated in the Preliminary Audit [finding]. The State Comptroller's Property Control Manual is required reading for affected Board personnel.

Hereafter, software records, and asset and commodity accounts will be current and correct. A correct Fixed Asset/Property Inventory Report will be sent to the Office of the State Comptroller on or before the due date of October 1, 2003."

Other Matters:

- Statutory Responsibility – As noted above, the Board is statutorily responsible to review and approve specific types of State real estate transactions. Other significant real estate transactions are not subject to its review, however. For instance, the Board reviews and approves design professional and other consultant contracts of the Department of Public Works (DPW). It, however, does not review DPW's construction contracts. As a result the Board approved 147 design professional contracts totaling approximately \$25,600,000 and 62 consultant on-call contracts of \$18,600,000 for DPW in fiscal year 2001-2002. However, it did not review DPW's 18 construction contracts totaling approximately \$128,000,000 in that year. Nor does the Board review DPW's change orders. Change orders can be significant. Total change orders were approximately \$8,000,000 in fiscal year 2001-2002 and in fiscal year 2000-2001, they were approximately \$17,000,000.

Nor does the Board review DPW's property management contracts. For the 2001-2002 fiscal year, DPW had 27 such contracts totaling over \$69,000,000.

By Statute the Board is made up of individuals having varied real estate expertise including expertise in construction, leasing, and the operation of State institutions. Accordingly, it has the expertise to review construction contracts, change orders, and the State's property management contracts. As noted above, Board action has resulted in millions of dollars of savings. There might be additional savings if the Board reviewed these other areas. Consideration might be given to introducing legislation giving the Board authority to review construction contracts, change orders, and property management contracts.

- Documentation of Board Members' Backgrounds – Section 4b-3 of the General Statutes provides that the Board “consists of six members appointed as follows: The Speaker of the House and President Pro Tempore of the Senate shall jointly appoint three members, one of whom shall be experienced in matters relating to architecture, one experienced in building construction matters and one in matters relating to engineering; and the minority leader of the House and the minority leader of the Senate shall jointly appoint three members, one of whom shall be experienced in matters relating to the purchase, sale and lease of real estate and buildings, one experienced in business matters generally and one experienced in the management and operation of State institutions.” We were unable to verify that these membership requirements were met. No documentation on the appointees' backgrounds was noted in the Board's files. The Board might consider obtaining such documentation. For instance, appointees can be asked to file resumes or other material showing their applicable experience.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Three recommendations were presented in our prior report.

- Internal controls over time and attendance records should be improved. This recommendation is being repeated to reflect our current audit examination. (See Recommendation 1.)
- The State Properties Review Board should develop an ethics statement as it relates to the mission of the board, and should file a copy of such ethics statement with the Department of Administrative Services and the State Ethics Commission, as required by Section 1-83, subsection (2), of the General Statutes. This recommendation has been complied with.
- The General Statutes require that a personal service agreement must be executed when hiring a consultant and not through the use of a purchase order as the Board did. This situation was not present during the audited period and the recommendation is no longer warranted.

Current Audit Recommendations:

As a result of our current examination, we are presenting four new recommendations and repeating the prior one regarding the time and attendance system.

1. The Board needs to improve the internal controls over its time and attendance system.

Comment:

The Board made math errors in calculating employees leave balances for sick and vacation time. These situations resulted in misstatements of employee leave balances. In addition, we noted Agency adjustments that were not explained or otherwise documented.

2. The Board needs to improve its procedures over longevity payments to employees.

Comment:

Employees' years of service for longevity purposes were not calculated correctly. The agency calculated such time based on the anniversary dates of hire and not on the appropriate longevity cut off dates. Leaves of absence records were not being maintained and ineligible absences were included in service time. One employee's eligible war service had not been included in his service time resulting in underpayments.

3. The Board needs to improve its internal controls over the processing of expenditures.

Comment:

Our audit examination revealed the same Board employee was allowed to sign invoices and authorize payments. The State Comptroller requires that these duties be separate to ensure control. The State Comptroller's expenditure reviews found a number of errors in the Agency's processing of expenditures. Also, we found instances of expenditures being charged to the wrong account and that there was a lack of documentation to support a payment.

4. Financial data submitted by the Board to the State Comptroller should be documented.

Comment:

Financial data reported to the State Comptroller is used for financial statement purposes and/or for management analysis. Such data should be properly documented. Our audit examination revealed that employee leave records did not agree with the total accrued vacation hours reported to the State Comptroller's Office as of June 30, 2001 and June 30, 2002. No agency back up was available for the June 2001 reported figures. The back up for the June 30, 2002 period consisted of a calculator tape. Most of the figures on the tape were not cross referenced to any individual employees.

5. The State Properties Review Board's inventory procedures should be kept in accordance with the State Comptroller's "Accounting Manual" and "Property Control Manual."

Comment:

The Board did not prepare a software inventory report and its Fixed Asset/Property Inventory Report contained errors.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the State Properties Review Board for the fiscal years ended June 30, 2001 and 2002. This audit was primarily limited to performing tests of the Board's compliance with certain provisions of laws, regulations and contracts, and to understanding and evaluating the effectiveness of the Board's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations and contracts applicable to the Board are complied with, (2) the financial transactions of the Board are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Board are safeguarded against loss or unauthorized use. The financial statement audits of the State Properties Review Board for the fiscal years ended June 30, 2001 and 2002, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related 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 State Properties Review Board complied in all material or significant respects with the provisions of certain laws, regulations and contracts and to obtain a sufficient understanding of the 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 and contracts applicable to the State Properties Review Board is the responsibility of the management of the State Properties Review Board.

As part of obtaining reasonable assurance about whether the Board complied with laws, regulations and contracts, 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 Board's financial operations for the fiscal years ended June 30, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations and contracts. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we 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 State Properties Review Board is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations and contracts applicable to the Board. In planning and performing our audit, we considered the Board's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or

significant effect on the Board's financial operations in order to determine our auditing procedures for the purpose of evaluating the State Properties Review Board's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations and contracts, and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Board's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. 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 and contracts or failure to safeguard assets that would be material in relation to the Board's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Board being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving the internal control over the Board's financial operations, safeguarding of assets, and/or compliance, 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 State Properties Review Board during the course of our examination.

Charles B. Woolsey
Principal Auditor

Approved:

Robert G. Jaekle
Auditor of Public Accounts

Kevin P. Johnston
Auditor of Public Accounts

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