

STATE OF CONNECTICUT



***AUDITORS' REPORT
STATE PROPERTIES REVIEW BOARD
FOR THE FISCAL YEARS ENDED JUNE 30, 2003, 2004 AND 2005***

AUDITORS OF PUBLIC ACCOUNTS
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August 31, 2007

**AUDITORS' REPORT
STATE PROPERTIES REVIEW BOARD
FOR THE FISCAL YEARS ENDED JUNE 30, 2003, 2004 AND 2005**

We have examined the financial records of the State Properties Review Board for the fiscal years ended June 30, 2003, 2004, and 2005. 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 and reporting 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 including Sections 4b-2, 4b-3 through 4b-5, 4b-21, 4b-22a, 4b-23, 4b-24, 4b-29, 4b-32, 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 the Department of Mental Retardation.
- Lease of warehouse/distribution space at the Connecticut Regional Market.

- Leases, operating, or concession agreements at State airports and piers for the Department of Transportation (DOT).
- Acquisition of railroad rights-of-way and related facilities for the DOT.

The Board is also responsible for reviewing the annual Department of Public Works (DPW) report required 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. After its review the Board is required to submit that report, along with its recommendations, comments, conclusions or other pertinent information, to the Governor and the members of the jurisdictional joint standing committees of the General Assembly. In addition, in each odd-numbered year the Board is responsible, under Section 4b-23 of the General Statutes, for reviewing the Office of Policy and Management's proposed State facility plan.

Members of the State Properties Review Board:

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 institutions.

Members of the State Properties Review Board, as of June 30, 2005, were as follows:

	Term Expires
	<u>June 30,</u>
Pasquale A. Pepe, Chairman	2005
Lisa A. Musumeci, Vice Chairman	2006
Edwin S. Greenberg, Secretary	2007
Paul F. Cramer, Jr.	1999
Bruce Josephy	2006
Bennett Millstein	2005

Pasquale Pepe, Paul Cramer, and Bennett Millstein continued to serve beyond the above expiration dates of their terms. They will continue to serve until their successors are appointed, or until the Board is terminated by repeal of the enabling legislation.

George D. Edwards served as the Executive Director of the State Properties Review Board until July 31, 2002. Edwards was succeeded by Stanley T. Babiarz who served during the remainder of the audited period.

RÉSUMÉ OF OPERATIONS:

The Board did not have any receipts in the fiscal years ended June 30, 2003, 2004, and 2005.

General Fund expenditures during the fiscal years ended June 30, 2003, 2004, and 2005 are presented below:

	2002-2003	2003-2004	2004-2005
Personal services	\$288,966	\$233,620	\$274,248
Payments to Board members:			
Per diem compensation	132,200	132,200	126,800
Mileage reimbursement	16,226	16,425	17,072
All other expenditures	6,570	8,928	17,451
Total General Fund Expenditures	\$443,962	\$391,173	\$435,571

As indicated above, during the audited period, approximately 63 percent of expenditures consisted of personal services payments to SPRB employees. Approximately 35 percent of the expenditures consisted of payments to Board members in the form of per diem compensation (31 percent) and mileage reimbursements (four percent) to attend Board meetings. Pursuant to subsection (b) of Section 4b-3 of the General Statutes, Board members are paid a per diem rate for their service. Section 4b-5 provides in part that “Reasonable expenses of the Property Review Board and its employees shall be paid from the budget of the board...”

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 followed up on our prior audit review of 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 do not have to be limited to measures of activity) be developed for each agency. The State Properties Review Board developed and monitors the following three program measures:

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

During the audited period, the number of proposals reviewed and processed decreased from 517 to 399. On average the number of calendar days required to process a proposal increased marginally from 8.3 days to 9.7 days. During the audited period it is estimated that SPRB’s actions saved the State over \$16,500,000 at a cost of less than 10 percent of the amount saved.

A summary of key data follows:

Number of Transactions:

	Fiscal year 2002-2003	Fiscal Year 2003-2004	Fiscal Year 2004-2005
Category:			
<i>Department of Public Works:</i>			
Consultant Contracts	147	130	159
Real Estate Contracts	53	48	58
Total DPW	200	178	217

Department of Transportation:

Sales	56	69	70
All others	247	189	79
Total DOT	<u>303</u>	<u>258</u>	<u>149</u>
<i>All other State agencies</i>	14	13	33
Totals	<u>517</u>	<u>449</u>	<u>399</u>
Average number of days to process a proposal	<u>8.3 days</u>	<u>10.3 days</u>	<u>9.7 days</u>
Estimated Annual Savings to the State	<u>\$14,675,147</u>	<u>\$797,391</u>	<u>\$1,236,715</u>

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

<u>Fiscal Year</u>	<u>Savings</u>
2000-2001	\$ 3,143,291
2001-2002	1,617,272
2002-2003	14,675,147
2003-2004	797,391
2004-2005	1,236,715

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

Fiscal Year 2002-2003:

It is estimated that the Board's initial rejection of a lease proposal concerning 90 Washington Street in Hartford, and the subsequent approval of a more favorable lease purchase, will result in savings to the State of \$14,392,329 over a fifteen year term.

Fiscal Year 2003-2004:

It is estimated that the Board's proposed amendments to a construction/ financing/ operating/ special facility parking lease at the Bradley International Airport, will result in savings to the State of \$436,791 over a twenty-one year period.

Fiscal Year 2004-2005:

It is estimated that the Board's rejection of proposed amendments to a lease agreement for 55 Elm Street Hartford, will result in savings to the State of \$872,361 over a ten year period.

In conclusion - it appears that the Board has developed appropriate outcome measures as required by Section 4-67m of the General Statutes and is actively monitoring said measures.

CONDITION OF RECORDS

We noted the following areas, which require attention.

Annual Report - Timeliness

- Criteria:* Section 4b-2 of the General Statutes provides that the Department of Public Works (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 was not able to submit those reports on time. It submitted the 2002-2003 report on January 20, 2004; the 2003-2004 report on November 12, 2004; and the 2004-2005 report on October 7, 2005, due to the delays at the Department of Public Works, as noted below.
- Effect:* The statutory time limit was not met and important data concerning public policy matters did not reach the Governor and the Legislature in a timely manner.
- Cause:* In all three cases the report was received late from the DPW. The 2002-2003 report was received in January 5, 2004; the 2003-2004 report on November 1, 2004; and the 2004-2005 report on September 20, 2005.
- Conclusion:* A recommendation is not warranted because the Board was unable to prepare the reports in time because of DPW's failure to submit its reports to the Board in a timely manner.

Other Matters:

- Statutory Responsibility – As noted above, the Board is required by Statute to review and to approve specific types of State real estate transactions. However, other significant real estate transactions are not subject to its review. For instance, the Board reviews and approves design professional and other consultant contracts of the Department of Public Works (DPW) but is not required to review the DPW's construction contracts. During the 2004-2005 fiscal year, the Board reviewed and approved 48 consultant contracts totaling \$42,952,677, and 40 on-call consultant contracts totaling \$12,400,000 but they were not required to review the 14 DPW formal construction contracts with an estimated cost of \$154,631,257 or the 13 informal construction contracts with an estimated cost of \$3,666,631 that were signed during that fiscal year. In addition, the Board is not required to review DPW's construction change orders. Change orders can be significant. For instance, DPW

reported that the cost of the change orders incurred over the lives of 37 projects completed during the 2004-2005 fiscal year exceeded \$5,000,000. Furthermore, the Board is not required to review DPW's property management contracts. As at June 30, 2005, there were 22 such contracts in operation. The sum total of the "maximum contract amount" for these 22 contracts exceeded \$81,000,000.

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.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Five recommendations were presented in our prior report.

- **The Board needs to improve the internal controls over its time and attendance system.**
The Board followed up on prior errors in attendance leave balances. We did not note time and attendance errors in the current audit period. Also, as discussed below, SPRB's financial and payroll transactions have been subsequently taken over by the Department of Administrative Services. We are not repeating this recommendation.
- **The Board needs to improve its procedures over longevity payments to employees.**
The longevity errors noted in the prior audit have been corrected. We did not note problems during the current audited period. We are not repeating this recommendation.
- **The Board needs to improve its internal controls over the processing of expenditures.**
During the 2005-2006 fiscal year the SMART (Small Agency Resource Team) unit of the Department of Administrative Services assumed responsibility for the Board's financial and payroll transactions, including the processing of expenditures. This provides the level of segregation of duties necessary and therefore there is no need for us to repeat this recommendation.
- **Financial data submitted by the Board to the State Comptroller should be documented.**
This need was not noted during our current audit. We are not repeating this recommendation.
- **The Board's inventory procedures should be in accordance with the requirements of the State Comptroller's Property Control Manual.**
Improvements were noted in this area and no recommendation is needed.

Current Audit Recommendations:

No recommendations resulted from our current review.

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, 2003, 2004, and 2005. 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, 2003, 2004, and 2005, 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 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, 2003, 2004, and 2005, 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 an immaterial or less than significant instance of noncompliance, which was described in the accompanying "Condition of Records" section 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.

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