

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF TRANSPORTATION
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS
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January 10, 2002
AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000

We have examined the financial records of the Department of Transportation as they pertain to that Agency's operations for the fiscal years ended June 30, 1999 and 2000.

The financial statement presentation and auditing of the books and accounts of the State 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 structure policies and procedures established to ensure such compliance. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

The Department of Transportation operates generally under Titles 13a and 13b of the General Statutes. During the audited period the Department was organized into the following five Bureaus, each administered by a Bureau Chief: Engineering and Highway Operations, Aviation and Ports, Public Transportation, Finance and Administration, and Policy and Planning.

The Bureau of Engineering and Highway Operations is responsible for design, construction, inspection, maintenance and improvement of the State highways and bridges. It administers the acquisition of highway rights of way and the lease and sale of highway property. It also administers programs aiding local governments in maintaining and improving roads and improving highway safety. It operates, among other facilities, four district offices and 53 maintenance garages.

The Bureau of Aviation and Ports operates six State-owned airports, the State Pier in New London, as well as two ferry services on the Connecticut River. It also licenses and regulates private aviation facilities, State harbor and river pilots and agents of foreign vessels. Its most significant financial operations are related to the State's largest airport - Bradley International Airport. Financial operations at that airport are accounted for in the Bradley International Airport Operations Fund, an enterprise fund, and carried out under the terms of the bond indenture, which secures

revenue bonds issued to finance major renovations at the airport. Section 15-101l of the General Statutes authorizes \$104,000,000 in revenue bonds, \$100,000,000 of which were issued in 1982. These were redeemed and replaced by an issue of \$94,065,000 in refunding bonds in 1992. The issue of refunding bonds is authorized by Section 15-101n of the General Statutes. Total revenue and refunding bonds outstanding amounted to \$74,235,000 as of June 30, 2000. In addition, Section 15-101l of the General Statutes excludes certain special obligation bonds issued to finance self-sustaining special airport facilities, such as cargo, aircraft maintenance, hotel and other aviation-related functions, from the aforementioned cap on revenue bonds. Revenues derived from airport operations are deposited with a corporate trustee and applied as provided for in the indenture.

The Bureau of Public Transportation is responsible for the operations of three mass transit systems: the Metro-North Railroad, the Connecticut Transit bus system and the Shore Line East rail commuter service. The Metro-North Railroad, an agency of the New York Metropolitan Transportation Authority, operates commuter train service between New Haven and New York and on branch lines to Danbury and Waterbury. The Connecticut Transit system is comprised of the public bus service in Hartford, New Haven, and Stamford. A corporate agent under contract with the Department operates the Connecticut Transit system. Shore Line East Rail Commuter Service is operated by Amtrak and provides service between New Haven and New London. The State of Connecticut, through the Department of Transportation, subsidizes the operating deficits of these three mass transit systems. The Bureau of Public Transportation also was responsible for the many projects needed to maintain those systems and for aid and assistance to local and regional mass transit districts and for the regulation of motor carriers.

The Bureau of Finance and Administration provides administrative, budgetary, financial, personnel, information management and support services to all bureaus of the Department.

The Bureau of Policy and Planning provides infrastructure inventory, travel forecasting, and policy and environmental planning services.

The current Commissioner of Transportation, James F. Sullivan, was originally appointed acting Commissioner of Transportation, effective February 1, 1997. He was sworn in as Commissioner effective May 20, 1997. James A. Adams was appointed Deputy Transportation Commissioner, Bureau of Engineering and Highway Operations, effective May 9, 1997. On August 15, 1997, he was appointed Deputy Commissioner of Transportation, and continues to serve in that capacity. Louis S. Cutillo was appointed Deputy Transportation Commissioner, Bureau of Aviation and Ports, effective January 7, 1999, and continues to serve in that capacity.

Significant Legislation:

Legislation affecting the Department was passed by the General Assembly or became effective during the audited period. Some of the more significant legislation is presented below:

Public Act 99-181, allows the Commissioner of Transportation to direct the construction manager for the Bradley International Airport Terminal Improvement and Renovation project to solicit and prequalify responsible and qualified contractors, obtain and evaluate bids, and make a recommendation for selection of a contractor to the Commissioner. This provision of Public Act 99-181 was effective on June 23, 1999.

Public Act 99-265, effective October 1, 1999, eliminated the Citizens' Transportation Advisory

Council and revised the Connecticut Public Transportation Authority by establishing the Connecticut Public Transportation Commission in its place. The Commission membership is to include one person sixty years of age or older. The Commission is to hold a public hearing in each of the metropolitan areas at least once each year for the purpose of evaluating the adequacy of public transportation, including the needs of elderly and disabled persons; and advise and assist the Commissioner of Transportation, the Governor and the Transportation Committee of the General Assembly on matters relating to public transportation services. The Commission is also to, on or before January 1 each year, submit to the Commissioner of Transportation and the Governor; a list of needed public transportation projects, improvements to public transportation services and proposals for legislation and regulations.

Public Act 99-265 also eliminated State matching grants to transit districts for elderly and handicapped transportation programs and established a State matching grant program to municipalities for elderly and disabled transportation programs. Annually, on October 1 of each year, subject to available General Fund appropriations, the Department of Transportation shall make a State matching grant to any municipality applying for such grant funds. The grants shall be expended by such municipalities for elderly and disabled demand responsive transportation programs that shall be available to persons sixty years of age or older. The municipality is required to provide a 50 percent match.

Public Act 00-129 required the Commissioner of Transportation to conduct a comprehensive analysis of the joint agreement that exists between the Department and the Metropolitan Transportation Authority in New York for the operation of the Metro North Commuter Rail Service. The analysis must include examination of ridership, costs, service, scheduling, marketing, capital investment and other related issues. The findings and recommendations from that analysis were submitted to the Transportation Committee of the General Assembly on May 3, 2001.

Public Act 00-148 requires the Department of Transportation to conduct a study to examine ways to increase the use of waterborne transportation between Long Island Sound ports. It must consider the costs and benefits of establishing additional intrastate passenger ferry services, providing incentives for commercial trucks to use ferry services and expanding the use of barge transportation. The findings and recommendations from the study were submitted to the Transportation Committee of the General Assembly on March 15, 2001.

RÉSUMÉ OF OPERATIONS:

The operations of the Department are funded from various sources. Appropriations for continuing operations, including highway maintenance, minor highway and bridge renovation projects and commuter rail and bus operations are included in the Special Transportation Fund. Major capital projects for roads, bridges, mass transit equipment and facilities and airports are financed from Capital Projects Funds, primarily the Infrastructure Improvement Fund. Separate State funds are used to account for other operations. They include the Public Bus Transportation Revenue Fund, the Local Bridge Revolving Fund and the Bradley International Airport Operations Fund.

Schedules of total receipts and expenditures for all funds and summarized expenditures from the Special Transportation Fund and Infrastructure Improvement Fund for the fiscal years ended June 30, 1998, 1999 and 2000, are presented below for comparative purposes:

Schedule of Receipts - by Fund:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
General Fund	\$ 9,924	\$ 610	\$ 12,305
Special Transportation Fund	113,454,453	125,309,031	137,012,769
Public Bus Transportation Revenue Fund	23,567,326	22,849,493	22,701,972
Infrastructure Improvement Fund	327,933,826	322,400,095	375,221,579
Miscellaneous Capital Project Funds	5,742,769	1,945,866	987,591
Bradley International Airport Operations Fund	19,086,332	19,634,114	22,952,067
Local Bridge Revolving Fund	1,971,973	1,871,288	2,312,583
All Other Funds	<u>2,000</u>	<u>0</u>	<u>60,000</u>
Total Receipts	<u>\$491,768,603</u>	<u>\$494,026,496</u>	<u>\$561,260,866</u>

Schedule of Expenditures - by Fund:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
General Fund	\$ 0	\$ 894,326	\$ 2,218,038
Special Transportation Fund	378,679,204	406,276,415	430,345,328
Public Bus Transportation Revenue Fund	22,896,656	23,623,493	24,526,899
Infrastructure Improvement Fund	486,349,783	517,162,778	561,500,939
Miscellaneous Capital Projects Funds	39,992,356	7,546,669	7,416,433
Bradley International Airport Operations Fund	19,513,994	21,022,658	22,050,946
Local Bridge Revolving Fund	2,314,907	1,557,067	5,998,836
All Other Funds	<u>513,489</u>	<u>360,342</u>	<u>332,123</u>
Total Expenditures	<u>\$950,260,389</u>	<u>\$978,443,748</u>	<u>\$1,054,389,541</u>

Special Transportation Fund - Expenditures:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personal Services	\$ 96,381,977	\$ 98,459,045	\$ 99,884,295
Other Expenses	28,728,104	29,185,214	30,311,234
Highway Planning and Research	10,009,784	9,965,756	11,513,550
Highway and Bridge Projects	52,181,809	68,209,684	72,619,573
Handicapped Access Program	6,225,345	6,616,247	7,347,798
Rail Operations	53,493,725	51,923,974	62,811,983
Bus Operations	59,301,564	57,550,088	61,710,890
Litigation Settlement Costs	0	0	3,900,000
Dial-A-Ride	0	2,438,308	2,500,000
Workers' Compensation Claims	1,527,990	1,529,625	0
Amtrak Pass Through Funds	37,507,585	28,632,163	20,130,989
Bradley Airport Improvements	872,183	1,023,042	1,103,396
Aircraft Registration Program		1,445,869	868,113
290,819			
Town Aid Grants	19,918,524	29,877,611	34,857,231
Highway and Bridge Renewal Equipment	4,158,737	10,073,346	12,076,412
Equipment	1,365,179	1,948,793	1,176,346
All Other	<u>5,560,829</u>	<u>7,975,406</u>	<u>8,110,812</u>
Total Expenditures	<u>\$378,679,204</u>	<u>\$406,276,415</u>	<u>\$430,345,328</u>

Infrastructure Improvement Fund - Expenditures:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personal Services	\$ 44,108,204	\$ 50,704,307	\$ 55,327,699
Employee Fringe Benefits	18,493,816	19,794,312	24,325,266
Other Expenses	92,311,400	104,254,337	114,110,833
Highway and Transit Facility Projects	322,229,914	327,263,834	347,724,446
Land	8,176,228	14,424,019	17,859,958
Equipment	<u>1,023,842</u>	<u>711,970</u>	<u>2,152,735</u>
Total Expenditures	<u>\$486,343,404</u>	<u>\$517,152,779</u>	<u>\$561,500,937</u>

Revenues and Receipts - Infrastructure Improvement and Special Transportation Funds:

The most significant component of Department revenues during the audited period was the highway and transit construction projects accounted for in the Infrastructure Improvement Fund, one of the Capital Projects Funds. Receipts for the Fund totaled \$322,400,095 and \$375,221,579 for the 1998-1999 and 1999-2000 fiscal years, respectively, as compared to \$327,933,826 for the 1997-1998 fiscal year. Revenues for the Special Transportation Fund totaled \$125,309,031 and \$137,012,769 for the 1998-1999 and 1999-2000 fiscal years, respectively, as compared to \$113,454,453 for the 1997-1998 fiscal year.

The reimbursement of expenditures partly funded by Federal grants was the major source of receipts for the Department of Transportation. The principal portion of these receipts was deposited to the Infrastructure Improvement Fund, as a reimbursement of construction project costs, with a significant amount also deposited to the Special Transportation Fund. Federal grant receipts in the Infrastructure Improvement Fund totaled \$302,451,663 and \$369,250,100 for the fiscal years ended June 30, 1999 and 2000, respectively, as compared to \$322,704,550 for the 1997-1998 fiscal year. The significant increases or decreases in receipts in the Infrastructure Improvement Fund over the audited period, and as compared to the 1997-1998 fiscal year, was primarily from changes in the number of Federally reimbursed highway construction projects.

Federal grant receipts for the Special Transportation Fund totaled \$72,285,405 and \$81,076,202 for the fiscal years ended June 30, 1999 and 2000 respectively, as compared to \$57,007,332 for the 1997-1998 fiscal year. The increase in receipts in the Special Transportation Fund over the audited period, and as compared to the 1997-1998 fiscal year, was primarily due to increases in Federal grant programs. Other major receipts deposited to the Special Transportation Fund included motor carrier permit fees, royalties from highway concessions and rental income.

Expenditures - Infrastructure Improvement and Special Transportation Funds:

Expenditures for highway and transit construction projects are accounted for in the Infrastructure Improvement Fund, one of the Capital Projects Funds. Expenditures of the Infrastructure Improvement Fund totaled \$517,152,779 and \$561,500,937 for the fiscal years ended June 30, 1999 and 2000, respectively, as compared to \$486,343,404 for the fiscal year ended June 30, 1998. Expenditures from the Special Transportation Fund totaled \$406,276,415 and \$430,345,328 for the fiscal years ended June 30, 1999 and 2000, respectively, as compared to \$378,679,204 for the fiscal year ended June 30, 1998.

For the Infrastructure Improvement Fund, there was a net increase in expenditures of \$30,809,375 in the 1998-1999 fiscal year as compared to the previous fiscal year, and a further increase in expenditures of \$44,338,158 in the 1999-2000 fiscal year as compared to the 1998-1999 fiscal year. The significant increases in expenditures were attributable to changes in the level of activity in major highway and bridge projects.

Payments for personal services, highway and bridge maintenance and subsidies for bus and rail transit were the major expenditures made by the Special Transportation Fund. In the Special Transportation Fund there was a net increase in expenditures of \$27,597,211 in the 1998-1999 fiscal year as compared to the 1997-1998 fiscal year; and a net increase in expenditures of \$24,068,913 in the 1999-2000 fiscal year as compared to the 1998-1999 fiscal year. The increases in expenditures were attributable to increases in the number of highway and bridge projects, increases in town aid grants and an increase in the subsidy for commuter railroads.

General Fund:

The Department received appropriations from the State General Fund during the audited period. Expenditures from the Fund, primarily for consulting services and equipment, were \$894,326 and \$2,218,038 for the fiscal years ended June 30, 1999 and 2000, respectively.

Public Bus Transportation Revenue Fund:

Receipts from Connecticut Transit bus fares are deposited to the Public Bus Transportation Revenue Fund. Revenues of the Fund totaled \$22,849,493 and \$22,701,972 for the fiscal years ended June 30, 1999 and 2000, respectively. Expenditures from the Fund, for transit operations, were \$23,623,493 and \$24,526,899 for the fiscal years ended June 30, 1999 and 2000, respectively.

Bradley International Airport Operations Fund:

Income from airport parking, car rentals and concessions at Bradley International Airport is reflected in receipts of the Bradley International Airport Operations Fund. Revenues of the Fund totaled \$19,634,114 and \$22,952,067 for the fiscal years ended June 30, 1999 and 2000, respectively. Expenditures from the Fund, for airport operations, primarily for the cost of payrolls and fringe benefits, were \$21,022,658 and \$22,050,946 for the same fiscal years, respectively.

Local Bridge Revolving Fund:

The Local Bridge Revolving Fund is used for granting loans to municipalities for the repair, rehabilitation or replacement of local bridges. Revenues of the Fund, primarily from loan repayments and interest on investments, totaled \$1,871,288 and \$2,312,583 for the fiscal years ended June 30, 1999 and 2000, respectively. Expenditures from the Fund, for grants and loans, were \$1,557,067 and \$5,998,836 for the fiscal years ended June 30, 1999 and 2000, respectively.

State Funds Awaiting Distribution Fund:

Receipts credited to the Department's account in the State Funds Awaiting Distribution Fund, totaled \$12,309,150 and \$727,975 for the fiscal years ended June 30, 1999 and 2000, respectively. Expenditures from the Department's account in the Fund were \$12,249,076 and \$637,176 for the same fiscal years, respectively.

PROGRAM EVALUATION:

Our prior audit report, covering the fiscal years ended June 30, 1997 and 1998, contained program evaluations of the Aircraft Registration Program, vehicle fleet operations, the Operation Lifesaver Committee and the Department's Maintenance Management System. For our current audit, we have conducted a follow up review of those topics. We also conducted a follow up review of a performance audit of the Department's surplus real property and real property control systems that was done by the Performance Audit Unit of the Auditors of Public Accounts. We have also conducted two new program evaluations, a review of the Department's application of "Value Engineering" analysis for highway construction projects and a review of the Department's use of construction change orders.

Aircraft Registration Program:

In our program evaluation of the Aircraft Registration Program, we noted that the number of aircraft registered as based in the State did not increase as intended. In addition, the loss of municipal tax receipts may not have been offset by any gain in economic benefits. The payments established by the legislation were intended to offset a temporary shortfall of revenue caused by the program. The result was a permanent loss of revenue to towns that may not have been offset by the economic benefits of increased aircraft activity.

We recommended that the Department investigate the continuing decline in aircraft registrations. We also recommended that it reevaluate the effectiveness of the Aircraft Registration Program and seek legislation to correct the deficiencies noted. The Department responded to our Recommendation by stating that "The rationale has always been that the Aircraft Registration Program would put Connecticut on par with its surrounding states so that Connecticut aircraft owners would not cross state lines to base their aircraft elsewhere. It is the Department's position that the program is accomplishing that goal....The Aircraft Registration Program along with the upswing of Connecticut's economy had contributed to the increase of aircraft related activity at the State owned airports....The many capital improvements made by private and municipal airports have also assisted the municipalities in their shortfall in revenues by way of property tax on the new structures."

Our follow up review found that, for the seven-year life of the program, total aircraft registrations have remained relatively unchanged. Total aircraft registrations, along with registration fees collected by municipalities and Department payments in lieu of property taxes for the past seven fiscal years, beginning October 1, were as follows:

Fiscal Year	Total Registrations	Registration Fees Collected	Payments In Lieu of Taxes
1993-1994	1164	\$213,065	\$2,709,880
1994-1995	1170	\$219,735	\$2,690,154
1995-1996	1118	\$208,830	\$2,545,658
1996-1997	1101	\$161,654	\$2,028,215
1997-1998	1122	\$173,602	\$1,445,869
1998-1999	1151	\$203,200	\$868,113
1999-2000	1013	\$227,470	\$290,818

We are not repeating the Recommendation. The property tax exemption for aircraft will continue unless changed by the legislature. The payments to municipalities were reduced and have ended in accordance with the original legislation. The municipalities now bear the full cost of the tax exemption. There is no further cost to the State except to administer the registration stickers. The number of aircraft reported as based in the State has not shown a sustained increase; but also, it appears that the number has not significantly decreased because of losses of aircraft to other States. We are unable to determine if all aircraft are being registered, but because the registration receipts are paid to the municipalities, it is in their interest to enforce compliance.

Vehicle Fleet Operations:

Our prior audit report included a program evaluation of vehicle fleet operations. That report recommended that the Department obtain documented approval from the Department of Administrative Services for each vehicle parked overnight at employees' homes. Our current audit found that the Department had approvals on file for those vehicles garaged at home. We consider that part of the Recommendation to be implemented.

Our prior audit also reviewed the assignment of State vehicles and the payments made to employees for the use of personal vehicles on State business. We recommended that the Department assign State owned vehicles or reimburse employees for the use of their personally owned vehicles in a manner that is most cost effective. Our current audit found conditions have shown limited improvement. We are repeating that finding as follows:

Criteria: The assignment of State-owned vehicles and the reimbursements paid to employees for the use of personally owned vehicles should be made in the most cost effective manner.

Condition: Our prior audit identified 55 employees receiving monthly mileage payments for the use of their personally owned vehicles on State business that were greater than the cost of using a State-owned vehicle for one month. An analysis of these payments disclosed that approximately \$100,000 in costs per year could have been saved by assigning State-owned vehicles rather than making the mileage payments.

In its response to our findings, the Department stated it will investigate these cases, and if conversion to a State vehicle would be more economical, the Department would reassign existing vehicles or obtain additional State vehicles.

Our current audit identified 71 employees receiving monthly mileage payments that were greater than the cost of using a State owned vehicle for the same period. Our audit sampled and reviewed the 25 employees in the Department who received the largest amount of personal mileage reimbursements during the 2000 calendar year. We found that the average monthly mileage payment to these employees was well above the cost to use a State owned vehicle. Out of the 25 employees sampled, 14 received mileage reimbursement payments that totaled from \$8,000 to \$10,950 for the calendar year. We noted

that the average cost to lease a vehicle from the State fleet was approximately half that amount. A review of mileage reimbursements paid for the same 25 employees in the 1999 calendar year found a similar result.

Effect: The Department has paid employees for the use of personally owned vehicles when it would be more cost effective to assign a State owned vehicle either permanently, or to make use of vehicles available on hand at the Department's motor pool. For the 25 employees we reviewed, we estimate that approximately \$90,000 in costs per year could have been saved by the assignment of State owned vehicles.

Cause: The Engineering, Scientific and Technical (P-4) collective bargaining agreement for construction personnel in the Department of Transportation states - "Any employee who is presently assigned a State vehicle may change his/her mind and shift to the use of his/her personal vehicle, at which time he/she shall be entitled to all the benefits accruing to other employees who are using their personal vehicles."

For those employees identified by our audit, this provision restricted the ability of the Department to assign State vehicles to reduce travel costs.

Conclusion: The Department has responded to our inquiry by agreeing that, in cases where it is more economical and in compliance with bargaining unit contracts, it will seek to assign a State vehicle to those specific individuals where long-term, high-mileage use of a personal vehicle exists.

Operation Lifesaver Committee:

Our previous audit conducted a program evaluation of the Operation Lifesaver Program. In it, we noted that there was one continued vacancy on the Operation Lifesaver Committee and poor attendance at meetings. We noted for the six meetings held during the audited period, an average of only three of the nine members attended; in fact, the Committee met its quorum on only two occasions. We concluded that the statutory requirement to appoint a nine-member committee, of which six must be appointed by the General Assembly leadership, has not been workable. We also noted that in addition to a private grant and State matching funds used to cover program costs, the Operation Lifesaver Program also required the resources of two Department employees assigned full time and one employee assigned part time to it.

Our review of the program questioned if this program was significantly responsible for a decline in railroad related accidents. A review of the details of these accidents disclosed that many were caused by factors such as alcohol or suicide that would not be addressed by the activities of the Operation Lifesaver Program. Our audit recommended that the Department should consider the elimination of the Operation Lifesaver Committee or restructure the Committee's makeup. In its response to our Recommendation, the Department defended the purpose of the program. It also agreed with part of the Recommendation, noting that most of the appointees on the mandated

Committee do not show up for meetings and also play a very small part in administering and operating the program. Our follow up review of Committee attendance for the audited period found this condition unchanged. We are repeating the Recommendation as follows:

Criteria: The Operation Lifesaver Committee was authorized by Section 13b-376 of the General Statutes. The nine-member Committee is to be comprised of the Commissioners, or their designees, of the Department of Education, the Department of Public Safety, and the Department of Transportation, who serves as chairperson, together with six appointees of the General Assembly leadership who represent various concerned groups. According to the statute, the Committee shall establish, administer and operate the Operation Lifesaver Program, which is designed to reduce the number of accidents at railway crossings and to increase the public awareness of railroad crossing hazards. The statute specifies that the Committee is to be within the Department of Transportation for “administrative purposes only” which is defined by statute as “independent of such department and without approval or control of the department.”

Condition: Our current review found there were two vacancies on the Operation Lifesaver Committee that, for the entire audited period, have not been filled. We found that the poor attendance shown at meetings has improved somewhat. For the six meetings held during the audited period, an average of four to five members did attend. However, one appointed member had never attended a meeting.

Effect: The Operation Lifesaver Committee is not operating in compliance with the statutory requirements related to its organization and function. Department personnel rather than the Committee membership operate the program.

Cause: The legislative leadership did not appoint two of the six public Committee members that are required by statute. In addition, the public members of the Committee did not make attending meetings a priority.

Recommendation: The Department should seek legislation to amend Section 13b-376 of the General Statutes to restructure the membership of the Operation Lifesaver Committee. (See Recommendation 1.)

Agency Response: “The Department agrees with the Auditors’ conclusion that the statutory requirement of Connecticut General Statutes (CGS) Section 13b-376(a) to appoint a nine-member Committee, of which six must be appointed by General Assembly leadership, has been unworkable.

In that regard, the Department will propose an amendment to Section 13b-376(a) to reflect that the core members of the Committee be the Commissioners or designees of the Department of Transportation, Department of Public Safety and the Department of Education. The

three designees appoint, by unanimous consent, four other Committee members who will serve as representatives as follows: one representative from a local law enforcement agency, one representative from the railroad industry, one representative of a parent/teacher association, and a local government official.

A new section will also be proposed to specify that if such appointed representatives do not attend the meetings, they are deemed to have automatically resigned. Any member absent from three consecutive meetings of the Committee, or 50 percent of such meetings, during any calendar year shall be deemed to have resigned from the Committee, effective on the date that the chairperson provides notification to such member.”

Maintenance Management System:

In our prior audit, we conducted a program review of the Department’s Maintenance Management System (MMS). In that review we intended to determine how the Department of Transportation makes best use of the MMS to facilitate planning and budgeting. We also investigated its potential as a control and benchmarking tool.

The MMS derives information from data supplied by the staff at the maintenance garages. The Daily Job Assignment Form provides the initial data for the MMS. The leader of a work crew reports the work accomplished each day on a Daily Job Assignment Form. The general supervisor of the maintenance garage reviews and approves the completed Form. The general supervisor inspects the work completed and should confirm the accuracy of the reporting.

Using reports from the MMS, the Department's management is to review actual productivity and total accomplishment figures and compare them to the planned productivity and accomplishments. The Department has developed standards based on past experience to be used to determine the resources required to accomplish its maintenance work plans and to determine if those plans are being accomplished. The MMS was designed to work by allowing a comparison of reported daily attainments against established performance standards so that corrective action can be made if significant variances are noted.

Our prior audit report cited three areas in which we believed the Department's Maintenance Management System was deficient:

1. The performance standards in the system were based on inaccurate data because of faulty reporting in the past. Our follow up review found this finding has been addressed. The Department had implemented corrective action by requiring supervisors to review the forms, by supplying each maintenance garage with a computer to prepare and enter the reports, and by management stressing the importance of complete and accurate reporting. However, we note that it will take some time for the accumulated data to reflect the improved reporting, and more time for the performance standards to be updated with the new data.
2. The activity reports generated by the MMS and used for planning and controlling purposes illustrated significant variances between planned and actual activity. Our audit reviewed a District MMS Activity Report and by sampling 18 activities, found an average variance of 45

percent between the planned and actual activity hours reported. For two activities, we found variances as high as 73 percent and 56 percent. We noted that variances would occur in the MMS reports from weather patterns and unforeseen conditions. However, the unexpectedly wide variances found indicated to us that there was a deficiency in the system.

Our follow up review found that these variances still occur. We sampled 18 individual activities at each of the four districts. We found that the overall variance in the selected sample was ten percent. However, we again found wide variances within the individual activities. They ranged from 473 percent over planned hours to 91 percent under planned hours within the individual activities. From district to district, we found total variances from 53 percent over planned hours to 14 percent under planned hours. Department officials explained that improvements are gradually being made to the system to more accurately allocate the planned hours. We again conclude that the variances found illustrate that the Maintenance Management System does not meet its potential as a budgeting or controlling tool.

3. The reports generated by the MMS did not accurately reflect the activities of maintenance crews. Although the performance standards specify the required manpower, equipment and other resources needed to perform the task, we found that the MMS did not adequately account for equipment downtime and other matters affecting productivity in order to identify causes of it and facilitate corrective action. Our follow up review found hours coded to unproductive time that ranged, from district to district, from 5.4 to 7.2 percent. Department officials explained that the unproductive time was the result of the change from a seven to a seven and one-half hour workday for employees. Until the performance standards could be modified to reflect the change, the Department decided that the additional half-hour would be charged to nonproductive time. Department officials also explained that equipment downtime was tracked by using separate repair and maintenance records rather than making use of the Maintenance Management System.

Our follow up review also examined the cost model reports generated by the Maintenance Management System. We found that the equipment expenditures were drastically overstated in the calculation of costs. For snow and ice removal activity for instance, total equipment costs were listed as totaling over \$1,592,000,000 for the 1999-2000 fiscal year. This resulted in a unit cost of \$9,271 per man-hour, an amount greatly in error, which clearly could not be used for budgeting. The total state budget for snow and ice removal for that year was approximately \$23,000,000. We also found activities with reporting based on accomplishments that showed wide variances, resulting in significant differences in the year to year cost per unit. For example, one activity, spraying operations, had 6677 acres reported as accomplishments in the 1998-1999 fiscal year and 254 acres reported as accomplishments in the 1999-2000 fiscal year. This greatly affected the cost per unit, from \$99 per acre to \$2,425 per acre, although the expenditures and annual hours from year to year were approximately the same. This condition happened with many activities; consequently, only activities reported in man-hours were used by the Department for budgeting. When brought to the Department's attention, the errors were corrected.

Our prior report stated that revisions were needed to the MMS to realize its potential to be a useful and effective tool for planning, budgeting, control and reporting purposes. If the MMS functioned effectively, it would provide management with cost computations that will identify how changes in budget levels, or changes in the allocations within the budget, would affect the highway maintenance service levels and the resulting condition of highways and bridges. We again found

that the reports generated by the MMS were not effective in providing this type of information. We are repeating the Recommendation as follows:

Criteria: According to the Department's Manual, the Maintenance Management System is described as comprising four areas: 1. developing maintenance programs, 2. budgeting and allocating resources, authorizing and scheduling work, 3. reporting and 4. evaluating performance. The definitions of these four areas indicated to us that the focus of the Department's Maintenance Management System is the planning, budgeting, controlling, and reporting of the Department's highway maintenance resources.

Performance measurement can determine how effectively and efficiently that highway maintenance resources are being used for the delivery of services and administration of programs. However, such measurements must be effectively applied and the performance standards used must be effectively implemented.

Condition: Our prior audit report cited two areas in which we believed the Department's Maintenance Management System was deficient. We found the activity reports generated by the Maintenance Management System and used for planning and controlling purposes illustrated significant variances between planned and actual activity. We also found that the reports generated by the Maintenance Management System did not adequately identify equipment downtime or other matters affecting productivity.

In its response, the Department did not address our findings regarding the wide variances noted between planned and actual activity hours reported and our concerns about the inability of the Maintenance Management System to identify the reasons for unproductive time, and to provide cost computations that would allow performance budgeting.

Our follow up review again found significant variances between planned and actual activity reported. The wide range of these variances could not be logically explained. We also found inaccurate reporting of equipment costs and of accomplishments that resulted in significant differences in the calculated unit costs.

Cause: The Department has an ongoing process to correct deficiencies in the Maintenance Management System, but has not made it a priority. The overstated equipment expenditures included on the cost model reports were caused by Year 2000 software changes that resulted in errors.

Effect: The resources expended in operating the Maintenance Management System have not resulted in a corresponding improvement in the Department's management of maintenance operations.

Recommendation: Revisions should be made to the Maintenance Management System to realize its potential to be a useful and effective tool for planning, budgeting, control and reporting purposes. (See Recommendation 2.)

Agency Response: “Since the first time the Auditors reported this condition, the Department’s Office of Maintenance planning staff has been working with the programmers from the Office of Information Systems fixing the problem areas within the Maintenance Management System (MMS) program. The new 1999-2000 and 1998-1999 fiscal year reports were printed and provided to the Auditors of Public Accounts’ Principal Auditor.

In order to address the variances between the planned and actual activities, the Maintenance Managers have been directed to closely monitor the biweekly schedule of each of their General Supervisors’ sections and ensure that the following areas are taken into consideration when planning the work:

- Work Scheduling Calendar
- Supervisor’s Patrol Sheets
- Priority/Betterment Lists
- Crew Sizes
- Weather Conditions
- Monthly Planned Activity Report
- Annual Planned Activity Report

An emphasis, once again, will be placed on the General Supervisors to perform an in-depth review of all Daily Job Assignments (Maintenance 23) for each activity and to make sure that the accomplishments for these activities are accurate.

The District Directors will continue to have monthly meetings with the Maintenance Managers and Planners to review and discuss this scheduling and to take corrective action where needed.

The Department’s Office of Maintenance is constantly making revisions to the MMS when applicable and will continue to do so for improvements in our scheduling, evaluating, and reporting of our accomplishments.”

Surplus Real Property and Real Property Control Systems:

In October 1999, the Auditors of Public Accounts issued a performance audit report on surplus real property and real property management systems at the Department of Transportation. The objectives of that audit were to determine if the State's surplus real property is being managed in a manner that will maximize the use of the property and minimize the State's cost of holding that property. That report contained six recommendations:

1. "The Department of Transportation's Office of Rights of Way, Division of Property Management should work towards having one comprehensive inventory of all of its real property with provisions to identify property that is surplus."

The performance audit found that the Division of Property Management did not have an inventory account of real property as prescribed by Section 4-36 of the General Statutes. Our follow up review found that some progress has been made. The Department has a project that uses an image based records management system and geographical information system software to inventory property on a project-by-project basis. This was described as a large task that will take many years to accomplish. We also note that the Governmental Accounting Standards Board (GASB) has issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which becomes effective for the State of Connecticut in the fiscal year ended June 30, 2002. GASB Statement 34 establishes an improved standard of financial reporting that requires the State to include on its financial statements, all newly acquired general capital assets, including real property, whether or not it was made part of the infrastructure. In addition, effective with the fiscal year ending June 30, 2006, the State must retroactively report on its financial statements, assets purchased, constructed, donated, renovated, restored or improved after June 30, 1980. Therefore, an inventory of all of the Department's real property is necessary, and the task should be completed as expeditiously as possible. We have also addressed this matter in the "Condition of Records" section of this report. (See Recommendation 7.)

2. "The Department of Transportation should establish an agency-wide policy, which includes criteria for making property surplus, procedures for early identification of property not used for transportation purposes, and how and when to place such property on a surplus property inventory listing."

The performance audit found that the Department does not identify property as surplus and marketable until a prospective buyer makes an inquiry. Our follow up review found that an agency-wide policy for the early identification of surplus property has yet to be established. Department officials explained that limited staff was available to identify and inventory such property, and the sale of surplus land was a lower priority than the acquisition of new properties for ongoing projects.

3. "The surplus property must be both identified and marketed."

The performance audit found that the Department of Transportation does not actively market real property that is no longer needed for transportation purposes and did not have sufficient resources to make a concerted marketing effort to dispose of its surplus real property. Our follow up review found that, using the resources available and given an improved economic climate, the Rights of Way Unit has made progress in the marketing and sale of property that

was already identified as surplus, and in particular, property identified as surplus from the cancelled I-291 project.

4. “A review of the surplus property process should be made and consideration should be given to eliminating some steps in the process. Evaluation of the two most time consuming processes, the in-house review and the appraisal should be given special attention to determine whether adjustments can be made to improve processing time.”

The performance audit found that the requirements established by the General Statutes and Department policies made the disposal of surplus real property very complex and time consuming. From the time of initial interest by a purchaser to the final closing, it was found that it takes approximately two years for the Department to process a transaction. In its response to that Recommendation, the Department agreed that eliminating some of the requirements to notify former owners of houses and to have the transaction formally approved by the Office of Policy and Management was desirable. Our follow up review found the Department has not requested any legislative action to change these statutory requirements.

5. “The Department of Transportation should report to the State’s central agencies the value and amount of land and other real property, which was purchased for highway purposes but is currently leased to other parties. In addition, the Department of Transportation should establish policies that would identify when such property becomes excess to the Department’s needs and offer those properties for sale or transfer.”

The performance audit found that some controls over property purchased for future projects were weak. It was found that real property purchased for planned future projects by the Department of Transportation but leased to other persons or companies was not reported to or included in the Statewide inventory listing maintained at the Office of the Comptroller or at the Office of Policy and Management. Our follow up review found that the Rights of Way Unit now annually reports its inventory of leased properties to the Comptroller at the close of the State fiscal year. Department officials explained that at one time it did regularly report properties purchased for pending construction projects as part of its fixed assets inventory. This was discontinued when it was found in many cases, by the time the property was reported, construction proceeded and the status of the property changed. The Department also stated that it did review its listing of leased properties each year, to identify properties that could be sold.

6. “Appraisals should be performed in a more timely manner if the appraisal value of the property is going to be a determining factor in the sale price.”

The performance audit questioned the value of having surplus real property appraised, if the final selling price did not reflect the appraised value. It was found that this was caused, in part, by the length of time between the appraisal and the sale. It was also found that property parcels sold to abutting landowners had a limited market, and therefore appraising these parcels was of no real value. Our follow up review found no change has been implemented, the property appraisal continues to be a statutory requirement, and it may be completed over a year prior to the sale of the property.

As noted above, our follow up review found that the Department has not addressed some of the findings from the performance audit. Therefore, we are making the following Recommendation:

- Criteria:* Section 4-36 of the Connecticut General Statutes states that each State department or institution shall establish and keep an inventory account in the form prescribed by the State Comptroller.
- The State of Connecticut Property Control Manual, issued by the Office of the State Comptroller in July 1995, requires that all State agencies have policies and procedures to ensure that all owned and leased assets of the State are properly recorded.
- The efficient management of the State's assets includes maximizing the return on the State's investment in real property.
- Condition:* Our performance audit report cited the Department of Transportation's Office of Rights of Way, Division of Property Management, for failure to maintain a complete inventory of real property that is considered surplus or held for future transportation projects. In addition, the report cited the need to establish an agency-wide policy for the identification of surplus property, the need to eliminate some statutory requirements in the surplus property process, and, to perform property appraisals in a timely manner if they were to be used to determine the sales price. A follow up review found that the Department has not implemented the recommendations pertaining to these findings.
- Effect:* The financial records of the State do not identify or report all of the fixed assets held by the Department. The Department has held significant State assets in surplus real property that is not employed in the highest and best use.
- Cause:* In its response to the findings of the performance audit report, the Department indicated that limited staff, the complexity of the process and the nature of many of the properties makes the preparation of a complete inventory record difficult. The Department also stated that limited staff was available to implement a more aggressive policy toward identifying surplus property. In addition, the Department has not made changing certain statutory requirements pertaining to the transfer of property a priority, and it has not changed its method of using property appraisals.
- Recommendation:* The Department should complete the inventory of real property that is currently in progress. That inventory should include all property that has not been made part of the highway infrastructure. The Department should also implement statutory, policy and procedural changes that would expedite the process for identifying and disposing of surplus property. (See Recommendation 3.)

Agency Response: “Over the past two years, the Department has significantly increased the property reported on its inventory to the Comptroller. As of June 2001, information was reported on 140 improved properties and 69 parcels of vacant land. Resources devoted to this inventory effort and to the sale of surplus property continue to diminish, however, as the Department must utilize its existing resources for property acquisition activities on the current highway and infrastructure program.

Legislative actions continue to mandate the conveyance of various parcels of State land. Public Act No. 01-75 mandates the conveyance of a total of 17.8 acres of Connecticut Department of Transportation land, thereby further reducing the Department’s inventory and requiring the dedication of resources to accomplish these ten conveyances.

Over the previous four-year period, Legislative conveyances have involved over 260 acres of land valued at over \$12,000,000. These conveyances have eliminated much of the Department’s surplus land, including a large percentage of the former I-291 corridor in Newington and Wethersfield.

The auditors’ recommendation to expedite the process for disposing of State land is certainly agreeable to the Department. It fails to recognize, however, that the statutory constraints placed upon the sale of State land were legislatively created. The rights of former owners, the municipality’s right of first refusal, the mandatory offering to other State agencies and the various checks and balances contained in State Statutes were all felt to be valid steps in the sale of State property. Collectively, however, they result in a disposal process that is difficult to expedite.”

Value Engineering Analysis:

For our current audit, we conducted a program evaluation of the Department's application of "Value Engineering" analysis for highway construction projects.

"Value Engineering" (VE) is the term applied to the application of techniques that identify the function of a product and generate recommendations to accomplish the purpose of that product at the lowest cost without sacrificing safety, quality, and environmental standards. A VE program may include an incentive clause in the State's standard specifications for construction that allows contractors, during the construction phase of a project, to submit change proposals and share the cost savings with the State. The Connecticut Department of Transportation has issued specifications that address this area. However, the maximum results with a VE program are obtained when it is implemented at the start of the design phase of a highway construction project, before the commitment of funds and approval of systems or designs. When a VE analysis, or study, is applied to highway project design, the objective is to improve project value, reduce costs, and eliminate unnecessary and costly design elements.

A multidiscipline team develops the recommendations and is generally made up of five to eight individuals who are not personally involved in the initial design of the project. The members of the team represent different specialty areas such as design, construction, environment, right-of-way and other areas depending on the type of project being reviewed. The actual VE study usually takes about a week to perform, although review of the recommendations and interaction with the VE team will involve more time.

Congress enacted the National Highway System Designation Act of 1995, which requires the States to carry out VE studies on all projects on the National Highway System with an estimated total cost of \$25,000,000 or more. The Act prohibited the Federal Department of Transportation from requiring VE studies on other Federal-aid projects, though a State remains free to undertake VE studies at its own discretion. Based on this, the Federal Highway Administration's (FHWA) final regulations, published in 1997, were revised to be consistent with Federal statutes. The FHWA strongly encourages the States to perform VE analysis on all Federal-aid projects and supports that effort by maintaining a comprehensive VE website, holding workshops, presenting awards to States for exceptional accomplishments in applying and promoting VE, and by other means. Perhaps one of the best indications of the FHWA's support of VE studies is that the costs of the studies are eligible for Federal reimbursement at the appropriate pro-rata share. Normally, this reimbursement is equal to 80 or 90 percent of the project cost. The FHWA states that the VE process helps to achieve the purpose of "getting the best overall project value for the taxpayer."

According to the FHWA, VE studies are guided by a specific "job plan" that incorporates eight distinct phases: Selection, Investigation, Speculation, Evaluation, Development, Presentation, Implementation, and Audit. The Selection phase involves the consideration of high cost projects and/or problem projects to be reviewed. In the Investigation phase, the VE team determines what is known about the project and what should be known. The Speculation phase involves finding alternatives to the way the project is currently designed. Evaluation involves the consideration of best alternatives and the advantages and disadvantages of each. If the disadvantages outweigh the advantages, then the alternative is dropped. The Development phase involves taking the best alternative and testing the assumptions by cost estimates, validation of test data, and other technical work. During the Presentation phase, the VE team presents its findings to the decision-makers. The Implementation phase is when the decision-makers act to ensure the accepted suggestions are

implemented. Lastly, the Audit phase determines the amount of savings generated by the study based on the number and extent of the recommendations implemented. It is important to note that each phase should be done in a formal way in order to yield the maximum results from a VE study or analysis.

The VE process is not meant as a method to criticize highway designs or the design staff. Rather, one of the goals of VE analysis is to achieve overall design excellence by enhancing a project's quality. This is done by constantly striving to improve the standards, methods, and philosophy of highway design and by eliminating many of the reasons that reduce a project's overall quality. Some of those reasons cited by the FHWA include a lack of information, erroneous interpretation of facts, habitual thinking, time pressures, adherence to unnecessary requirements, and others. By using a team approach, the FHWA believes the VE review process can overcome these obstacles and is successful because it breaks down a project into its basic functions and finds different ways to perform them.

States are required to report on their participation in the program to assure that VE studies are performed on Federal aid highway projects on the National Highway system with an estimated cost of \$25,000,000 or more. Program procedures should provide for the identification of candidate projects for VE studies early in the development of the State's multi-year Statewide Transportation Improvement program. VE studies can be performed in-house by the Department's own staff, or can be contracted out to firms that specialize in this area. The approved recommendations from the study are incorporated into the plans, specifications and estimates of the project.

To survey the nationwide application of VE, we obtained the *Annual Federal-Aid Value Engineering Summary Report* compiled by the FHWA for the two latest years available: 1998 and 1999. These reports summarize the VE studies done in the 50 states, in Puerto Rico, the District of Columbia, and the Virgin Islands for those calendar years. It should be noted that the results are based on information supplied to the FHWA by the states.

The 1998 report stated that, nationally, 421 VE studies costing approximately \$6,260,000 were performed and resulted in 735 approved recommendations, with a cost savings of over \$750,000,000, for an average return on investment of \$118 per dollar expended. In other words, for every dollar spent on VE analysis, the states report an average of \$118 was saved in project costs. The 1999 report shows similar results, with approved savings of over \$845,900,000 as a result of 385 VE studies that cost approximately \$7,470,000 and produced 848 approved recommendations, for an average return on investment of \$116 per dollar expended. Some states reported returns even greater than that average, for example in 1999, New Jersey reported a return on investment of \$241 for every dollar spent on VE analysis.

From those reports, we developed the following tables that show the results for selected Northeast states for 1998 and 1999. We also calculated averages for the Northeast states and for the U.S. from this data for comparison purposes:

State	Number of VE Studies 1998	Cost of VE Studies	Approved Savings	Return on Each Dollar Invested
Connecticut	5	\$ 44,000	\$ 2,300,000	\$ 52.27
Delaware	0	0	0	n/a
Maine	0	0	0	n/a

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Maryland	8	384,000	2,000,000	5.21
Massachusetts	0	0	0	n/a
New Hampshire	0	0	0	n/a
New Jersey	22	385,000	60,540,000	157.25
New York	14	745,000	13,800,000	18.52
Pennsylvania	24	50,000	5,064,000	101.28
Rhode Island	4	410,000	29,300,000	71.46
Vermont	0	0	0	n/a
Northeast Average	7	180,000	10,270,000	56.00
U.S. Average	8	120,000	14,190,000	118.25

State	Number of VE Studies 1999	Cost of VE Studies	Approved Savings	Return on Each Dollar Invested
Connecticut	2	\$ 90,000	\$ 990,000	\$ 11.00
Delaware	1	0	600,000	Undefined
Maine	0	0	0	n/a
Maryland	7	260,000	1,410,000	5.42
Massachusetts	0	0	0	n/a
New Hampshire	1	60,000	50,000	Loss
New Jersey	13	180,000	43,420,000	241.22
New York	12	710,000	65,530,000	92.30
Pennsylvania	24	90,000	22,400,000	248.89
Rhode Island	2	220,000	58,000,000	263.64
Vermont	1	60,000	0	0.00
Northeast Average	6	150,000	17,490,000	115.21
U.S. Average	7	140,000	16,270,000	116.21

As shown in the table above, during 1998 the Connecticut Department of Transportation performed five in-house VE studies as part of a VE workshop. Four of those VE studies did not yield any cost savings, as the proposed recommendations had been either previously evaluated or did not meet Departmental objectives. One study, however, for the I-91 Exit 8 Ramp project in New Haven, yielded one recommendation that resulted in cost savings of approximately \$2,300,000.

During 1999, the Connecticut Department of Transportation reported having performed two VE studies. One of those studies was for the I-95 New Haven Corridor project. The study was completed in five days at a cost of approximately \$90,000. Total cost savings of \$990,000 were accepted, for a return on investment of \$11 for each dollar spent on the study.

In 1996 a VE study conducted by the Department on the Route 15 Sikorsky Bridge project produced 66 recommendations, of which nine were implemented, resulting in an estimated cost savings of approximately \$7,000,000. We believe that the several VE studies performed by the Department over the last few years have yielded significant cost benefits and we suggest that additional VE studies might yield similar results.

Accordingly, based on the above, we are making the following Recommendation:

Criteria: Value Engineering (VE) analysis is an accepted, rigorous, and systematic methodology that identifies opportunities to eliminate unnecessary costs while maintaining quality, reliability, performance, and environmental standards. Recommendations developed by a multidiscipline team can enhance the value of a project by generating suggestions for cost improvements without sacrificing performance and safety criteria. These studies should add no more than one-tenth to one-half percent to the total project costs. The cost savings are typically equal to many times the initial investment in the analysis, often by a factor of 30 or 50 or more. Additionally, for Federal-aid projects, the cost of VE studies is eligible for Federal reimbursement in an amount equal to the Federal participation (usually 80 or 90 percent).

Condition: The Department does not routinely perform VE studies on Federal-aid projects below \$25,000,000, or on projects that are State-funded only of any amount. In the *Digest of Administrative Reports to the Governor*, the Department reported that during the fiscal year ended June 30, 1999, it had completed the design of 68 projects with a construction value of \$370,000,000; yet during that same period, the Department reported having conducted only a few VE studies.

Performing VE studies on projects other than those for which it is required has the potential to generate significant project cost savings with only a minimal additional expense to the Department since the costs of the VE studies are eligible for Federal reimbursement. The VE program, once established, could include studies that are performed in-house using a staff of perhaps two to three persons, or by outside VE consultants, or a combination of the two. If the initial program studies prove to be cost effective, the program could then be expanded to State funded projects.

Cause: We note that at least three factors have contributed to this condition. First, as mentioned earlier, the Department is not required to perform VE studies on Federal-aid projects under \$25,000,000. Secondly, the Department maintains that significant cost savings, as reported by other States, would not necessarily result because the Department already does a comprehensive review of design that incorporates many VE elements. Lastly, the Department also cites potential delays in project time frames and the additional costs associated with VE analysis as reasons why VE may not be as cost beneficial.

Effect: The effect as measured by potential cost savings by performing additional VE studies cannot be determined because the exact number of projects and the resulting cost savings from any future VE studies is not known. However, based on other States' experiences as reported to the FHWA, we believe the strong potential exists for

significant net cost savings to result from additional VE studies. In addition, the limited number of VE studies performed by the Connecticut Department of Transportation have yielded significant cost savings, and while the cost savings have not been on the same scale as other States, they nonetheless suggest that additional studies would yield similar results.

In addition, subjecting a design to VE analysis also has other, less quantifiable, potential benefits that cannot be determined at this point. For example, a VE study may recommend changes that could eliminate the need for additional construction change orders after a project has commenced, or the study might make recommendations that improve traffic flow, or suggest other project enhancements not contemplated by the design team.

Recommendation: The Department should develop an active program to extend the use of Value Engineering studies to those highway design projects for which it is not already Federally mandated. (See Recommendation 4.)

Agency Response: “The intent of the Department’s Office of Engineering is to review its Value Engineering procedures and make the appropriate revisions.”

Construction Change Orders:

For our current audit, we also performed a brief review of the Department's use of construction change orders.

During our audit testing of payments for construction projects, we noted there were some projects that had significantly higher costs than the original contract price. We observed that these projects had change orders, or, as used by the Department “construction orders,” for large amounts. We believe that the lowest available prices for construction contracts in total, and for individual items in those contracts, occurs when they are determined by the competitive bidding process. We found that when the Department uses a construction order, it frequently must negotiate the price for the additional items after the contract has been awarded and work begun. Therefore, it loses the advantage that comes from the competitive bidding process. In this review, we intended to determine if many of these construction orders were preventable.

The *ConnDOT Construction Manual* states that “changes and extra work should be held to a minimum and limited almost exclusively to revisions and additions necessitated by conditions that could not reasonably be anticipated before the project was advertised for bid.” We acknowledge that in large and complex construction projects the use of construction orders is inevitable, as not all designs can anticipate exact quantities or anticipate unknown soil or substructure conditions. It appears to us, however, that in the projects we selected for review, that the Department's Office of Engineering may have significantly underestimated the quantities of certain material items or failed to anticipate the need for certain major work prior to bidding. These could be considered design errors that may have caused excessive costs to be incurred on these projects. In our review, we did not question all of the construction orders found. We did investigate those items where there were large material differences in either the quantity and/or price actually used. We also investigated those projects where the nature of the work appeared to suggest that a item or a number of items

changed, due to the nature of that item or items, should have been incorporated in the original design and bid process and not through subsequent negotiations. We noted that with each construction order an addendum is attached that documents the need for the additional items, however, in some cases that justification raised further questions.

If an accurate estimate of quantities is made during the design phase, the competitive bidding process should produce the lowest per unit price. When the negotiation of prices for additional quantities are necessary, the Department's Office of Construction should use the best estimates available. In some construction orders we reviewed, we found the unit quantity price for the added quantity to be significantly higher than the price established for that item under the competitive bid, or greater than the average price approved for that item for other projects during the same time period. Information about prices approved on other projects is routinely available within the Department for this purpose. In these cases, we do not know if such information was accessed. We questioned why a more competitive price for some items was not negotiated. Some change orders resulted in work paid on a cost plus basis. There are numerous factors that influence an item's price that our review did not investigate in detail, such as special requirements for the transport or installation of that item, including equipment and labor.

Our review also found construction orders that added large cost increases due to major revisions in the scope of the project. It appeared that some of these changes should have been contemplated during the design phase. The application of Value Engineering analysis, as noted earlier in this report, may help to avoid significant changes to projects after the project has begun.

We conducted our review by surveying the Department's April 12, 2001, Construction Progress Report and identifying 86 projects that were entirely State funded. We chose to review only State funded projects because construction orders for Federally funded projects are reviewed by the FHWA. We sorted the 86 projects by percentage increase over original contract value, and chose only those projects whose original contract amount was over \$1,000,000 and whose percentage increase in the revised contract was ten percent or more. We were left with a sample of 15 projects totaling approximately \$59,528,000 in original contract value, and a revised contract value of approximately \$71,313,000, a difference of \$11,785,000 over original contract amount. Of the 15 projects we sampled, seven had change orders that we thought merited further review. After our review of these projects we presented our concerns to the Department and, in response, received a letter explaining some of the reasons for the change orders. The following is a brief description of the findings in the projects we reviewed:

1. Project #63-526 Emergency Rehabilitation of Bridges on I-84 in Hartford. Original contract price: \$4,781,790. Net construction orders: \$695,210. Total cost of project: \$5,477,000.

Construction Order 06 B approved additional work with an estimated cost of \$524,227, to rehab bridge decks at locations that were not included in the original contract. The materials used in the new work included many of the same items as the original contract. Our review found the item unit prices for the new work were 26 to 69 percent higher than the bid unit prices for the same items in the original contract. According to the documentation supporting the construction order, "The additional proposed work was to be done in smaller areas than the original contract work, thus the contractor's original production rate for this work could not be achieved." Because these items were an addition to the project, they were not included in the original project bidding and subject to competitive purchase.

Construction Order 06 F approved a cost for installed 8” PVC drain pipe that was at least twice the average for that year, as compared to other projects, adding an additional \$96,000 to the revised contract price. We also found the cost for “Removal of Existing Pipe” was at least three times higher as compared to other projects for that year, adding an additional \$82,500 to project costs. At the average price, these items would have cost the Department no more than \$48,000 and \$25,000 respectively, a cost difference of \$105,500.

In Construction Order 06 G we found the cost for “Precast Concrete Barrier Curb” to be over three times higher than on other projects in that year. The Department approved a cost of \$150 per linear foot for 1,988 feet, for a total of \$298,200. We found the average of the item unit price of this item, as installed on other projects that year, was \$45 per linear foot, a cost difference for the Department of \$208,740.

Construction Order 06 H added a new item to “remove deteriorated concrete on pier caps and columns on I-84 in Hartford and place new Class S concrete.” Because this was a new item added to the project, this work was not included in the original project bid and subject to competitive purchase. We found the unit cost for this “Class S concrete” to be twice as much as the unit cost for that material on other projects that year. In Construction Order 06 H, the Department approved \$8,600 per cubic yard for 75 cubic yards for a total of \$645,000. In Construction Order 06 L, another 40 cubic yards was used. If the Department had negotiated a cost for this item closer to the average prices charged for this item in other projects during that year, it should have approved no more than \$4,900 per cubic yard, a cost difference of over \$425,500.

In response to our inquiry, Department officials explained that the design work for the project was initially limited to the repairs of the bridge decks and was performed on an accelerated basis with a limited investigation of preexisting conditions. The addition of work at the new location was the result of the recent discovery of deteriorated conditions of that bridge. It was the Department's rationale that repairs on this bridge could not wait until work on the other bridges was completed, and adding this bridge to the current project was in the best interest of the public. The higher cost for this new work, as compared to the prices in the original contract, was caused by the need to work with travel lanes open, and therefore work was restricted to weekends with a resulting higher cost in pay premium and overtime rates. If this work was made part of the original contract bid, the higher costs would have been included as part of that bid.

The Department also explained that the high cost of the PVC drain pipe was the result of the existing pipe being contaminated with lead paint, and the location of the bridge over railroad tracks and an active parking lot. Similar circumstances occurred with the barrier curb and pier caps. As work progressed in the project, the need to replace these components also became clear. The Department claimed that the high cost of these items, as compared to other projects, was again the result of traffic considerations, restricted work periods, and the location and height of this bridge. These factors were considered when the cost for the additional items was negotiated.

2. Project #82-181 Replace Railroad Bridge and Roadway Widening on Rt. 66 in Middletown. Original contract price: \$4,663,092, Net construction orders: \$1,391,061, Total cost of project: \$6,054,153.

Construction Order 06 B increased the quantity of an item “Removal of Existing Masonry” an additional 1,200 cubic yards from the 114 cubic yards in the original contract, an increase in quantity of over ten times the original contract amount. At a cost \$70 per cubic yard, which was the same as the original bid, this increased the contract price by \$84,000. We question why such a large increase in this item was necessary, as it should have been more accurately estimated in the project planning stage. If the larger quantity had been included in the original bid process, the unit price and the cost of the project might have been lower.

Construction Order 06 C added a new item “Railroad Contaminated Soil,” to the project, a quantity of 3,600 tons at \$83 per ton for a total increase in cost of \$298,000. The price justification worksheet included with the supporting documentation showed that the Department calculated a cost of \$80.77 per ton. Construction Order 06 G added the item: “Trench Excavation and Disposal of Contaminated Soil” for 3,500 tons at a cost of \$95 per ton for a total increase of \$332,500. A review of the supporting documentation disclosed that this site was anticipated to have contaminated materials. The soil testing was done seven months after the contract was awarded. We believe that if the environmental testing was done prior to the contract bid, both of these items could have been included in the initial project specifications and incorporated into the original project bid.

In response to our inquiry, Department officials explained that there were no original plans available of this structure to aid the designer in computing the quantity of existing masonry to be removed. In addition, it was explained that a calculation error was made on the quantity, which was not detected prior to the bid opening. The Department stated that since this project, it has improved its review process to avoid such errors in the future. In regards to the quantity of contaminated soil, the Department explained that the quantity of soil that required removal did not change. However, changes in regulations on the re-use of contaminated soils now required the removed soil to be treated as a contaminated material at extra cost.

3. Project #34-225 Danbury Railroad Station. Original contract price: \$2,444,695, Net construction orders: \$461,323, Total cost of project: \$2,906,018.

Construction Order 06 A increased the cost of the contract by \$377,315, primarily from the addition of three items: “Excavate Unsuitable Material” for 3,000 cubic yards at \$27 per cubic yard for a total increase of \$81,000, “Dispose Unsuitable Material” for 3,500 tons at \$70 per ton for a total increase of \$245,000, and “Borrow Fill” for 1,500 cubic yards at \$10.35 per cubic yard for an increase of \$15,525. Attached to the Construction Order was the reason: “A survey was performed that estimated the volume of surplus material to be removed. A waste characteristic was performed subsequent to the survey and stated that all surplus material had to be disposed of. Due to this finding, the surplus material being used in fill areas could not be used.” We question why the environmental condition was not made known at the time of the initial project design so that it could have been included in the bid specifications, and so that the bid process could produce a lower unit price.

In response to our inquiry, Department officials explained that the length of time between when the project was designed and when construction began was approximately five years. During that time, regulatory requirements, as well as Department procedures regarding the evaluation of contaminated sites had undergone significant changes. Also during that time contaminated materials were dumped on that site by unknown persons. This required the removal and replacement of additional fill. Both of these factors were the cause of the increased costs.

Department officials also explained that under the new procedures, environmental conditions are studied where historical land use indicates a potential for site contamination. However, they pointed out that little could have been done to prevent the unauthorized dumping of contaminated materials.

4. Project #50-177 Route 15 Interchange with Black Rock Turnpike in Fairfield. Original contract price: \$3,330,010, Net construction orders: \$978,164, Total cost of project: \$4,308,174.

Construction Order 06 C added \$377,933 to this project's revised contract. The largest changes contributing to that addition were two new items: "Removal of Concrete Pavement" for 12,000 square yards at \$10 per square yard or \$120,000, and "Removal of Concrete Curbing" for 10,000 linear foot at \$5 per linear foot or \$50,000. The addendum included with the Construction Order indicated that "The D.O.T. Design Team underestimated the item quantity for this item." We again note that if these items were included in the original bid process, costs would have been lower, particularly because the quantities involved are quite substantial.

Construction Order 06 E added another \$193,225 in costs to this project in order to replace the item "Merritt Parkway Concrete Curbing" with "Merritt Parkway Guiderail." In the addendum to the Construction Order, the Department stated "a revision was initiated by Highway Design for Merritt Parkway Guiderail and Curbing in order to conform with the Merritt Parkway guidelines for general maintenance and transportation improvements." The Department should have been aware of the need to conform to this requirement during the design phase and to include it in the bid process. The negotiated cost for the item "Merritt Parkway Guiderail (straight)" was \$50 per linear foot. We found that on another project this item cost \$32.69 per linear foot. If the added item was obtained at this cost, the construction order quantity of 3,500 linear feet would have cost \$114,415, which would be \$60,585 less the actual negotiated price of \$175,000. In conjunction with this construction order, the Department also added 1800 linear feet of "Merritt Parkway Guiderail (radius)," at \$56.50 per linear feet for a negotiated price of \$101,700. We could not find a comparison cost for this item for other projects, but a similar condition may have occurred.

Department officials explained that unforeseen cost of removing the concrete pavement was caused by the designer assuming that the pavement removal could be included under the item of earth excavation, because it was believed that the concrete was deteriorated to the point that special efforts would not be required. The concrete turned out to be structurally sound, and more difficult to remove. A similar situation occurred with the concrete curbing. The Department stated that contracts for future projects on the Merritt Parkway would consider the conditions discovered on this project.

The Department also explained that the addition of the special Merritt Parkway guide rail to this project was the result of the implementation of new design standards for the Parkway while the project was underway. The design standards called for the new rail to be installed through the entire Parkway to maintain the historic character of the highway. Therefore, the Department added the item to the project rather than installing standard rail and replacing it at a later date. The Department explained that, at the time the costs for this item were negotiated, this rail had never been installed in the State, and therefore there were no historical costs to provide a comparison to. The price for the item was negotiated based on material costs, estimated labor and equipment costs and estimated productivity rates.

5. Project #102-277 Rt.7 over I-95 in Norwalk. Original contract price: \$2,671,619, Net construction orders: \$1,147,247, Total cost of project: \$3,818,866.
Construction Order 06 E increased the quantity of the item “Localized Paint Removal” by 1,255 square feet, an increase of 570 percent over the original bid quantity of 220 square feet. At a cost of \$150 per square feet, which was the original bid price, the change added \$188,250 to the contract total. The addendum to the Construction Order explained “... the above item was increased to reflect actual field measurements and calculations.” We questioned why the original bid did not more accurately estimate the quantity of the work needed. We also noted many other construction orders for this project. Addendum documenting these construction orders frequently included statements such as “The original contract quantities did not consider...” or “The engineer's design computations failed to provide for the...” to explain the construction order.

In its response to our inquiry, Department officials explained that the estimate for this project was based on the as-built design drawings that showed bolted cross brace connections on the structure. The actual connections on the bridge were in fact, welded. This necessitated a greater amount of lead paint removal than was estimated. Department officials also explained that between the time of design and time of actual construction, additional areas of paint deterioration occurred, thus increasing the scope of the project.

6. Project #173-239 Rehabilitation of Rt. 15 Bridge over Unity Road in Trumbull and Hillandale Rd. Bridge over Rt. 476 in Westport. Original contract price: \$1,563,643, Net construction orders: \$728,929, Total cost of project: \$2,292,572.

Construction Order 06 D increased the quantities of traffic control items by approximately \$80,000. The addendum to the Construction Order noted that the designer's computations for traffic control items were underestimated. One item, “High Mounted Internally Illuminated Flashing Arrow” was computed as two days only; the Construction Order increased the quantity of this item to 800 days.

Construction Order 06 K authorized the installation of a new item “Sound Barrier Wall” on an estimated cost plus basis price of \$50,000, Construction Order 06 N cited design changes and increased the cost by another \$50,000. Construction Order 06 U finalized the construction order item and added \$43,329 to the final cost. The addendum to the construction orders indicated that the wall was not contemplated in the original project and will be designed by the contractor's professional engineer. In addition, the addendum described it as a temporary sound barrier and gave the location for it as in front of a single house.

Construction Order 06 L increased an existing item “Earth Excavation” by 1,300 cubic yards over the original quantity of 212 cubic yards, an increase of 613 percent. At \$55 per cubic yard, which was the original bid price, the Construction Order added \$71,500 to the contract amount.

We believe that if these items were properly included in the original contract specifications, the larger unit quantities and the competitive bid process may have resulted in lower costs. Department officials explained that an error was made in estimating the quantities required for the traffic control flashing arrow board. The design engineer based the estimate on a per each basis, that is counting the rate for a single days use of two arrow boards as the cost for the entire length of the project, rather than on cost per day basis. This resulted in a construction order to increase the quantity from two to 800 days. The Department explained other increases in

quantities by noting that when traffic patterns on a project are established, modifications and adjustments to signing and other traffic control devices are frequently required.

The Department explained that the need for the temporary noise barrier was the result of complaints by residents and local elected officials about night construction activity. At the time of this project, temporary noise barriers were not anticipated project designs. The Department stated that under current procedures, construction noise issues are considered during project design where applicable.

The Department explained that some of the additional earth excavation added to the project was the result of a lack of survey data in the area where a temporary cul-de-sac needed to be constructed. The Department stated that it could not determine the reasons for the lack of survey data from the project records. The balance of the additional earth excavation was the result of conditions that could not be reasonably determined during the design phase of the project. The Department also noted that the contract specifications at the time of this project did not allow the adjustment of bid prices for minor contract items. Contract specifications have been revised to allow for the adjustment of the bid price of minor items when the quantity increases by more than 25 percent. If similar additional work is required on current projects, the Department stated that it would seek a revised unit price for the additional work.

7. Project #301-0023 New Haven Rail Yard Facilities - Diesel Shop Reconstruction. Original contract price: \$17,827,092, Net construction orders: \$2,048,663, Total cost of project: \$19,875,755.

Construction Order 06 C incorporated two new items “Bridge Crane Rail Alignment” and “Six Inch Drain Line” into the project for an estimated cost plus price of \$87,745 and \$50,000 respectively. The addendum to the Construction Order described these items as “...not being as shown on the plans.” We questioned why these items were not detected during the design phase of the project and incorporated in the competitive bid process instead of being an addition on a cost plus basis.

Construction Order 06 G added “Construction Order No.1” into the project for an agreed upon price of \$121,622. The addendum, documenting the Construction Order stated “the Office of Rails decided to provide basic contingency equipment in case it was determined in the future to electrify the Diesel Shop. To accommodate electric cars in the future, this Construction Order directed the Contractor to lower the drop table pit, adjust footings, perform electrical work and miscellaneous associated work.” We believe that the Value Engineering analysis, for instance, should have considered this item during the design phase of the project.

Construction Order 06 M added an “Oil/Water Separator” to the project for an agreed lump sum price of \$183,741. According to the addendum “the building was designed with a main drainage line that collects water from the floor drains and from the diesel shop maintenance pit. The collected water could contain high amounts of oily residue. Before it can enter the City of New Haven sewage system the oil must be removed.” We believe that this also should have been known during the design phase of the project and incorporated in the bid process to get the best price.

Construction Order 06 S added another new item “Dump Stations” for an estimated cost plus price of \$120,000. According to the addendum, “...the Office of Rails requested a construction

order to provide for the installation of a locomotive load bank testing stand and the installation of sanitary sewer dumping stations. The plans were submitted to the Contractor and a price was requested for this work. The price submitted by the Contractor was reviewed and could not be justified. The Contractor was directed to proceed on a cost plus basis. The \$120,000 is an estimated amount and upon completion of the work, a final cost will be determined.” Again, we question why this item was not incorporated in the bid process to get the best price.

In response to our inquiry, Department officials explained that the work required for the bridge crane could not have been anticipated during the design phase of the project due to difficulties accessing the area while the shop was in operation. In addition, the proposed reconstruction of the foundations for the crane would have made any preliminary assessment made of the rail alignment useless. The Department stated that it would have been prudent to include the alignment work in the contract as an allowance item. A similar situation existed with the drain line. The Department stated that the need for the additional work was not made apparent until the existing drain line was uncovered.

The Department also explained that the additions made to accommodate electric cars in the future were the result of a decision made by Amtrak to electrify the New Haven to Boston rail line. The Department stated that it did not know of this decision when the project was designed. A similar situation existed with the oil/water separator. After design was completed and construction began, Amtrak determined that an existing wastewater treatment facility would be abandoned and the addition of an oil/water separator was required.

The addition of the dump stations to this project was the result of the decision by the State to provide Shoreline East rail service. This extension of service required the capability to service the sanitary facilities on the additional trains. The Department explained that this decision was made after the project design was completed. The addition of the load bank testing stands was also the result of the decision to provide Shoreline East rail service. Amtrak requested the replacement of existing obsolete testing stands to better enable it to maintain Shoreline East equipment.

Our review attempted to fully understand the reasons for the construction orders by highlighting the issues for further review and discussions. The Department responded with logical explanations for some of the items we found. As noted earlier, we believe that in large and complex construction projects the use of some construction orders is inevitable, as not all designs can anticipate exact quantities or anticipate unknown soil or substructure conditions. However, our review did find some examples of where improved planning or site surveys would have detected conditions in time to be incorporated into the design of the project. Accordingly, we make the following recommendation:

Criteria: The *ConnDOT Construction Manual* states that “Changes and extra work should be held to a minimum and limited almost exclusively to revisions and additions necessitated by conditions that could not reasonably be anticipated before the project was advertised for bid.”

Condition: Our review of a sample of non-Federal funded construction projects found some with cost increases that we believe may have been avoided by more careful preliminary planning.

We also found in some instances when additional materials were required for contract changes, the cost of the additional materials at times significantly exceeded the costs charged when those items were included in the original contract bid; or the costs charged for that item in similar projects.

Out of a sample of 15 projects over \$1,000,000 in original value, we found seven that had significant cost increases (over 10 percent) due to construction orders. The original cost of these contracts totaled \$59,634,271, the increases due to construction orders totaled \$11,684,310, for an overall increase of 20 percent. The increases in costs for each project ranged from 10 to 47 percent.

Effect: Additional costs are incurred for construction projects that may have been preventable.

Cause: Conditions requiring construction orders are not properly identified in design stages so that items added are not part of the original contract.

Time delays between project design and actual construction require the addition or change of contract items.

Site surveys and field inspections did not provide adequate information on existing conditions to allow project designers to accurately assess the amount of work needed.

Prices negotiated for additional items after the project is begun are generally higher than if they were determined by the competitive bid process.

Recommendation: The Department of Transportation should improve its inspection and design procedures so that it could avoid the need for construction orders to the greatest extent possible. In addition, when such construction orders are necessary, the most competitive prices for added items should be obtained. (See Recommendation 5.)

Agency Response: “The Department is continually seeking to improve its operations in the area of plan and estimate preparation and quality control. In recent years, the Department has instituted procedures to review contract plans for constructibility and plan quality control prior to bidding. As part of this procedure, checklists have been developed for the use of designers and construction personnel reviewing the plans to assure that noted recurring issues are addressed and not repeated on future designs. The Department is currently in the process of enhancing this constructibility and plan review practice to incorporate some of the “best practices” that have been identified in this area by the AASHTO Subcommittee on Construction.

We feel that the Auditors, in their analysis of the construction orders, did not take into consideration that it is not always possible to perform all of the testing that would be necessary to assure that all design issues are fully addressed. Details of the finding were addressed in a letter to the Auditors of Public Accounts' Principal Auditor dated June 21, 2001 from the Bureau of Engineering and Highway Operation's Construction Administrator."

CONDITION OF RECORDS

Our review disclosed certain areas requiring improvement or attention as discussed below:

Petty Cash Fund:

Previous audits of the Department have reported the need to improve the timeliness of the settlement of travel advances. Our current review of the Department's petty cash fund records disclosed the following:

- Criteria:* The *State Accounting Manual*, issued by the State Comptroller, specifies procedures for petty cash funds that include the prompt settlement of travel advances. Those procedures require "That within five working days after return, the employee will submit a completed employee voucher, with the required documentation, to the agency business office."
- Condition:* We found the settlement of some travel advances continued to exceed the five working days allowed after return from the trip. A random sample of 25 travel vouchers, totaling \$12,302, disclosed the untimely submission of 14, or 56 percent of the sample. Six of the 14 untimely advances were 11 or more days late, with one 59 days late. This condition was similar to that found in previous audits.
- Effect:* Untimely settlement of travel advances prevents prompt replenishment of the fund and may necessitate maintenance of an excessive fund balance.
- Cause:* The timely settlement of travel advances may not be a priority for some employees when personal funds are not involved.
- Recommendation:* Petty cash fund travel advances should be settled promptly. (See Recommendation 6.)
- Agency Response:* "The Department will reemphasize the importance of timely submissions of travel reimbursement requests."

Property Inventory Records and Reporting:

Our previous audit of the Department, covering the fiscal years ended June 30, 1997 and 1998, cited the Department for failure to include unused property acquired for highway purposes in its inventory record. Our current audit of the Department's property inventory records found the Department's Rights of Way Unit now reports the data that is available to the Property and Facilities Unit. However, the amount reported is an incomplete total, as the Department is still in the process of establishing a proper record. The Department explained that implementation of the surplus property record is an ongoing and lengthy process.

Our current audit disclosed the following:

- Criteria:* Section 4-36 of the General Statutes provides that each State

department shall establish and keep an inventory account in the form prescribed by the Comptroller, of all property, real or personal, owned by the State.

Real property that is not made part of the highway infrastructure should be considered as property that should be included by the Department on its annual property report submitted to the State Comptroller.

In addition, the Governmental Accounting Standards Board (GASB) has issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which becomes effective for the State of Connecticut for the fiscal year ended June 30, 2002. GASB Statement 34 establishes an improved standard of financial reporting that includes a governmentwide statement of net assets. This statement must include all general capital assets, including newly acquired infrastructure assets. GASB Statement 34 defines newly acquired assets as those purchased, constructed, donated, renovated, restored or improved after June 30, 2002. The requirement to report existing major infrastructure assets is being phased in, and will be effective with the fiscal year ended June 30, 2006. GASB Statement 34 defines existing assets as those purchased, constructed, donated, renovated, restored or improved after June 30, 1980.

In the near future, with the implementation of GASB Statement 34, the Department will be required to identify, record and report all of its real property, including real property made part of the infrastructure.

Condition:

In the 1999-2000 fiscal year the Department purchased land for a proposed bus garage in Watertown (State Project: 431-006). The acquisition of that property, for \$1,600,000, was not recorded on the inventory records of the Department, and was not included on the annual report of such property to the State Comptroller. Although such property purchases are an infrequent event, this condition should be considered systemic to all purchases of real property.

Effect:

Total assets of the Department and the State, were understated by \$1,600,000. Property purchased with Federal funds was not properly recorded on the Department's inventory records and identified as purchased with Federal funds.

Cause:

The Department does not have a policy or procedure requiring the Rights of Way Unit to promptly notify the Property and Facilities Unit of the acquisition. We note that the Department does not maintain or report a "work in progress" inventory for such projects. Agency officials explained that this facility is not scheduled for completion until the year 2004, and until that date, this purchase will

not be recorded or reported as an asset of the State.

Recommendation: The Department should identify, record in its inventory and report to the State Comptroller, all real property that was not made part of the infrastructure. (See Recommendation 7.)

Agency Response: “The Department’s Office of Property and Facilities Services, in its annual inventory instructions to the Department, defines equipment parameters. The procedures for the next physical inventory (2000-2001 State fiscal year), will include “land” in the description of Department assets for clarification. The Office of Property and Facilities Services has alerted both the Office of Rights of Way and the Office of Transit and Ridesharing to be aware of such purchases in the future.

The land purchased for the proposed bus garage in Watertown has been recorded on the Agency inventory and has been denoted as federally participating. It will appear on the submission to the Comptroller in the 2000-2001 inventory.

Infrastructure assets that are improved, renovated or restored are reported on an annual basis to the Comptroller from our records as "site improvements" or "additions" to existing buildings. Newly constructed buildings are recorded on the inventory on an annual accrual basis.”

Electronic Data Processing Security:

Our previous audit found that the Department's disaster plan includes an arrangement for use of the State Comptroller's computer system as an alternative off-site location. However, we found there was no formal agreement for this arrangement and the Department's applications had not been tested on the State Comptroller's system. Our current review of computer system security disclosed the following:

Criteria: Electronic data processing security should include a comprehensive disaster plan that is tested periodically.

Condition: The Department's Office of Information Systems intends to use the State Comptroller's alternative off-site location as a back up off-site computer system for the Department of Transportation. However, there is no formal agreement for this arrangement and the Department's applications have not been tested on that system.

On July 1, 2000, the Department of Information and Technology (DOIT) began its process of transitioning the State's information and technology workforce into DOIT. Therefore, it will be the responsibility of DOIT, working with the Department of Transportation, to provide adequate data processing security.

In addition, the Department's Property and Facilities Unit relied upon a personal computer based system to maintain the location records of microfilmed documents in its central files. The system failed, and there was no back up to that system to ensure that the records stored at the Department's central files would remain accessible.

Effect: The Department is relying on an untested backup arrangement for which there is no formal agreement ensuring emergency site use.

The inventory locations for financial and other records that were stored at the Department's central files were not available to users.

Cause: Because of Year 2000 concerns, the proposed Statewide privatization of information systems and the current transition of the State's information systems into DOIT, the Department has not been able to make disaster recovery planning a priority.

The Property and Facilities Unit did not adequately back up the computer system it used to record the locations of centrally stored records.

Recommendation: Disaster recovery planning for the Department's electronic data processing systems should be improved. (See Recommendation 8.)

Agency Response: "In regard to disaster recovery planning, there is no change to the Department's original response (which was included in a prior audit report). This response noted... "Although an agreement with the State Comptroller's Office has not been concluded, we expect that in the event of an emergency, DOT would be permitted to run some critical applications at their installation."

In addition, the Governor's original initiative to privatize State data processing operations has been internalized. As a result, on July 1, 2000, the Department of Information and Technology (DOIT) began its process of transitioning the State's information and technology workforce into DOIT. Therefore, it will be the responsibility of DOIT, working with the Department of Transportation, to provide adequate data processing security.

The above notwithstanding, the Department of Transportation's Office of Information Systems purchased, in April 2000, a new disaster recovery software package from Computer Science Consultants, Inc. This package, titled RecoveryPac, was used to develop a new and comprehensive recovery plan, and also replaced technically obsolete SUNGARD DP90PLUS software."

Management of Grants to Transit Districts and Private Carriers:

The Department of Transportation expended over \$24,000,000 in grant payments to 13 transit districts and numerous private carriers and other providers in each fiscal year of the audited period. During the audited period these transit districts, private carriers and other providers have operated or administered over 100 separate projects funded by these grant payments. The funding for each project is supported by budget addenda. Two Bureaus of the Department, Public Transportation, and Finance and Administration, have defined roles in the grant agreement process. Within the Bureau of Public Transportation, the Office of Transit and Rideshare initiates the agreement and addenda, authorizes payment, and monitors the grant; and the Office of Fiscal Services performs the accounting review (cost settlement) of the budget addenda. Within the Bureau of Finance and Administration, the External Audit Unit reviews the audit report as prepared by the independent public accountant, the Accounts Receivable Unit collects any overpayment, and the Accounts Payable Unit pays any underpayment.

Each fiscal year the Department of Transportation administers about 50 separate budget addenda, most of these covering more than one project. Each individual addenda must be cost settled and closed out separately, for each project, based on the expenditures reported in the audit reports. Given the large number and dollar value of addenda entered into each fiscal year, the fact that each must be closed out individually, and that some addenda are not finalized in the fiscal year initiated, it is imperative that a well designed and adequately maintained information system be available to maintain proper accountability. This information system must provide specific, timely, and relevant information to all the units of the Department that are involved in this process.

Our previous audit, and our current examination, found that the Department does not maintain such an information system that meets these requisite standards. Our audit found the current record keeping system does not provide reasonable assurance that all addenda will be properly recorded, tracked, and closed out in a timely manner. There are weaknesses in the current system that have permitted agreements to go without closeout for many years and have allowed the collections of receivables from closeouts to occur independent of the Accounts Receivable Unit. Furthermore, the Department cannot accurately determine the number of outstanding agreements at any given time. We found, in at least one instance, that a collection of a large receivable was reduced to a much lower amount bypassing the office that performs the accounting review.

Integral to the grants management process is the timely submission of auditor's reports that provide the actual expenditures needed to cost settle and to close out the project. A proper information system would serve to remind the Bureau of Public Transportation to follow up on those grantees that have not submitted audit reports. Our prior audit found two instances where auditor's reports had not been submitted several months after the due date and for which there had been no request by the Department for said reports. Our current audit found some improvement in this area as the Office of Transit and Ridesharing is more aggressively contacting providers and requesting the reports or urging providers to obtain an extension to submit their reports. Nonetheless, a few providers remain negligent in both areas.

Our previous audit found that, as of June 30, 1998, there were at least 126 open agreements, some dating from the 1992-1993 fiscal year, for which no request for closeout has been made. We found the request to closeout either has not been received, or the notification to proceed has been misfiled or lost. That audit found that a validated inventory of outstanding agreements does not exist, and the Department does not attempt to prepare an inventory. Our current review found little

work has been done to remedy the situation.

To address weaknesses in the system, our prior auditor's report recommended that proper controls and a properly designed log be established to track submission of auditor's reports. The Department responded to our recommendation by stating it had procedures that required correspondence to be sent each year, reminding contractors and grantees of their obligation to submit auditor's reports on time. We were also informed that the Bureau of Public Transportation attempted to develop a prototype log allowing the Office of Transit and Ridesharing to track the receipt and disposition of auditor's reports, as well as the numerous agreements associated with those audits. This effort was evidently abandoned. The Office of Transit and Ridesharing has since reverted to a basic internal spreadsheet-based tracking system which does not provide for all the information and control needed nor is it readily available to all the units who need this information. As a result, we believe the current system does not reduce, to a reasonable level, the risk that errors and omissions in the grants' management process might occur and not be detected in the normal course of operations. Accordingly, we are making the following Recommendation:

Criteria: Proper grants' management requires a system of controls and procedures to ensure that all contractual obligations of a grantee, including formal submission of auditor's reports, be established. Furthermore, these controls and procedures should provide a system of records that provide a complete and current inventory of outstanding agreements. This system should be designed to incorporate proper controls to completely track the progress of all agreements, from initiation through closeout. It should identify all items that are currently open and provide for an aging schedule that allows the older agreements to be finalized first. The system should address the need to ensure that all auditor's reports are reviewed in a timely manner for both fiscal and compliance matters and ensure that a periodic reconciliation of open items be made to allow for proper follow-up and resolution. At any given time the system should be able to determine the status of outstanding items and this should be communicated periodically to management.

Condition: The Department of Transportation does not have an integrated information system for grants' management. Such a system would include an on-line record documenting the initial grant agreement, the budget addenda, the receipt and the distribution of auditor's reports, the status of agreements and the follow-up of open agreements, including the collection of accounts receivable and or disbursements of payables. In contrast, the current system is comprised of nonintegrated records prepared and maintained by various units within the Department. As a result, there is no assurance that all budget addenda will be accounted for, and closed out, in a timely and orderly basis.

Our current review also found that a Transit District was allowed to redirect \$100,000 that was due to the Department as a result of the cost settlement of the Statewide Insurance Program for the fiscal year ended June 30, 1999. The \$100,000 was redirected to the insurance

company issuing the policy, as a “refundable deposit” for the subsequent year. The approval of this action was not communicated to the Bureau of Public Administration’s Office of Finance. Additionally, we find no valid reason why the transfer was necessary or any contractual obligation to make the transfer. We reported this matter to the Governor and other State officials in a letter dated October 29, 2001.

We also found several receivables that have not been referred to the Accounts Receivable Unit for collection, although several months have elapsed since the time they were first communicated to the Office of Transit and Ridesharing. Lastly, we found collections of receivables that were not properly processed through the Accounts Receivables Unit.

Effect:

Without a properly designed and operating grant management system, it is more difficult to determine the status of any grant agreement and to maintain full accountability on them. It is also more difficult for the Department to ensure that contractors or grant recipients have fully complied with the requirements of their contractual agreement. Because the Department cannot readily track the submission of auditor’s reports and the prompt review of them, it is not kept up to date of the status of conditions that might require action. Auditor’s reports that are received may not be scheduled for a prompt review. In addition, the Bureau cannot perform a timely final cost settlement to determine if moneys are owed or owing and the grant may not be closed out timely in the Department’s accounting system.

Cause:

The Department of Transportation has not committed the resources for a new system, instead relying on outmoded manual records to administer these grants.

Recommendation:

The Department of Transportation should develop a unified computerized information system for management of transit grant agreements and addenda. (See Recommendation 9.)

Agency Response:

“The Department’s Bureau of Public Transportation agrees with the Auditors’ restated recommendation for the development of an information system maintained in the Bureau. It is the Department’s position that a comprehensive system can only help the operation of the Bureau.

The Bureau of Public Transportation in fact has the seeds for a comprehensive information system based on the work done in both the Bureau of Public Transportation’s Office of Fiscal and Administration and the Office of Transit and Ridesharing. The Office of Fiscal and Administration has developed a prototype personal computer based worksheet log in which it maintains

information from the time a request for an accounting review is received from the Office of Transit and Ridesharing to the time their accounting review is completed. The Office of Transit and Ridesharing has also recently developed a personal computer based log of current year information that records the progress of agreement development and processing through to execution.

The challenge for the Bureau of Public Transportation is to unify these documents and expand them to include project closeout information. This will accomplish the goal of having an information system that will show the complete story of a project from initiation to closeout. As a result of information being input by different offices, the system will have to be designed to allow separate input as well as separate report access.

The Department's Office of Management Services is currently completing an operational study of the Bureau of Public Transportation that may result in some organizational changes in the Bureau. These changes may have some impact on how this issue will be resolved with regard to responsibilities for maintaining future information input."

Collection of Municipal Accounts Receivable:

The Department enters into numerous agreements with municipalities for construction projects, many of which are funded with a combination of Federal, State, and municipal resources. The share funded by municipalities is primarily devoted to the "preliminary engineering" phase of these projects. Most of these agreements stipulate that upon demand the municipality will deposit a sum of money with the State equal to the estimated cost of the municipality's share of the project's cost. This sum is called a "demand deposit." When the project is completed, the Department's External Audit Unit calculates the final cost of the project based on a final audit. As a result of this final audit, the municipality usually is due a refund of some of the original demand deposit or the Department is due a reimbursement for costs exceeding the demand deposit. In the case of reimbursement, the Department's Office of Construction instructs the Accounts Receivable Unit to bill the municipality, or in the case of a refund instructs the Accounts Payable Unit to pay the municipality.

Our audit reviewed ten outstanding accounts listed as over one-year old as shown on the Department's February 2, 2001, Accounts Receivable Aging-Towns Report. Based on our review, we found long delays in collection of receivables and many receivables still outstanding. For example, on that report, we found four billings for demand deposits totaling \$872,875, which were still unpaid 19 to 32 months after the date of initial billing. The following chart summarizes these four accounts (note the "Number of Months Outstanding" is at the time of our review, January 2001, and does not include the first month billed):

Municipality	Amount Owed	First Billed	Number of Months Outstanding	State Project #	Federal Project #
Plainfield	\$153,175.00	4/06/98	32	108-154	RS-598(105)
Norwich	\$500,000.00	6/22/98	30	103-245	CT-Demo(1)- CT03-0097
Danbury	\$107,200.00	4/20/99	21	34-255 and 34-285	STOP-000S (474) and (763)
Manchester	\$112,500.00	6/29/99	19	76-190	STPH-2252(5)

Further inquiry revealed that the reason for the unpaid billings was that some municipalities do not promptly remit payment for the demand deposits after signing the agreement. This was because of the significant delay that sometimes can occur between the date of the agreement and the date the project is advertised for bid. Municipalities do not want their funds tied up for any longer length of time than is necessary, affecting their cash management. However, the agreement specifies that the municipalities must deposit these sums on demand, which is shortly after the agreement has been signed. Thus, by not remitting the above amounts, the municipalities are not in compliance with the terms of the agreements. However, it appears this noncompliance is “allowed” in the sense that the Department generally takes no additional steps to collect these overdue demand deposits, such as referral to a collection agency or to the Office of the Attorney General.

As noted previously, the final audit determines the exact amount owed when the project has been completed. Accordingly, any amount due the Department above the demand deposit originally collected is calculated and billed. The following chart summarizes our review of the six largest outstanding accounts, totaling \$445,697, from the previously mentioned Accounts Receivable Aging-Towns Report, that involve final audits that resulted in amounts due the Department:

Municipality	Amount Owed	Date First Billed	Number of Months Outstanding	State Project #	Federal Project #
Hartford	\$ 47,242.11	7/19/91	114	63-331	IXAM-1063(43)
Waterbury	63,601.80	10/12/94	75	151-195	MG-1151(7)
Vernon	232,354.13	8/10/95	65	146-126	IXAM-2368(3)
Hartford	19,776.92	9/05/95	64	63-361	IXAM-MG-1063(49)
East Haven	41,504.40	6/18/99	19	43-119	MGS-20(111)
New Haven	41,218.05	7/09/99	18	92-296	BRM-2699(3)

Departmental procedures permit the municipalities to contest the amounts determined by the final audit. In this event, the account is given back to the unit that initiated the billing for resolution. If a resolution is possible, the new amount is billed and paid. If not resolved, the account is sent to the Office of the Attorney General. Again, our review revealed the process is not always working as intended. For example, we found the Hartford account (project #63-331) was turned over to the Office of Attorney General in late 1991. The account was then returned to the Department in 1997 and forwarded to the Department’s Office of Construction for possible resolution. It should be noted that the City of Hartford is strongly contesting the amount billed and this may be a reason why the account has not been resolved so many years after it was first billed. Nonetheless, it appears this account and the other accounts shown above should have been resolved, either by collection of the

amounts billed, or by settlement of the disputed amount.

The delay in collecting these receivables has resulted in lost interest that the State could have earned if the amounts were deposited in State accounts. In addition, the Department is incurring unnecessary administrative costs by maintaining these receivables for an inordinate period of time and not being able to close out these projects. Therefore, we are making the following Recommendation:

- Criteria:* Agreements between the Department and the municipalities specify that the deposit must be made on demand, which is shortly after the agreement is signed. In the case of the reimbursements due the State as a result of the final audit process, the amounts are expected to be paid shortly after billed. In the event the municipality disputes the amount billed, Departmental procedures allow for a process of resolution of the disputed amounts. This process should be finalized in a timely manner. However, if the dispute cannot be resolved, procedures call for the account to be turned over to the Office of Attorney General for resolution.
- Condition:* We found ten municipal receivables, as of January 2001, totaling approximately \$1,300,000, which have been outstanding from 18 to 114 months. These are amounts due from municipalities as a result of demand deposits or from final audits in connection with construction agreements.
- Effect:* By not promptly remitting amounts owed to the Department, the municipality receives, in essence, an interest-free loan. This results in lost interest income to the State. In addition, the Department incurs unnecessary administrative expenses as a result of continued nonpayment of these amounts. Finally, the Department cannot closeout these projects until these amounts have been collected.
- Cause:* There was no single cause of this condition. In some cases, the Department has not used all of the collection efforts available to it with respect to these receivables. In other cases, the accounts have remained dormant without any apparent administrative efforts to resolve the overdue amounts.
- Recommendation:* The Department should review its policies and procedures pertaining to the collection of receivables due from municipalities and collect or resolve these receivables in a timely fashion. (See Recommendation 10.)
- Agency Response:* “The Department’s Accounts Receivable Section sends billing invoices to municipalities for demand deposits and audit findings with amounts due the State as soon as advised by the administering unit. It is our practice to send final billing notices 60 days after the initial billing invoice was sent out. With respect to municipalities, a procedure was not in place for collecting these delinquent balances.

We do not feel that it is in the State's best interest to turn over delinquent municipal accounts to the Office of the Attorney General or to a private collection agency. Delinquent accounts referred to the Office of the Attorney General are turned over to contract attorneys that retain one-third of the amount they collect plus expenses. Private collection agencies charge 15 percent of the amount they collect.

In February 2001, the Department began a letter writing campaign sending dunning letters to all the delinquent municipalities. This has resulted in resolving three of the four demand deposits in the audit report and collection of two of the audit billings cited in the auditors' report. The Department will continue this approach until all accounts are resolved."

Monitoring of Usage of State Telephones:

Our current review of the Department's controls and procedures to monitor the use of State telephones disclosed the following:

Criteria: Department of Transportation, Bureau of Finance and Administration - Policy Statement No. 7 states that "employees shall not use Department supplies, materials, equipment or its facilities for personal or private business or other non-State purposes."

Department of Transportation Personnel Memorandum #96-2 states that "State time, equipment, supplies and materials must be utilized only for official State business and that private or personal use of these items is strictly prohibited."

The *Telecommunications Procedure Manual*, issued by the Department of Administrative Services, requires employees assigned calling cards or cellular telephones to review and sign monthly reports of calling activity. It also requires that State agencies verify all long distance calls on the monthly detail bill.

In order to enforce this policy, the Department's Property and Facilities Unit distributes reports of calling card and cellular telephone calls to each unit in the Department. Department employees are required to review and sign the reports. The reports are then returned to the Property and Facilities Unit and filed. Reports for fixed telephones are made available to those unit managers who request them.

Condition: Our review found that the Department's Property and Facilities Unit does not maintain a log or other record to ensure that all of the calling reports distributed have been signed and returned. Our audit randomly sampled the records for 32 cellular telephones for the months of September and October 2000. We found that at the time of our review (April 2001), the calling report was not reviewed, signed

and returned for six out of the 32 phones tested, or 19 percent.

In addition, we noted that in some cases the supervisor of the employee also reviewed and signed or initialed the calling report; however, there is no requirement that they do so.

Our review found that reports for fixed telephones are reviewed by unit managers only on an exception basis. The Department does not have its calling reports periodically reviewed by unit managers.

Effect: There is no assurance that all calling card, cellular or fixed telephone bills are correct, and that all calls are for authorized use.

Cause: There is no control or procedure to ensure that for each calling card or cellular telephone, there is a calling report that has been reviewed by the employee, signed and returned promptly.

The Department does not have a requirement that unit managers perform a periodic review of calling reports to identify billing errors or abusive practices.

Recommendation: The Department should improve its controls and procedures to ensure a more complete review of telephone calling reports. (See Recommendation 11.)

Agency Response: “The Department agrees with the auditors’ finding that the Office of Property and Facilities Services does not currently maintain a formal log that ensures all cellular calling reports have been reviewed by the user, signed and returned. The Office of Property and Facilities Services will make the appropriate changes to incorporate this operation in its procedures.

Concerning the issue of supervisory review, we will investigate the possibility of developing a system of forwarding calling reports to unit managers on a rotating basis so that each unit is periodically reviewed.”

Calculation of the Gasoline Additive Rate:

The Department of Transportation calculates an additive rate that is designed to recover the costs of operating its fuel distribution system. The rate is applied to the price per gallon on billings to other State agencies purchasing fuel at Department operated pumps. Our review of the data used to calculate the rate for the 2000-2001 fiscal year disclosed the following:

Criteria: Handling charges designed to recover costs should include all direct and indirect costs, and should make adjustment for prior year over or under recoveries.

Condition: The Department failed to include the carry forward adjustment previously used in the calculation of its gasoline additive rate. In the 1999-2000 fiscal year, the adjustment for under recoveries totaled \$83,272.

In addition, the Department did not prepare a depreciation schedule and include the depreciation of its new automated fuel delivery system. This system was funded by a grant from the State Office of Policy and Management and cost \$632,000.

Effect: Prior year costs of operation were not completely recovered; the gasoline additive rate charged did not reflect the true cost of operating the Department's fuel distribution system.

Cause: The Department implemented a new automated fuel delivery system during the 1999-2000 State fiscal year. This required some revisions to the methodology used. Department officials explained that because the cost of the automated system was not borne by the Department, they did not intend to recover the depreciation of that system.

Recommendation: The Department should calculate a gasoline additive rate that includes all overhead costs and prior year under recoveries. (See Recommendation 12.)

Agency Response: “The Department did not include the carry-forward adjustment in the rate when it converted to the new fuel system. The new system resulted in a totally revised approach to the additive rate. The carry-forward amount was questionable and, therefore, was not included in the rate base. The Department does not have the authority to maintain a sinking fund to recover and hold the depreciated amount and, therefore, does not collect it as part of the rate. Since the Special Transportation Fund did not finance the system acquisition, it was deemed inappropriate to include it in the additive rate.”

Auditors Concluding Comments:

We believe that in order to establish a proper rate for the recovery of the costs of operating the Department's fuel pumps, the depreciation and eventual replacement of the new fuel system should be considered.

Interagency Agreement - Police Services at Bradley International Airport:

The Department of Transportation compensates the Department of Public Safety for the costs of maintaining State Troopers and Airport Police at Bradley International Airport. Our review of the payments made for these services disclosed the following:

Criteria: Governmental generally accepted accounting principles provide that each fund is a distinct fiscal and accounting entity. Proper business practice requires services granted between State agencies, and, the

transfers between funds to compensate for those services should be based on a written agreement or memorandum of understanding.

Condition: The Department of Public Safety provides police services for the Department of Transportation for Bradley International Airport. These services have been provided for many years without the benefit of a negotiated and executed agreement between the two agencies.

In the 1999-2000 fiscal year, payments from the Bradley International Airport Operations Fund to the Department of Public Safety for police services totaled \$3,914,000.

Effect: Without a properly executed agreement, the level of services provided is not properly defined and subject to dispute. In addition, the applicable accounts for both State agencies may not be charged or compensated for the proper costs.

Cause: The Department of Transportation and the Department of Public Safety could not come to terms that could be agreed upon.

Recommendation: The Department should execute an agreement with the Department of Public Safety for the police services at Bradley International Airport. (See Recommendation 13.)

Agency Response: “The Department of Transportation (DOT) agrees with the Auditors’ concern that there is currently no agreement in place between the DOT and the Connecticut State Police (CSP) for security services at Bradley International Airport. The DOT and the CSP have been negotiating for some time with a view toward arriving at a mutually acceptable agreement. Unfortunately, there are certain fundamental issues, which we have been unable to overcome. Without going into detail as to what the issues are, we are at a point where the heads of each agency must get involved to resolve the differences. The DOT is currently beginning that process.”

Calculation of Longevity Payments:

State employees who have completed ten or more years of service are granted continuing semiannual longevity payments. Our review of a random sample of such payments to employees disclosed the following:

Criteria: The amounts and extent of longevity payments to State employees are established by Section 5-213 of the General Statutes and various collective bargaining agreements. Longevity payments are based on the number of full years of eligible service time and the salary or wage group of the employee.

Condition: In a test of longevity payments made to a sample of 20 employees, we found five that had recorded eligible service time that was higher

than the amount calculated by our audit. Four out of the five exceptions resulted in overpayments to the employee. In two of these exceptions, the initial calculation for longevity payments was made during the audit period. In the other exceptions, the initial calculation for longevity payments was made during previous years, and the error was continued forward.

Effect: The overstatement of eligible service time resulted in some of these employees beginning to receive longevity payments, and/or increases to longevity payments before they were eligible. Consequently, these employees were overpaid.

Cause: It appears that there was some confusion on the part of the staff of the Department's Personnel Unit relative to what constituted eligible service time. There was one instance where an employee was laid off and the time of the layoff was included as eligible service time. There were two instances of the Department making employees that were ineligible to receive longevity payments by a few days subsequently eligible, by adding the additional day from leap years to the employee's full year of service.

Recommendation: The Department should use more care in the calculations of State service time to avoid longevity overpayments. (See Recommendation 14.)

Agency Response: “The rules for calculating service time (seniority) vary depending on the purpose for making the calculation. We currently calculate seniority for the following purposes:

- Longevity
- Layoff selection
- Vacation accrual rates
- General (any other matter where seniority is a determining factor, i.e. NP-2 vacancy selection pursuant to Article 14).

The rules for calculating seniority for the above purposes also vary by labor contract, creating conditions where errors can easily be made. The Department’s Office of Personnel is working with the Office of Information Systems staff to redefine and possibly expand the existing seniority fields to more easily isolate the differing seniority calculations, including that for longevity eligibility.

Corrections have been made to the service time of three of the four “exceptions” identified by the auditor, and the overpayments have been recovered. The Department stands by the practice of giving credit for leap year days where there is a very close issue on qualifying time. Therefore, no adjustment has been made to the service time of the employee who received leap year credits, and no attempt will be made to recover the questioned payment(s).”

Auditors Concluding

Comments:

As part of our review we contacted the Bureau of Human Resources of the Department of Administrative Services. They responded by stating that there was no policy that allowed the use of leap year credits in the calculation of an employee's service time.

STATEWIDE SINGLE AUDIT FINDINGS:

We have conducted Single Audits of the State of Connecticut's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal years ended June 30, 1999 and 2000. Our examination of the Department of Transportation's financial records for those years disclosed audit findings that are not required to be reported to the Federal government. These findings were immaterial instances of noncompliance with Federal requirements as well as certain matters involving the Department of Transportation's internal control over compliance with Federal requirements. The audit findings pertaining to the Single Audit for the fiscal year ended June 30, 1999 were reported in our *Auditors' Management Letter - Department of Transportation*, issued October 25, 2000. The audit findings pertaining to the Single Audit for fiscal year ended June 30, 2000 are described below:

Davis-Bacon Act - Metro-North Projects:

Federal Transit Cluster (CFDA 20.500 and 20.507)

Federal Award Agency: Department of Transportation (Federal Transit Administration)

Award Year: Fiscal Year Ended June 30, 2000

Federal Award Numbers: Various

State Projects: Various

Background: Federally participating payments for personal services expenditures were made to the Metro North Railroad for which the Davis-Bacon Act would be applicable.

Criteria: Appendix 1 of Circular UMTA 9100.1B, *Standard Assurances for Urban Mass Transportation Administration Applications*, includes the Davis-Bacon Act among the list of statutes, regulations, administrative requirements and executive orders applicable to a number of Federal Transit Administration programs including the Federal Transit Cluster.

Under the Davis-Bacon Act, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000, that are financed by Federal assistance funds, must be paid wages no less than those established for the locality of the project by the Department of Labor.

It is the responsibility of the Department to communicate to contractors working on qualifying construction projects the requirement to pay wages in accordance with the Davis-Bacon Act. The Department is also required to monitor for compliance with the Act.

Condition: Metro-North has been awarded many construction contracts and in turn hires subcontractors for projects relating to the Department's rail operations. Our *Auditors' Management Letter - Department of Transportation* for the fiscal year ended June 30, 1999, cited the

Department for failure to monitor compliance with the Davis-Bacon Act for Metro-North or Metro-North's subcontractors.

In its response to our findings in the previous auditor's report Department officials stated that Department agreements with Metro-North for Federally participating projects contain language that requires Metro-North and their subcontractors to comply with the provisions of the Davis-Bacon Act and that Metro-North is bound by that agreement language to monitor the compliance of their subcontractors with Davis-Bacon provisions. In addition, Department officials stated that the Bureau of Public Transportation's Office of Rail would provide reasonable assurances that the prevailing wages paid on projects covered by the provisions are monitored for compliance.

Our current audit, covering the fiscal year ended June 30, 2000, found that the Office of Rail has not implemented such a system to monitor Metro-North for compliance.

Effect:

The Department is not discharging its responsibility for monitoring compliance with the requirements of the Davis-Bacon Act by its major rail construction project contractor. This could lead to the withholding of Federal funds. This condition should be considered systemic to all payments to Metro North railroad for Federally participating projects that include personal services costs.

During the 1999-2000 fiscal year, the Department of Transportation paid approximately \$11,158,000 to Metro-North for the personal services costs of Metro-North and Metro-North's subcontractors, a portion of which was Federally participating.

Cause:

The Department has continued to rely upon Metro-North to comply with the requirements of the Davis-Bacon Act without undertaking any formal monitoring activities of its own.

Recommendation:

The Department should put in place monitoring controls to provide reasonable assurance that prevailing wage rates are paid on rail construction projects covered by the Davis-Bacon Act. (See Recommendation 15.)

Agency Response:

"We agree in part with this finding. The Department agreements with Metro-North for Federally participating projects contain language that requires both Metro-North and its subcontractors to comply with the provisions of the Davis-Bacon Act.

In conjunction with Metro-North's monitoring requirements, the Bureau of Public Transportation has taken steps toward implementing its own monitoring. We have conducted preliminary wage rate checks with some Metro-North forces working in New Haven.

In addition, the Bureau has assigned an independent consultant the task of investigating how the Bureau can effectively monitor Metro-North wage rates for compliance with the Davis-Bacon Act through established auditing procedures. It is expected that this assignment will be completed by the end of March 2001. Upon completion and Department review of the results of this study, the Bureau will formally implement a procedure to monitor Metro-North compliance to provisions of Davis-Bacon.”

Davis-Bacon Act - Quarterly Wage Checks:

Highway Planning and Construction (CFDA 20.205)

Federal Award Agency: Department of Transportation

(Federal Highway Administration)

Award Year: Fiscal Year Ended June 30, 2000

Federal Award Numbers: CM-000S(703), FLEX-RE-ME95-1(149)

State Projects: 42-265, 15-268

Background: Under the Davis-Bacon Act, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 that are financed by Federal financial assistance, must be paid wages no less than those established for the locality of the project (prevailing wage rates) by the Department of Labor.

Criteria: In order to enforce compliance with the Davis-Bacon Act the Department had established a policy that, for projects under \$1,000,000, required construction inspectors to perform one monthly wage check on prime contractor employees and one monthly wage check on employees of each subcontractor actively working on the project. For projects over \$1,000,000, monthly wage checks are required on two employees for the prime contractor and one monthly wage check on employees of each subcontractor. Wage checks are not required to be performed on those employees whose wage rates have already been tested. In addition, construction inspectors are to verify that contractors and subcontractors furnish certified copies of payrolls to the Department.

Effective January 2000, the Department changed the threshold amount from \$1,000,000 to \$5,000,000.

Condition: We reviewed the work performed by the Department's Internal Audit Unit to test compliance with the Department's policies. The work performed included, among other testing, the selection of two construction projects each quarter, a visit to the Department's Construction District offices, a review of the certified payrolls and confirmation that the required wage checks were performed. The Internal Audit Unit reviewed five projects during the 1999 calendar year. In all of the projects audited, the Internal Audit Unit found

deficiencies in the number of required wage checks performed. For three of those five projects, wage checks could not be performed on some employees because the certified payrolls were not made available.

In order to eliminate the problem of an inadequate number of wage checks being performed, the Department implemented a new method of monitoring construction projects in January 1999. Project engineers are required to randomly review, each month, two of the projects they are assigned to oversee and verify that the projects are in compliance with the requirement for monthly labor wage checks. The project engineer must then report this review by completing a Labor Wage Check Compliance Review Form and submitting that form to the Office of Construction.

In January 2000, the Department implemented another change to its method of monitoring construction projects for compliance with the Davis-Bacon Act. Chief inspectors are now required to complete a Project Payroll / Wage Check Monthly Summary each month and forward a copy to the District Office. This report lists the number of wage checks performed, whether certified payrolls have been received, and requires the Chief Inspector to sign the report.

Our audit included a review of the new procedures and found some deficiencies. We tested five projects. In general, we found an adequate number of wage checks were performed for the projects tested. However, we noted that in many cases the documentation supporting those efforts was not completed. In two of the five projects tested we found some of the Project Payroll / Wage Check Monthly Summaries and/or Labor Wage Check Compliance Review Forms were not properly completed. In addition, the Department still encounters difficulties with contractors that do not provide the certified payrolls in a timely manner.

Effect:

Although conditions have been improved, the Department is not completely complying with its policies and procedures. Consequently, there is less assurance that the controls in place that ensure the Department's contractors comply with the Davis-Bacon Act are effective.

The number of projects that did not have the Project Payroll / Wage Check Monthly Summaries and Labor Wage Check Compliance Review Forms properly completed is indicative of a condition that may be systemic to all of the Department's construction projects.

Cause:

Officials at Department District Offices indicated that they have instructed construction inspection personnel on the proper completion of the forms. However, they indicated further instruction may be necessary.

Recommendation: The Department should ensure that its District Offices are properly documenting the required wage checks for each project. (See Recommendation 16.)

Agency Response: “We agree with this finding in part. Since implementation of the new Davis-Bacon wage monitoring procedure in January 2000, quarterly examinations of records have revealed an improvement in the project compliance with the Department’s procedures, although additional improvement is possible. The Office of Construction will again include Davis-Bacon monitoring procedures in its annual project engineer and inspector training conducted during January through March 2001. In addition, the Office of Construction records examination staff will begin monthly reviews of district compliance with the Davis-Bacon monitoring requirements beginning in January 2001. Each monthly review will involve one-third of the active district projects so that all projects are reviewed on a quarterly basis. District Managers will be required to modify their internal district procedures if the monthly reviews indicate that a problem exists within the district organization.”

Reporting Under Section 4-33a Connecticut General Statutes:

Under provisions of Section 4-33a, in letters dated December 1, 2000, and April 23, 2001, the Department of Transportation notified our Office and the State Comptroller of an alleged theft by one of its employees and of the resultant investigation. At the same time the Governor was notified of these matters. The Department conducted a fact-finding process and determined that several employees were involved with violations of State policies and procedures involving the misuse of materials and State time. The Department took appropriate disciplinary action by dismissing or suspending the involved employees. It also went after restitution for the costs for the misused materials and time. As the Department appears to have handled this matter appropriately, we see no need for a recommendation at this time.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Nine recommendations were presented in our prior report. The Department has implemented corrective action for three of those recommendations and six are restated and repeated in this report. The following is a summary of the prior recommendations and the action taken by the Department.

- The Department should investigate the continuing decline in reported aircraft registrations. It should also reevaluate the effectiveness of the Aircraft Registration Program and seek legislation to correct its deficiencies - We found the program has remained unchanged, and the payments to municipalities have ended in the 1999-2000 fiscal year, as prescribed by statute. Over the five-year life of the program, there was no identifiable sustained increase or decrease in the number of aircraft registered in the State. Because only minor administrative costs are now borne by the Department, we are not repeating the Recommendation.
- The Department should obtain proper authorization for all State owned vehicles garaged at home. The Department should assign State owned vehicles or reimburse employees for the use of personally owned vehicles in a manner that is most cost effective - Our current audit found proper approvals were on file for those State vehicles garaged at home. However, there appeared to be no improvement in the Department's ability in assigning State owned vehicles, or in reimbursing employees for use of their personal vehicles in the most cost effective manner. We found that provisions of the P-4 collective bargaining unit restricted the Department's ability to do so. The Recommendation is considered implemented.
- The Department should consider the elimination of the Operation Lifesaver Committee or the restructuring of its make up - Our current audit found continued vacancies in the Committee and members that did not regularly attend meetings. The Recommendation is repeated in a modified form. (See Recommendation 1.)
- Revisions should be made to the Maintenance Management System to increase its accuracy, and realize its potential to be a useful and effective tool for planning, budgeting, control and reporting purposes - Our prior audit found that the Department did not utilize the reports generated by the system to the extent that justifies the cost of operating it. Our current audit found the Department has made changes to improve the accuracy of reporting. However, we continued to find significant and unexplained variances between planned and actual activity and the failure to make the most effective use of the system. The Recommendation is repeated in a modified form. (See Recommendation 2.)
- Petty cash fund travel advances should be settled promptly - Our current audit found a similar condition. The Recommendation is repeated. (See Recommendation 6.)
- The Department should completely identify, record and report its inventory of surplus real property, and all of its stores and supplies - Our current audit found the records pertaining to equipment and stores and supplies improved. However, the Department has not completed an inventory record for unused highway property. In addition it does not promptly record and report newly purchased real property as an asset. We are repeating the Recommendation in a modified form. (See Recommendation 7.)

- Disaster planning for the electronic data processing system should be improved - Our current audit found the Department has prepared formal disaster recovery plans but the plans are not tested and that a formal agreement establishing a backup site has not been obtained. We note that on July 1, 2000, the Department of Information and Technology began its process of transitioning the State's information and technology workforce into that agency. Therefore, it will be the responsibility of the Department of Information and Technology, working with the Department of Transportation, to provide adequate data processing security. The Recommendation is repeated. (See Recommendation 8.)
- Compensatory time should be used in accordance with standard State policy until the Agency's scheduling concerns can be resolved with the Department of Administrative Services - Our current audit found the Department has resolved this matter. The Recommendation is considered implemented.
- The Office of Transit and Ridesharing should establish a properly designed log to track submission of audit reports. It should also improve the review and resolution of the audit reports from contractors or grantees - Our current audit found this condition somewhat improved. However, we did find need for improvements in the information system used for administering transit grants. The Recommendation is repeated in a revised form. (See Recommendation 9.)

Current Audit Recommendations:

- 1. The Department should seek legislation to amend Section 13b-376 of the General Statutes to restructure the membership of the Operation Lifesaver Committee.**

Comment:

The Committee was not able to attain full membership and certain Committee members do not attend meetings.

- 2. Revisions should be made to the Maintenance Management System to realize its potential to be a useful and effective tool for planning, budgeting, control and reporting purposes.**

Comment:

We found the reports generated by the MMS had deficiencies that restricted their usefulness in budgeting, reporting and controlling the Department's highway maintenance effort.

- 3. The Department should complete the inventory of surplus property that is currently in progress. That inventory should include all property that has not been made part of the highway infrastructure. The Department should also implement statutory, policy and procedural changes that would expedite the process for identifying and disposing of surplus property.**

Comment:

A follow up review of our performance audit found several recommendations that have not been implemented.

- 4. The Department should develop an active program to extend the use of Value Engineering studies to those highway design projects for which it is not already Federally mandated.**

Comment:

We found that the application of Value Engineering to Federal-aid projects was a productive investment. It has only been required for those Federal-aid projects with a cost of over \$25,000,000. An expanded Value Engineering program would include Federal-aid projects that cost below that level; and if initial program studies prove to be cost effective, the program could be then expanded to State funded projects.

- 5. The Department of Transportation should improve its inspection and design procedures so that it could avoid the need for construction orders to the greatest extent possible. In addition, when such construction orders are necessary, the most competitive prices for added items should be obtained.**

Comment:

Although the size and complexity of the Department's construction projects may frequently require the need for construction orders, we believe that additional care in site inspection and planning would prevent the need for some contract "add-ons." Complete and accurate project planning would serve to avoid construction orders to the greatest extent possible.

- 6. Petty cash fund travel advances should be settled promptly.**

Comment:

The settlement of some travel advances continued to exceed the number of days allowed by the State Accounting Manual.

- 7. The Department should identify, record in its inventory and report to the State Comptroller, all real property that was not made part of the infrastructure.**

Comment:

The Department has maintained a policy of not recording real property purchased for a facility as an asset, until construction is completed. This policy does not provide for the accurate reporting of all fixed assets held by the Department.

- 8. Disaster recovery planning for the Department's electronic data processing systems should be improved.**

Comment:

The Department is relying on an untested arrangement for which there is no formal agreement ensuring emergency site use. In addition, there were records maintained on a personal computer based system that were not properly protected from loss.

- 9. The Department of Transportation should develop a unified computerized information system for management of transit grant agreements and addenda.**

Comment:

This system should be designed to incorporate proper controls to completely track the progress of all agreements, from initiation through closeout. It should identify all items that are currently open and provide for an aging schedule that allows the older agreements to be finalized first. At any given time the system should be able to determine the inventory of outstanding items and this number should be communicated periodically to management.

- 10. The Department should review its policies and procedures pertaining to the collection of receivables due from municipalities and collect or resolve these receivables in a timely fashion.**

Comment:

We found ten municipal receivables, as of January 2001, totaling approximately \$1,300,000, which have been outstanding from 18 to 114 months. These receivables are the result of overdue demand deposits or from final audits in connection with construction agreements.

- 11. The Department should improve its controls and procedures to ensure a more complete review of telephone calling reports.**

Comment:

The Department does not maintain a log or other record to ensure that all calling reports are reviewed, signed by the employee and returned to the Property and Facilities Unit. In addition, the Department does not require its unit managers to

periodically review the telephone calls billed to their units.

- 12. The Department should calculate a gasoline additive rate that includes all overhead costs and prior year under recoveries.**

Comment:

The calculated gasoline additive rate did not include the prior year under recovery and the capital costs of the new fuel control system.

- 13. The Department should execute an agreement with the Department of Public Safety for the police services at Bradley International Airport.**

Comment:

The Department has used the services of the Department of Public Safety at Bradley International Airport for many years without the benefit of a formal agreement.

- 14. The Department should use more care in the calculations of State service time to avoid longevity overpayments.**

Comment:

In a sample of 20 employees, we found five in which the Department did not correctly determine the proper service time. In addition, the Department should follow the practice recognized by the Department of Administrative Services and not add leap year days to full years of service.

- 15. The Department should put in place monitoring controls to provide reasonable assurance that prevailing wage rates are paid on rail construction projects covered by the Davis-Bacon Act.**

Comment:

The Department is not discharging its responsibility under Federal program requirements to monitor a major contractor's compliance with the Davis-Bacon Act.

- 16. The Department should ensure that its District Offices are properly documenting the required wage checks for each project.**

Comment:

The Department has continued to have difficulties in ensuring that the policies and procedures that it has established to enforce contractor compliance with the Davis-Bacon Act are followed.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Transportation for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Transportation for the fiscal years ended June 30, 1999 and 2000, 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 Department of Transportation complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Transportation is the responsibility of the Department of Transportation's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed 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 Department of Transportation is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing

procedures for the purpose of evaluating the Department of Transportation's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: There are weaknesses in recording all of the Department's real property onto property control records. There is an untested disaster plan for the computer system. There is an inadequate system for the management of grants to transit districts and private carriers and for the collection of receivables due from municipalities.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the reportable condition regarding the untested disaster plan for the computer system to be a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over 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

We wish to express our appreciation for the cooperation and courtesy extended to our representatives by the officials and staff of the Department of Transportation during this examination.

Matthew Rugens
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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