

STATE OF CONNECTICUT

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

**AUDITORS OF PUBLIC ACCOUNTS
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February 1, 2006

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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, 2003 and 2004.

The financial statement presentation and auditing of the books and accounts of the State are performed 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 15-1011 of the General Statutes originally authorized the issuance of Airport revenue bonds, of which \$100,000,000 was issued in 1982. These were redeemed and replaced by an issue of \$94,065,000 in refunding bonds in 1992. On March 1, 2001, Bradley International Airport issued \$213,180,000 in revenue bonds. These bonds are secured by and payable solely from the gross operating revenues generated by the Airport, as well as other receipts, funds or monies pledged in the bond indenture. Total Airport revenue and refunding bonds outstanding amounted to \$252,020,000 as of June 30, 2004. Revenues derived from airport operations are deposited with a corporate trustee and applied as provided for in the indenture. In July 2004, \$30,640,000 in refunding bonds were issued to refund the outstanding Series 1992 bonds.

The Bureau of Public Transportation is responsible for the operations of three mass transit systems: Metro-North Railroad, the Shore Line East rail commuter service, and the Connecticut Transit bus system. 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 in partnership with the Department of Transportation. 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. The 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 is also responsible for the many projects needed to maintain these 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 roadway traffic volumes, accident information, travel forecasting models, intermodal policy planning, and environmental planning services.

James F. Byrnes, Jr., was originally appointed Acting Commissioner of Transportation, effective January 31, 2002. He was appointed Commissioner of Transportation on March 4, 2003, and served in that capacity until his retirement, effective April 1, 2004. Stephen E. Korta, II, was appointed Commissioner of Transportation, effective April 1, 2004. James A. Adams served as Deputy Commissioner of Transportation through the audited period; he resigned from the position, effective August 1, 2004. Louis S. Cutillo served as Deputy Transportation Commissioner, Bureau of Aviation and Ports through the audited period; he retired effective August 1, 2004.

Significant Legislation:

Significant 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 03-115, Section 28, effective October 1, 2003, created a new requirement for the Commissioner to notify the State Representative and State Senator representing a municipality in which certain property is determined to be unneeded for highway purposes and there is an intent to dispose of such property. Section 81 of the Act, effective July 1, 2003, increased certain fees related to outdoor advertising structures.

Public Act 03-190, effective October 1, 2003, increased the gross vehicle weight of bulk milk pickup tankers, to 99,000 pounds, provided the tanker is permitted under Federal law.

Public Act 03-215, effective October 1, 2004, required the Commissioner of Transportation to adopt regulations related to contracting for the construction, reconstruction, alteration, remodeling, repair or demolition of any public building under the supervision and control of the Commissioner. Any contract exceeding \$500,000 is to be awarded to the lowest responsible and qualified bidder.

Public Act 03-1 (June 30 Special Session), Section 42, effective August 16, 2003, provided that certain Department appropriated funds would not lapse, and would be available for use during the fiscal years ended June 30, 2004 and 2005.

Public Act 03-3 (June 30 Special Session), Section 40, effective August 20, 2003, amended Section 13a-252 of the General Statutes, by providing specific rates for the use of the Rocky Hill and Chester and Hadlyme ferries. Section 41 of the Act reduced certain town aid for highways and bridges from \$14,600,000 to \$12,500,000, per fiscal year.

Public Act 03-4 (June 30 Special Session), effective August 20, 2003, addressed recommendations made by the Transportation Strategy Board. Some of the more significant specific projects that were approved, under Section 3 of the Act, follow:

- Acquire rolling stock to add no fewer than 2,000 seats to the Metro North-New Haven Line for use in both interstate and intrastate service.
- Construct or expand stations in Bridgeport, New Haven and Stamford that can accommodate rail service and one or more modes of transportation.
- Establish express bus services from New Haven to Bradley International Airport.
- Expand rail passenger service on the Norwalk to Danbury-New Milford Branch Line.
- Establish bus or rail service that runs through New Haven, Hartford, and Springfield, with a connection to Bradley International Airport.
- Establish rail service with connections to the port of New London.
- Expand bus service to Norwich and New London and acquire buses sufficient to add no fewer than 200 seats.
- Plan to extend Route 11 from Salem to the I-95 and I-395 intersect.
- Acquire rolling stock to add no fewer than 1,000 seats to the Shoreline East Railroad Line.

Any projects requiring expenditures of more than \$1,000,000 shall be accompanied by an economic development plan. The Transportation Strategy Board shall prepare a performance report concerning the projects and plans.

Section 16 of the Act required the Department to prioritize the above projects and to submit a list describing such priorities to the Transportation Strategy Board, by August 1, 2004, and biennially thereafter. On or before November 1st, the Board may revise the list; by January 1st the revised report is to be submitted to the General Assembly.

Section 6 of the Act required that on or before January 1, 2004, the Commissioner of Transportation, in consultation with the Department of Public Safety and the Department of Motor Vehicles, to establish a program to implement regularly scheduled and enforced hours of operation for weigh stations. Not later than October 1, 2003, and annually thereafter, the

commissioner shall submit a report on the planned program to the joint standing committee of the General Assembly having cognizance of matters relating to transportation.

Section 36, provided specific uses for funds carried forward under the authority of Section 42 of Public Act 03-01 of the June 30 Special Session. It also provided that a \$600,000 operating subsidy for Tweed-New Haven Airport was contingent on the operating subsidy provided by the City of New Haven.

Public Act 03-1 (September 8 Special Session), Section 8, effective September 10, 2003, amended Section 13a-272 of the General Statutes to provide the Commissioner with authority to establish a discounted rate for travel on the Rocky Hill, and Chester and Hadlyme ferries.

Public Act 04-143, Section 1, effective July 1, 2004, amended Section 13a-73 of the General Statutes by increasing the threshold for which the purchase or sale of surplus property must be reviewed and approved by the State Properties Review Board, from \$1,000 to \$5,000.

Section 7 of the Act, effective May 21, 2004, amended Section 13a-252, Subsection (a), as amended by Section 40 of Public Act 03-3 of the June 30 Special Session, by repealing specific rates enacted for the Rocky Hill, and Chester and Hadlyme ferries by Public Act 03-3.

Section 8 of the Act, effective October 1, 2004, amended Section 14-262 of the General Statutes, by increasing the length of a combination truck and trailer to 65 feet (from 60 feet), as a criteria for vehicles requiring a special written permit from the Commissioner of Transportation to operate.

Section 22 of the Act, effective July 1, 2004, created a Connecticut Maritime Commission, with specific duties related to maritime operations within the State. The Commission is a successor agency to the Connecticut Port Authority, which was eliminated by Section 35 of the Act.

Section 27 of the Act, effective May 21, 2004, required the Commissioner of Transportation, in consultation with the Commissioner of Public Safety and the Chief Information Officer of the Department of Information Technology, to develop a plan for individuals to receive notification of significant highway or railway incidents. Further, on or before December 1, 2004, the Commissioner of Transportation was to report to the joint standing committees of the General Assembly having cognizance of matters relating to transportation and public safety its findings and recommendations, including proposals for legislative and regulatory changes.

Public Act 04-177, Sections 1 through 8, effective July 1, 2004, authorized certain specific expenditures by the Transportation Strategy Board.

Section 10 of the Act, effective June 1, 2004, delayed reporting requirements related to a program to implement regularly scheduled and enforced hours of operation for weigh stations from October 1, 2003, to October 1, 2004.

Public Act 04-216, Section 46, effective July 1, 2004, required that two round trips of midday train service between Waterbury and Bridgeport be restored using existing budgetary resources.

Public Act 04-219, Section 27, effective June 8, 2004, established a state-wide Emergency Management and Homeland Security Coordinating Council.

BOARDS AND AUTHORITIES:

Connecticut Transportation Strategy Board:

The Connecticut Transportation Strategy Board (CTSB) is composed of fifteen members; the Commissioners of Transportation, Environmental Protection, Public Safety, Economic and Community Development, and the Secretary of the Office of Policy and Management, five representatives of the private sector, and five representatives of regional transportation investment areas. The purpose of the Board is to propose strategy ideas to the members of the legislature. The goals of the Board include improving the mobility of people and goods, to enhance connectivity to regional, national, and global economies, and to enhance safety and security.

The CTSB is required to submit its strategies to the legislature, which can be either passed as law or rejected. By statute, the strategies are required to be revised at least once every two years after that date. The strategies must include specific programs, projects, studies, and initiatives. The CTSB must also annually review and make recommendations on the proposed Department of Transportation operating and capital budgets, as they relate to the adopted strategies.

The Board was funded by an appropriation from the State General Fund. Expenditures for the fiscal years ended June 30, 2003 and 2004, were \$5,731,088 and \$5,931,261, respectively. Expenditures made on behalf of the Board for capital improvements from the Infrastructure Improvement Fund totaled \$1,378,001 and \$7,062,159, for the fiscal years ended June 30, 2003 and 2004, respectively.

Bradley Airport Board of Directors:

The Bradley Airport Board of Directors consists of seven members. These members include the Commissioners of Transportation, and Economic and Community Development, a representative from the CTSB, a member of the Bradley International Community Advisory Board, and three private sector members. Each member serves a four-year term, the first group serving until June 30, 2005. The Board of Directors is to advocate the airport's interests, make sure resources are being fully utilized, and to ensure that there is an appropriate mission statement and goals in place for the airport.

According to statute, the Board must implement and maintain an organizational and management structure that will allow Bradley International Airport to accomplish its goals. The Board must approve the annual operating and capital budgets for the airport. The Board must also advocate the airport's interest in economic development, approve the master plan of the airport, establish and review policies and plans for the airport and ensure that the appropriate independent expertise is available. The Board is required to adopt rules to conduct business and establish a code of ethics for its members. The Board must also put procedures in place to review significant contracts. The Board is required to submit an annual report to the governor and legislature.

Connecticut Port Authority:

The Connecticut Port Authority was a quasi-public agency created to promote economic development for all ports in the State, through planning, coordinating, and marketing in support of the entities operating the ports together with establishment of foreign-trade zones. The Authority

was eliminated by Public Act 04-143, effective July 1, 2004. This same Act established a Connecticut Maritime Commission within the Department of Transportation.

A seventeen-member Board of Directors had governed the Authority. Membership included the Commissioner of the Department of Transportation, who served as chairperson, and the Commissioner of the Department of Economic and Community Development, both of whom were ex officio voting members, six directors appointed by the Governor, and six directors appointed by the President Pro Tempore of the Senate, the Speaker of the House of Representatives, and the majority and minority leaders of the Senate and the House, respectively. Additionally, three port professionals, who served as ex-officio nonvoting members, were also designated members.

The Authority was empowered to solicit, receive and accept aid, grants or contributions of money, property or labor, or other things of value, to be used and applied to carry out its purpose. The Authority was also empowered to hire employees and to engage consultants, attorneys and other professionals as had been necessary. The Authority was also authorized to appoint an executive director to serve as the chief administrative and operational officer of the Authority.

During the audited period, the Authority's expenditures were included in appropriations of the Special Transportation Fund administered by the Department of Transportation - Bureau of Aviation and Ports. Section 32-426, subsection (f), of the General Statutes authorized the Commissioner of Transportation to provide administrative or other services to the Authority within available appropriations. No appropriations were made to the Authority itself, nor was it responsible for the management of any funds. Expenditures, primarily for the travel and conference costs of board members, and office and promotional supplies, totaled \$7,728 and \$7,454 during the fiscal years ended June 30, 2003 and 2004, respectively.

As a quasi-public agency, the Authority was subject to the requirements included in Sections 1-120 through 1-125 of the General Statutes. Included is a requirement to have an audit performed to determine whether it had complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance. Because the Connecticut Port Authority did not receive its own funding, and did not employ its own personnel during the audited period, most of the above requirements did not apply. The Authority did not, therefore, seek to have such an audit performed for the fiscal years ended June 30, 2003 and 2004.

We have examined the financial records of the Connecticut Port Authority for the fiscal years ended June 30, 2003 and 2004, as part of this audit of the Department of Transportation. No findings are presented as a result of that review.

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 the Infrastructure Improvement Fund, a Capital Project Fund. The use of separate miscellaneous Capital Projects Funds has been phased out. 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. For the audited period, town aid grants for roads and bridges were funded from the General 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, 2002, 2003, and 2004, are presented below for comparative purposes:

Schedule of Receipts - by Fund:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
General Fund	\$ 16,491	\$ 16,138	\$ 6,369
Special Transportation Fund	131,158,958	126,294,179	129,921,239
Public Bus Transportation Revenue Fund	22,465,714	22,012,007	23,148,807
Infrastructure Improvement Fund	477,684,775	504,318,728	502,215,595
Miscellaneous Capital Project Funds	964	540,441	-
Bradley International Airport Operations Fund	29,925,686	31,009,998	30,305,211
Bradley International Parking Operations Fund	-	-	6,319,207
Local Bridge Revolving Fund	321,245	242,299	317,104
Total Receipts	<u><u>\$661,573,833</u></u>	<u><u>\$684,433,790</u></u>	<u><u>\$692,233,532</u></u>

Schedule of Expenditures - by Fund:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
General Fund	\$ 37,653,271	\$ 5,731,088	\$ 5,931,261
Special Transportation Fund	449,867,295	445,209,699	415,812,587
Public Bus Transportation Revenue Fund	22,819,712	22,130,000	22,280,000
Infrastructure Improvement Fund	706,902,492	690,253,094	653,336,164
Miscellaneous Capital Project Funds	2,609	580,000	-
Bradley International Airport Operations Fund	28,548,170	29,968,286	29,120,706
Bradley International Parking Operations Fund	-	-	3,604,597
Local Bridge Revolving Fund	4,375,385	3,672,487	1,820,378
All Other Funds	191,743	2,781,569	1,039,031
Total Expenditures	<u><u>\$1,250,360,677</u></u>	<u><u>\$1,200,326,223</u></u>	<u><u>\$1,132,944,724</u></u>

Special Transportation Fund - Expenditures:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Personal Services	\$128,528,468	\$118,188,662	\$110,300,139
Other Expenses	29,602,758	31,410,489	32,836,365
Highway Planning and Research	2,695,211	2,212,794	1,670,779
Highway and Bridge Projects	14,334,256	9,902,239	13,320,070
Handicap Access Program	8,728,800	10,359,400	11,945,711
Rail Operations	62,938,108	72,546,738	75,689,956
Bus Operations	70,589,517	78,054,128	76,460,043
Dial-A-Ride	2,500,000	2,375,000	2,500,000
Amtrak Pass Through Funds	2,368,784	4,958,133	3,783,318
Town Aid Grants	-	15,935,763	12,449,800
Highway and Bridge Renewal Equipment	3,896,556	3,708,202	2,551,017
Transit Equipment	20,969,030	5,382,747	129,604
General Agency Equipment	1,830,367	1,180,460	819,102
Airport Improvement - Federal Share	5,793,789	3,713,633	390,909
Highway Construction - Federal Share	79,660,885	69,198,819	54,039,124
Transit Assistance - Federal Share	3,081,698	3,155,038	4,515,617
Non-Urban Transit Assistance - Federal Share	2,711,949	3,096,281	1,431,746
Highway Safety - Federal Share	6,718,256	7,008,958	10,026,510
All Other	2,918,863	2,822,215	952,777
Total Expenditures	<u>\$449,867,295</u>	<u>\$445,209,699</u>	<u>\$415,812,587</u>

Infrastructure Improvement Fund - Expenditures:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Personal Services	\$ 54,025,173	\$ 53,452,233	\$ 42,943,949
Employee Fringe Benefits	24,812,442	23,176,273	16,639,447
Other Expenses	146,355,184	146,543,203	140,087,504
Highway and Transit Facility Projects	448,732,310	428,347,877	418,051,242
Land	23,037,612	27,770,915	33,176,480
Equipment	9,939,771	10,962,593	2,437,542
Total Expenditures	<u>\$706,902,492</u>	<u>\$690,253,094</u>	<u>\$653,336,164</u>

Revenues and Receipts - Infrastructure Improvement and Special Transportation Funds:

The most significant component of Department revenues during the audited period was the operations of the Infrastructure Improvement Fund. Receipts for the Fund totaled \$504,318,727 and \$502,215,595 for the 2002-2003 and 2003-2004 fiscal years, respectively, as compared to \$477,684,775 for the 2001-2002 fiscal year. Revenues for the Special Transportation Fund totaled \$126,294,179 and \$129,921,239 for the 2002-2003 and 2003-2004 fiscal years, respectively, as compared to \$131,158,958 for the 2001-2002 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 \$380,123,035 and \$471,509,856 for the fiscal years ended June 30, 2003 and 2004, respectively, as compared to \$474,035,151 for the 2001-2002 fiscal year. The fluctuation in receipts for the Infrastructure Improvement Fund is generally due to changes in the number of Federally reimbursed highway construction projects administered.

Federal grant receipts for the Special Transportation Fund totaled \$91,698,926 and \$71,602,211 for the fiscal years ended June 30, 2003 and 2004, respectively, as compared to \$97,725,388 for the 2001-2002 fiscal year. As with the Infrastructure Improvement Fund, such receipts fluctuate in relation to the number of Federal projects administered during a fiscal year. Other major receipts deposited to the Special Transportation Fund included motor carrier permit fees, royalties from highway concessions, rental income, and sales of surplus real property.

Expenditures - Infrastructure Improvement Fund:

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 \$690,253,094 and \$653,336,164 for the fiscal years ended June 30, 2003 and 2004, respectively, as compared to \$706,902,492 for the fiscal year ended June 30, 2002. As such, there was a net decrease in expenditures of \$16,649,398 in the 2002-2003 fiscal year as compared to the 2001-2002 fiscal year, and a further net decrease in expenditures of \$36,916,930 in the 2003-2004 fiscal year, as compared to the 2002-2003 fiscal year. Construction activity fluctuates between fiscal years, as exemplified by the expenditure totals presented above. Significant projects during the audited period included: the reconstruction and improvement of various parts of I-95 in the Bridgeport area, reconstruction of the Route 15 bridge over the Housatonic River in Milford, numerous projects on I-95 in the New Haven area including the Quinnipiac Bridge, and resurfacing, bridge and safety improvements of various parts of I-84. In addition, new buses were purchased for Connecticut Transit. The decrease in personal services and related fringe benefit costs is due to a significant reduction in filled positions, as explained below.

Expenditures - Special Transportation Fund:

Expenditures from the Special Transportation Fund totaled \$445,209,699 and \$415,812,587 for the fiscal years ended June 30, 2003 and 2004, respectively, as compared to \$449,865,295 for the fiscal year ended June 30, 2002. There was a net decrease in expenditures of \$4,655,596 in the 2002-2003 fiscal year, as compared to the 2001-2002 fiscal year, and a net decrease in expenditures of \$29,397,112 in the 2003-2004 fiscal year, as compared to the 2002-2003 fiscal year.

Payments for personal services, subsidies for bus and rail transit, equipment for highway maintenance and transit services, and the maintenance of highways and bridges, including snow and ice removal, were the major expenditures made by the Special Transportation Fund. The decrease in expenditures was primarily attributed to decreases in personal services and capital projects. More specifically, the number of filled positions for Department operations decreased from 3,505, as of June 30, 2002, to 2,937, as of June 30, 2004. Total filled positions for Bradley International Airport operations decreased from 119 to 103, during that same period. The decrease in capital project expenditures is due to a fluctuation in the number of Federally participating projects administered.

Expenditures of this type decreased from \$97,966,577 for the 2001-2002 fiscal year, to \$86,172,729 for the 2002-2003 fiscal year, and further decreased to \$70,403,906 for the 2003-2004 fiscal year.

During the audited period there were significant increases attributable to public transportation operations, as well as a transfer of town aid grants from the General Fund to the Special Transportation Fund.

Expenditures - General Fund:

The Department received appropriations from the State General Fund during the audited period. General Fund expenditures, exclusively for operations of the Connecticut Transportation Strategy Board, were \$5,731,088 and \$5,931,261 for the fiscal years ended June 30, 2003 and 2004, 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 \$22,012,007 and \$23,148,807 for the fiscal years ended June 30, 2003 and 2004, respectively. Expenditures from the Fund for Connecticut Transit operations were \$22,130,000 and \$22,280,000 for those same fiscal years, respectively.

Bradley International Airport Operations Fund:

Income from airport parking, car rentals, landing fees, and concessions at Bradley International Airport is reflected in receipts of the Bradley International Airport Operations Fund. Revenues of the Fund totaled \$31,009,998 and \$30,305,211 for the fiscal years ended June 30, 2003 and 2004, respectively. Expenditures from the Fund for airport operations, primarily for the cost of payrolls and fringe benefits, were \$29,968,286 and \$29,120,706 for the same fiscal years, respectively.

Bradley International Parking Operations Fund:

The Bradley International Parking Operations Fund was established to account for the revenue collected by the operator of certain parking facilities at the Airport. Revenues of the Fund are held by a trustee and are used to repay bonds issued to fund the construction of garage parking facilities.

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 \$242,299 and \$317,104 for the fiscal years ended June 30, 2003 and 2004, respectively. Expenditures from the Fund for grants and loans were \$3,672,487 and \$1,820,378 for the fiscal years ended June 30, 2003 and 2004, respectively.

State Funds Awaiting Distribution Fund:

Receipts credited to the Department's account in the State Funds Awaiting Distribution Fund, totaled \$622,210 and \$2,090,166 for the fiscal years ended June 30, 2003 and 2004, respectively. Expenditures from the Department's account in the Fund were \$2,438,505 and \$1,227,835 for the same fiscal years, respectively.

PROGRAM EVALUATION:

Our audit report, for the fiscal years ended June 30, 2001 and 2002, included a review of previous program evaluations and the corrective action implemented by the Department. In addition, a new program evaluation was conducted of the records inspection procedures for various types of construction projects, and a brief review of the security costs for Bradley International Airport.

During this audit, we reviewed the status of action taken in response to prior recommendations. In addition, we are in the process of completing a performance evaluation on the Department's change order process for infrastructure projects. A report on that review will be issued under separate cover.

Follow-up of Prior Program Evaluation - Surplus Real Property:

In October 1999, the Auditors of Public Accounts issued the *Performance Audit Report of Surplus Real Property and Real Property Control Systems - Department of Transportation*; that report contained six recommendations, some of which were restated and repeated as recommendations in a previous audit report. Our prior audit report, which reviewed the status of corrective action implemented by the Department as of June 2002, noted that the Department had made progress in identifying and marketing surplus property. At that time, Department officials could not provide an estimated date for the completion of the entire inventory, and also indicated that the resources available for the project were limited.

Our current review disclosed that the project has not been completed and that an estimated date of completion continues to be unknown. Limited resources are cited as a reason that this effort has not been completed in a more timely manner.

<i>Criteria:</i>	The efficient management of the State's assets includes maximizing the return on the State's investment in real property.
<i>Condition:</i>	<p>A previous audit report cited the need to establish an agency-wide policy for the identification of surplus property, and the need to eliminate some statutory requirements in the surplus property process, as well as policy changes to facilitate the processing of real property disposals.</p> <p>Our follow-up review found that, while the Department has significantly eliminated its inventory of surplus property, it has not completed the project.</p>
<i>Effect:</i>	Surplus real property, deemed to be unneeded by the Department, is being held rather than marketed for sale. This results in an idle use of State resources.
<i>Cause:</i>	The Department has indicated that limited resources prevent a more timely completion of its planned efforts to identify and market all surplus property.

Recommendation: The Department should complete the identification and inventory of surplus real property, and market such properties where appropriate. (See Recommendation 1.)

Agency Response: “The Department is actively working to inventory all real property deemed to be in excess of the State’s needs for highway purposes. As of July 15, 2002, the Office of Rights of Way reported an inventory of 185 parcels. To date, over 100 of these conforming parcels have been sold.

In April 2004, the Office of Rights of Way established an Excess Property Inventory Unit. Currently, the unit has identified 703 parcels of potentially excess State property. Approximately 12 percent of these parcels have been identified as saleable property. This unit has inventoried 11 city/towns during this period. In addition, the Office of Rights of Way has developed a procedure to identify excess property during the acquisition stage of construction projects. These properties can then be added to the Property Inventory upon completion of construction of the project.

In recent years, the Department has seen a noticeable increase in the transfer of saleable properties as a result of certain legislative actions. Many of these prime properties are transferred to municipalities for a nominal administrative fee versus being sold on the open market with the State’s profits being returned to the Transportation Fund. Since 1997, the Department has conveyed property with a total estimated value of \$24,000,000 as a result of these types of actions.

The 2004 Legislative Conveyance Bill alone resulted in ten properties being transferred. Administrative fees totaling \$9,000 were collected for nine of these parcels, with the tenth being sold for fair market value (\$66,000). The estimated value of these ten properties totaled \$3,700,000.

The goal of the Department’s Office of Rights of Way is to continue to identify all properties deemed to be in excess of the State’s needs, and to sell them on the open and competitive market for fair market value.”

Follow-up of Prior Program Evaluation - Construction Change Orders:

A previous audit report contained a program evaluation of the Department's use of construction change orders. Change orders or construction orders come about when specifications for a construction project are changed after a contract and prices for the project have been negotiated. Our review sampled projects with large change orders, or, as used by the Department “construction orders.” 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. The cost for the additional items was significantly higher than if the item was in the original project bid.

Condition: Our current review of a sample of projects disclosed that, of 801 change orders reviewed, 273, or 34.1 percent, were not completed within 90 days. It was noted that, on average, change orders take 112.5 days to complete in District 4, 102.9 days to complete in District 3, 86 days to complete in District 1, and 48.6 days to complete in District 2.

Effect: Work on construction orders was allowed to proceed and costs were incurred, without the benefit of the prompt review and processing by the project engineer, supervising engineer, and District office staff.

Cause: Construction inspectors did not promptly process construction change orders and submit them to supervisory engineers and District managers.

Recommendation: The Department of Transportation should improve its inspection and design procedures so that it may avoid the need for construction orders to the greatest extent possible. It should also ensure that construction orders receive final approval within 90 days of initiation. (See Recommendation 2.)

Agency Response: “The preliminary finding developed from the audit of the Department for the fiscal years ending June 30, 2003 and 2004, included the comment that "it was determined that, while some improvements are made, further action was required and was in process." This is to confirm that further action is in process. The Office of Construction is currently reallocating resources by putting personnel in place to staff a new office section being created to exclusively perform Program Management and in-depth Constructability reviews. This was one of the major recommendations resulting from the 2004 Cost Overrun Committee Study Report. This office is also working with the Office of Design to pursue the remainder of the Committee's major recommendations, despite severe resource limitations.

The Office of Construction was faced with many personnel changes during the fiscal years ending June 30, 2003 and 2004, due to the ramification of the Early Retirement Incentive Program (ERIP.) This resulted in reallocation of staff between offices, as well as lack of supervisory staff levels, which to a major extent still remains today. This caused delays in the review and approval of many of the change orders that were reviewed during the audit. In addition, the transition from the Construction Management Reporting (CMR) System to the SiteManager System was occurring during this period, resulting in delays due to the learning curve involved. The Office of Construction is in the process of issuing a revised and updated construction manual, which will better define the roles and responsibilities of all parties, leading to renewed focus on meeting change order approval deadlines.”

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:* Our review of 25 travel advances disclosed that 16, or 64 percent, were not submitted within five working days after return from travel. In addition, the date of submission for one of the travel reimbursements could not be determined.
- Effect:* The untimely settlement of travel advances prevents prompt replenishment of the petty cash fund and may necessitate maintenance of an excessive account balance.
- Cause:* The Department believes that a five day limit to settle advances is not reasonable due to the extensive document approval and informational gathering process.
- Recommendation:* The Department should make better efforts to ensure that petty cash fund travel advances are settled promptly. (See Recommendation 3.)
- Agency Response:* “The Department’s Division of Budget Services will continue to aggressively pursue timely submittal of the Employee Vouchers and required documentation to facilitate prompt settlement of Petty Cash fund travel advances. Currently, when Petty Cash travel advance checks are issued, Department employees sign a “Travel Advance Agreement” that acknowledges they will submit required documentation to Accounts Payable within 5 working days of their return. The Division of Budget Services then contacts the employees whose paperwork has not been submitted within 5 working days. Effective August 2005, Budget Services will send an e-mail reminder of this requirement on the first business day after the employee’s return from travel.

However, it should be noted that the Department's internal control procedures regarding approval and budget checking of documents within each bureau prior to submittal to Accounts Payable, as well as the satellite location of many DOT employees, may result in unavoidable delays.

With regards to the finding that the date of submission for one item could not be determined, generally all incoming documentation is stamped with a received date in Accounts Payable. This instance was an oversight."

Management of Grants to Transit Districts and Private Carriers:

The Department of Transportation expends over \$21,000,000 in grant payments to 13 transit districts, numerous private carriers, and other providers in each fiscal year. Previous audits have noted that the record keeping system over these grants does not provide reasonable assurance that they will be properly recorded, tracked, and closed out in a timely manner. Part of the close out process includes the receipt and review of audit reports from grant recipients. Our current review disclosed that, while certain improvements have been made, a single unified information system for grant management of transit agreements, budget addenda, and audit reports has not been developed. We are repeating the prior Recommendation, as set forth below:

Criteria: Proper grant management requires a system of controls and procedures to ensure that all contractual obligations of a grantee, including formal submission of audit reports, are complied with.

The Department must monitor the compliance with its standardized grant agreement which states: "...within 180 days of the completion of each full fiscal year ... (the provider) shall have prepared and delivered to the State an audit performed by an Independent Certified Public Accountant..."

A system should be designed to incorporate proper controls to completely track the progress of all agreements, from initiation through close out. The system 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.

This tracking system should be part of "an Agency-wide, comprehensive, integrated information system for tracking an agreement and its associated budget addenda from initiation to final close out," that has been recommended in our previous audits. Such a system must include an on-line record system documenting the initial grant agreement, the budget addendum, the receipt of audit reports, the distribution of audit reports, the status of pending items, and the follow-up of open items; which would encompass all the information needed by each Bureau to discharge completely its responsibilities

and to document that effort.

Condition: The Department has not complied with our audit recommendation and executed its plan to “modify the existing system or to develop a new system for tracking agreements and budget addenda through the close out process.” Its goal, to “clearly delineate responsibilities of various offices for their facet of the tracking process and develop a mechanism for management reporting and review,” has not been met.

Therefore, there has been no change in the conditions that existed in the prior year that resulted in our finding. Specifically, the Office of Transit and Rideshare, the Office of External Audit, and the Office of Fiscal Administration use multiple logs to record the receipt of audit reports submitted and to track the status of the reports during the various stages of the review process within the Department. This practice results in wide discrepancies among the relevant dates including the initial audit receipt dates and the various report distribution dates within the Department.

Our current review of transit district audit report submissions disclosed that five of 15 reports were submitted late. While two were only a few days late, the other three were approximately a month late.

Effect: This results in a significant delay in requesting and scheduling audit reviews and in completing a timely final cost settlement to determine if monies are owed to the State.

Cause: The Department of Transportation has not developed a single unified information system for tracking the status of the reports during the various stages of the review process within the Department.

Recommendation: The Department of Transportation’s Bureau of Public Transportation and Bureau of Finance and Administration should jointly develop a single unified information system for grant management of transit agreements, budget addenda, and audit reports. (See Recommendation 4.)

Agency Response: “The Department’s Bureau of Public Transportation has developed and refined tracking mechanisms for transit agreements budget, addenda, and audit reports. These mechanisms have proven highly effective. Staff from the Bureau of Public Transportation communicates regularly and effectively with their counterparts in the Bureau of Finance and Administration regarding the status of audit reports and related reviews. As a result of these findings, the Bureaus will redouble their efforts to enhance the management of grants to Transit Districts.”

Prompt Close Out of Transit Grants and Unbilled and Uncollected Accounts Receivable:

Our previous audit of transit grants found the need for improvement in the closeout of grants, and in the billing and collection of receivables. We recommended that the Department establish and implement a reasonable timetable for project close out and the billing and collection of receivables due from transit grants. All but one of the exceptions regarding outstanding Accounts Receivables was resolved since the previous audit. However, no action has been taken to comply with our recommendation.

Criteria: The timely identification, billing and collection of accounts receivables is a good business practice that enhances accountability over State resources.

Condition: The Department has not complied with our recommendation requiring the establishment and implementation of a reasonable timetable for project close outs and the billing and collection of receivables due from transit grants.

Differences of opinion between the Office of Transit and Rideshare and the Office of Fiscal and Administration regarding the amounts to be included in the determination of the operating deficit for which the State is responsible, remained unresolved for some time. As such, there was a significant delay in the disposition of account receivable balances and project closeouts related to three grants from the fiscal years ended June 30, 1999 and 2000. What had been a receivable originally recorded as \$41,731, was ultimately billed for \$386.

We identified an accounts receivable balance of \$23,527 and two other balances totaling \$31,675, which had not been billed for periods of five to seven years. The Department collected the \$31,675 in May 2003; however, the receivable of \$23,527 is being disputed by the vendor.

We noted during our prior review that the collection of an accounts receivable balance of \$77,262 from the fiscal year ended June 30, 1994, had been indefinitely postponed because the Office of Transit and Rideshare had not reviewed the accounting calculation and payment history related to the balance. Our current review disclosed that no action was taken to address the balance until we inquired of such.

We also noted in our prior audit that the Department cancelled a receivable balance of \$29,287, due from the fiscal year ended June 30, 1993, as it was unable to determine with any certainty whether or not the receivable was previously collected. This was allowed to occur because the Department failed to do a timely follow-up of the accounting review. The pertinent documentation that would have proven whether or not the balance was received had already been disposed of in accordance with the Department's records retention

policy.

Since our prior examination, close out procedures have either commenced or have been completed on several completed projects in the Capital Projects Unit. However, three completed projects noted in our previous audit have not yet been closed out in the Department's information system. Specific reasons for the delays were not presented, which is indicative of the low priority placed on project close outs. Timely project close outs are sometimes critical because multiple projects are associated with a single grant. Therefore, a delay in the close out for one completed project causes delays in other active projects.

Effect:

Accounts receivable balances remain unbilled and uncollected for several years following the end of the fiscal year to which the receivables arose and the receivable balances determined. Further, the Department has been unable to ascertain whether or not certain accounts have been collected due to significant delays in finalizing project close outs. Our recommendation, when implemented, would prevent the types of exceptions noted above by alerting agency personnel of projects that are taking longer than the allotted time frame. It would also prompt an investigation so that problems may be identified and addressed in a timely fashion.

Monies owed to the State and not collected in a timely manner may be subject to possible loss, or result in the inefficient utilization of State resources.

Cause:

The Department of Transportation has not established a reasonable timetable for project close outs. The length of time taken to close out a project should not exceed the total time required for each processing stage performed by the External Audit Division, the Office of Fiscal Administration and the Office of Transit and Rideshare.

The Department of Transportation does not view project close outs as a priority, and an unreasonable amount of time is allowed to lapse between when grant periods expire and when projects are actually closed out. Procedures to promptly complete final project close outs in the Department's information system and to collect monies due have not been implemented.

Recommendation:

The Department of Transportation should establish and implement a reasonable timetable for project close out and the billing and collection of receivables due from transit grants. (See Recommendation 5.)

Agency Response: “Due to limited staff resources in the Bureau of Public Transportation, a backlog of audit reviews developed during fiscal years 2003 and 2004. In the summer of 2004, the Bureau of Public Transportation assigned an Associate Accountant full-time to address the backlog of audit reviews and to facilitate the collection of related receivables. Most of the reviews in the backlog have been completed. Although the Associate Accountant performing this function has resigned, the Bureau is attempting to refill the position and will continue to dedicate a full-time effort to this function.”

New Haven Parking Authority - Compromise of Receivable:

Criteria: Section 3-7, subsection (a), of the General Statutes provides that only uncollectible claims in the amount of one thousand dollars or less may be cancelled by the head of a State department or agency.

Section 3-7, subsection (c), of the General Statutes provides that, upon the recommendation of the Attorney General, the Governor may authorize the compromise of any disputed claim by or against the State and shall certify the amount to be received or paid under such compromise by a State department or agency.

Condition: In March 1982, the Department entered into a lease and funding agreement between the State of Connecticut, the City of New Haven and the New Haven Parking Authority to construct a parking garage and rehabilitate rental space at the Union Station Transportation Center. The agreement established the New Haven Parking Authority as lessee and operator of the garage. The agreement has a term of 35 years, expiring on June 30, 2017. The agreement clearly states the method in which the interest rate and repayment amount is to be determined in order for the New Haven Parking Authority to repay bonds issued by the State of Connecticut. The agreement specifies a repayment term of 20 years at an interest rate set by the average of the actual interest rates for the preceding general obligation bond sales for the State. The total to be repaid is to be based on the average debt service for the actual construction cost. The agreement specifies that the State can request an independent audit to verify the repayment amount.

In October 1991, the beginning of the repayment term, the New Haven Parking Authority informed the Department that they would begin making payments of \$25,000 a month until they were notified of any change based on the independent audit performed to calculate the final bond repayment amount. At that time, the New Haven Parking Authority indicated that they were in agreement with the independent audit calculation being performed.

The independent audit was completed in October 1992. Based on that audit, the calculated payment was to be \$28,395 per month for 20 years, based on an interest rate of 8.85 percent. The New Haven Parking Authority was informed of the calculated payment and was asked to remit the difference of the previous payments to date and the new amount. The Department's Accounts Receivable Unit posted the receivable and continually tried to collect the balance, but was not successful. In November 1996, the New Haven Parking Authority informed the Department that it was of the opinion that the applied interest rate was not reasonable.

In February 1998, the Bureau Chief of the Bureau of Public Transportation, stated in a letter to the New Haven Parking Authority that, "The Department of Transportation will reduce the rate so that the monthly repayment remains at \$25,000 per month throughout the repayment period." Accounts receivable records for the Department were adjusted to reflect the change in the receivable due from the difference in payments already made for over six years, so that a total of \$263,887 was cancelled off the system.

Effect: In October 2001, management of the Bureau of Public Transportation summarized in a memorandum their understanding that, as of that date, the total balance due on the original agreement would have been \$6,814,840 based on payments of \$28,395 per month. It was noted that the Department is receiving payments of \$25,000 per month, which would total \$6,000,000 paid over the life of the agreement, resulting in a total difference of \$814,800.

Cause: The Department of Transportation modified repayment terms and cancelled a receivable amount without the consent of the Attorney General and the Governor.

Recommendation: The Department of Transportation should determine amounts due from the New Haven Parking Authority according to the agreement in effect. If it is determined that a reduction is appropriate, the Department should only do so under the provisions of Section 3-7 of the General Statutes in the compromise of disputed claims. (See Recommendation 6.)

Agency Response: "The Department has determined the appropriate amounts due from the New Haven Parking Authority in accordance with the agreement in effect. The Department will collect the proper amounts in accordance with the agreement in effect or pursue a compromise of a disputed claim under the provisions of Section 3-7 of the Connecticut General Statutes if deemed appropriate."

Interagency Agreement - Police Services at Bradley International Airport:

Our previous audit noted that the Department of Public Safety provides the services of State Troopers and Airport Police for Bradley International Airport. These services have been provided for many years without the benefit of a negotiated and executed agreement between the Department of Public Safety and the Department of Transportation. During the 2002-2003 and 2003-2004 fiscal years, payments from the Bradley International Airport Operations Fund to the State General Fund - Department of Public Safety totaled \$6,810,095, and \$3,080,000, respectively. The decline during the 2003-2004 fiscal year is due to a decision to use private security officer services for certain areas of the facility. Our follow-up review of the payments made for these services disclosed the following:

Criteria: Generally accepted accounting principles for governments 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, to be based on a written agreement or memorandum of understanding.

The Federal Transportation Security Agency identifies the level of services, whether law enforcement officers, or security service personnel, that are required for the various restricted areas of Bradley International Airport.

Condition: Our current review again found that no formal agreement has been prepared. The Department of Transportation and the Department of Public Safety annually negotiate a proposed level of staffing and a corresponding budget for the State Police services at Bradley. However, this negotiation does not establish a formal agreement.

Bradley International Airport does not have specific administrative control over the level of services provided and also does not have complete control over the costs of these services. Components of its operating budget are subject to the approval of the airlines. Services provided by the Department of Public Safety in excess of those agreed to would be paid from appropriations of the Department of Public Safety. The Bradley International Airport Operations Fund cannot cover additional costs.

Effect: Without a properly executed agreement, the level of services provided is not properly defined and is, therefore, susceptible to dispute. The Department of Transportation is less able to control the costs of operating Bradley International Airport, and excessive security costs can affect the Airport's ability to compete in the marketplace.

In addition, the applicable accounts for both State agencies may not be charged or compensated for the proper costs resulting in an inaccurate presentation of financial activity.

- Cause:* Originally, the Department of Transportation and the Department of Public Safety could not come to an agreement. With the introduction of the Federal Transportation Security Agency, the completion of an agreement is made more complex.
- Recommendation:* The Department should execute an agreement with the Department of Public Safety for the law enforcement services provided at Bradley International Airport. (See Recommendation 7.)
- Agency Response:* “The Department agrees that an interagency agreement is warranted for the police services provided by the Department of Public Safety at Bradley International Airport. The Department of Transportation and the Department of Public Safety have previously sought to negotiate and execute such an agreement to no avail. The absence of an agreement is primarily due to the Department of Transportation’s need to participate in operating decisions that affect the level and type of police services provided to the Airport, and the Department of Public Safety’s reluctance to provide for such participation in the agreement. The Department of Transportation will again raise the issue with the Department of Public Safety to ascertain whether an agreement is now feasible. As noted in the finding, the financial aspects of this relationship are budgeted annually and reflect the services required by the Airport and the costs incurred by the Department of Public Safety in providing those services.”

Audit Reports - Bradley International Airport Parking Operations Fund:

The Department has contracted with a private vendor to construct and operate certain parking facilities at Bradley International Airport. Revenues, used to repay bonds that were issued to pay for the construction of garage parking facilities, are collected by the vendor and deposited with a trustee.

- Criteria:* On March 1, 2000, the Department of Transportation entered into an agreement with a private vendor to operate surface parking lots and to construct and operate a parking garage at Bradley International Airport. In April 2000, the State of Connecticut issued bonds to provide funds to finance the cost of the acquisition and the construction of the garage parking facilities. Under the Trust Indenture, the vendor is required to provide an annual audit of the books and records of its operations.
- Condition:* As we were concluding our audit fieldwork (July 2005), the Department had not completed a review of audited financial reports for the Bradley International Airport Parking Fund, for the fiscal years ended June 30, 2001, 2002, 2003 and 2004. All such reports were received in February 2005. Correspondence on file indicates that a longstanding issue concerning the methodology used by the vendor to recover “home office” expenses has not been resolved.

- Effect:* Audited financial reports are not submitted and reviewed on a current basis. An allowable cost issue has not been resolved.
- Cause:* A cause for the conditions was not determined.
- Recommendation:* The Department should ensure that conditions preventing the timely completion of audit reports for the Bradley International Airport Parking Fund are resolved, and the reports are promptly submitted, reviewed, and accepted. (See Recommendation 8.)
- Agency Response:* “This finding accurately notes the longstanding issue concerning the methodology used by the vendor to recover “home office” expenses. This issue resulted in a delay in the submission of audit reports by the vendor. Upon apparent resolution of this issue between the Department of Transportation and the vendor, completed audits were submitted for the backlog periods indicated. However, the completed audits did not fully address the home office recovery issue as anticipated. Accordingly, the Department of Transportation has not formally accepted the backlog audits. The Department continues to work with the vendor and its audit firm to ensure that home office expenses are properly reflected and documented. As soon as this is accomplished, the audits will be accepted. A more timely, routine process reflecting proper home office recovery is envisioned for the future.”

Prompt Federal Billing:

To maximize resources to the State, the Department is required to, within Federal laws and regulations, promptly bill the grantors of Federal assistance programs for expenditures incurred for the benefit of those programs. The Department maintains two Federal billing units; one in the Bureau of Administration and Finance for highway and transit related projects and programs and the other in the Bureau of Aviation and Ports for airport related projects. During our prior review, we noted that certain eligible project costs were not billed promptly.

- Criteria:* To maximize the benefit of Federal financial assistance, sound business practice requires the prompt billing, receipt and deposit of Federal grant receivables.

The Department prepares and submits semi-monthly claims for reimbursement via a “Final Voucher for Payment under 23 U.S.C. 117” (FHWA1447). Claims are supported by expenditure data compiled by a Department system which is incorporated into a Federal billing system. Both of these systems were developed internally for the Department, and currently operate parallel to the State’s new (Core-CT) accounting system.

- Condition:* The Department ceased to report personnel costs within reimbursement claims in November 2003. It is estimated that approximately \$34,000,000 in allowable personal service costs were

not billed/claimed for the fiscal year ended June 30, 2004.

Our review of projects administered through the Bureau of Aviation and Ports disclosed that certain claims/billings were not submitted promptly to the Federal Aviation Administration. Portions of certain projects were not submitted for Federal reimbursement for periods ranging from seven to 22 months.

Effect: Concerning unbilled personnel charges, approximately \$2,000,000 is accrued each pay period. The grantor agency (Federal Department of Transportation – Federal Highway Administration) will incur costs for expenditures related to prior periods, for what could be deemed as unnecessary delays.

As concerns untimely billings within the Bureau of Aviation and Ports, the State is not making full use of its financial resources and any interest income that would accrue for the period when grant receivables are delayed.

Cause: In November 2003, the Department, along with most state agencies, began to use a new payroll system (Core-CT). This new system does not calculate amounts that may be billed for the Highway Planning and Construction program. As stated above, the Department utilizes two programs to generate claim information. These systems continue to generate project expenditures from construction activity, but cannot translate payroll information from the new (Core-CT) system.

Concerning untimely claims made for Bureau of Aviation and Ports projects, a reduction in staff has been cited as a cause for the condition.

Recommendation: The Department should make it a priority to claim project costs in a more timely manner, and develop a system to translate payroll information from the new Core-CT payroll system for use in its programs that compile and bill the Federal government for claimed program costs. (See Recommendation 9.)

Agency Response: “The Department recognizes the significance of the current inability to receive Federal reimbursement for payroll related expenditures and has initiated actions that will restore that ability. The Department has been unable to bill Federal agencies for payroll incurred on Federally reimbursable projects since the CORE-CT payroll system went live in November 2003. The CORE-CT payroll system is currently unable to create a Federal bill for the Department. As a result the Department has only been able to request reimbursement from Federal agencies for non-payroll expenditures. Because the Departments legacy system no longer contains information on payroll related expenditures, they cannot be included in the Federal bills. The Department is currently

working on a system that will capture the CORE-CT payroll data, translate it to the Department's legacy coding, and ultimately bill the appropriate Federal agency for the expenses incurred. This translation process will continue until CORE-CT is able to produce the Federal billing, which is anticipated to be when the Projects Module goes live. We will continue to strive to complete this difficult task with the resources at our disposal. We have had preliminary discussions with FHWA relating to the system we are creating and are not aware of any specific problems that FHWA has with our proposed system, but we will need to obtain FHWA approval of the completed system prior to initiating any billings.

With respect to the Federal Aviation Administration (FAA) grants administered by the Department's Bureau of Aviation and Ports, the finding accurately notes that staff reductions contributed to certain delays. It should also be noted that FAA does not permit billing on a project in excess of 90 percent of the total grant until such time as the project is completed and ready to closeout. In these circumstances, delayed billings are not only proper but also essential to the Department's ability to recover all reimbursable costs. The Bureau of Aviation and Ports has taken steps to redistribute workloads and substantial improvement in timely Federal billings has already been realized where possible."

Vehicle Fleet Operations - Mileage Reports:

Our audit included a review of monthly mileage report submissions for those vehicles owned by the Department and the vehicles leased from the State motor pool. Our review disclosed the following:

Criteria: According to the Department of Administrative Services - *General Letter 115 - Policy for the Use of State Owned Motor Vehicles*, monthly usage reports for State owned vehicles are to be completed in every detail as specified. These reports shall be forwarded to the Director of Fleet Operations by the 15th of the following month, and shall be certified by the operator as true and correct and certified by the agency head as travel essential to the agency's official business. Drivers of Department owned vehicles are required to prepare an Equipment Rental Report and submit that report to the Office of Finance, Bureau of Finance and Administration.

The preparation and submission of vehicle usage reports is a good business practice that helps ensure that State assets are used appropriately.

Condition: Our review disclosed that staff do not prepare monthly usage reports for Department owned vehicles used at Bradley International Airport unless the vehicles are garaged at an employee's residence. At the time of our review, there were 83 State or Department owned

vehicles at the airport; six of the vehicles are garaged at the homes of certain airport employees.

Effect: Internal controls over the proper use of State owned motor vehicles are inadequate. The misuse of such resources could occur, and would not be detected by Department management in a timely manner.

Cause: Bradley International Airport staff believe that the reporting requirement was discontinued in 1982, at which time operations began to be accounted for through an enterprise fund. Documentation to support this decision is not available.

Recommendation: The Department should require that the operators of all State owned vehicles, including Bradley International Airport motor vehicles, prepare and submit complete monthly mileage reports. (See Recommendation 10.)

Agency Response: “This finding is correct with respect to the subject mileage reports not being completed for certain vehicles at Bradley International Airport, and the absence of documentation waiving the requirement when the Bradley Enterprise Fund was established in 1982. The Department will begin submitting these reports, as appropriate, for all vehicles at the Airport.”

Real Property Recordkeeping:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Statement 34 established new financial reporting standards for State and local governments throughout the United States, which in essence requires State and local governments to inventory and report infrastructure assets.

Criteria: The Department maintains records to report on infrastructure assets, as well as a system to identify and report on other capital assets. The purchase of real property is not recognized as an infrastructure asset until such time that a project is granted final approval for construction. This process may take a number of years.

Condition: During our testing of Department expenditures, we identified real property purchased for a highway construction project, which was not included as an infrastructure asset or as a capital asset within the Department's property control reports to the State Comptroller.

Effect: The Department is not reporting certain real property acquisitions within its annual Fixed Assets/Property Inventory Report. Eventually, such amounts will be accounted for when the project for which the real property was purchased for is ultimately approved. In cases where a project is not approved, the real property will be inventoried and reported on as surplus property.

Cause: The Department does not have a procedure in place to account for real property that has been purchased for projects in which construction has not begun.

Recommendation: The Department should establish procedures for identifying, recording, and reporting all real property in its possession in accordance with the Property Control Manual. (See Recommendation 11.)

Agency Response: “The cost associated with the acquisition of property for highway infrastructure projects is reported by the Department at the conclusion of construction, as part of the overall costs of the construction improvement.

The audit finding appears critical of the Department’s method of reporting Rights of Way infrastructure costs at the time of construction completion rather than at the time the property was acquired.

The Department will review the current practice with the pertinent parties to determine whether the current procedure for reporting infrastructure improvements costs are being adequately addressed or whether procedural revisions are warranted.”

Auditors Concluding Comments:

As presented in the Agency Response, the cost of property for highway infrastructure projects is not reported until the conclusion of construction. This is often many years subsequent to the actual purchase date. As such, land costs are not properly recognized during the interim periods.

State Funds Awaiting Distribution:

The Department deposits certain receipts that are held pending final resolution in the State Funds Awaiting Distribution Fund. Balances of \$2,671,116, \$854,820, and \$1,717,151, were on deposit in the Fund at June 30, 2002, 2003, and 2004, respectively. Our review disclosed the following:

Criteria: Identifying all receipt and disbursement activity of an operation is a reliable internal control process that helps ensure that all such activity is properly accounted for.

Reconciling the total of individual accounts to control totals, based on receipts and disbursements, is an internal control process that will identify any differences to management in a timely manner.

Condition: Our review disclosed that receipt and disbursement activity records for the “State Funds Awaiting Distribution Fund” were not readily

available. It was also noted that differences exist between control records and the totals of individual account balances.

Amounts deposited to the fund, for surplus sale proceeds related to Department assets, were not accounted for within Department records.

It should be noted that the Department has identified certain transactions that were deposited to the Fund by another agency. This explains certain differences between totals presented by the Department and totals presented within the Core-CT accounting system.

Effect: Internal controls over activities accounted for in the “State Funds Awaiting Distribution Fund” are not adequate. Errors could occur and not be detected by management within a reasonable period of time.

Cause: The Core-CT accounting system does not provide for receipt and disbursement records. The Department has not developed any compensating records or process to address this deficiency.

Recommendation: The Department should develop receipt and disbursement records for all activity accounted for through the State Funds Awaiting Distribution Fund, and track and account for amounts due from surplus sales. Balances per the Department should be reconciled with amounts presented within the Core-CT system. (See Recommendation 12.)

Agency Response: “The Bureau of Finance and Administration’s Accounts Unit maintains and monitors the records of Fund 34003 “State Funds Awaiting Distribution.” The Accounts Unit performs a monthly reconciliation between the General Ledger in Core-CT and work papers and documents used to record deposits into, and payments and transfers out of, this account. No discrepancies have been identified.

A quarterly report is prepared that lists all open files. The main purpose of this report is to notify the units who have deposited receipts into this account, and to determine if the funds should be transferred to a specific receipt account.

Although the quarterly report only lists open files, the Department agrees that there was not a “readily available” list of receipt and disbursement activity for this fund. However, a back-up copy of all deposits, payments, and transfer activity is maintained as part of our reconciliation.

The Accounts Unit has developed a CORE-CT Enterprise Performance Management System (EPM) query that identifies all activity in this fund during the month. This query lists all deposits,

all payments, and all transfers processed. All transactions listed can be traced to our back-up copies that we maintain as part of the reconciliation process. A shortcoming of this query is that Core-CT does not identify the document number. All deposits and payments are listed by a batch number. Accounts Unit files are maintained in alphabetical order with a Pending Receipt Number.

Although the Accounts Unit reconciliation was limited to deposits made by the Department, deposits were identified that were made by other State agencies (Department of Administrative Services (DAS) & Office of the State Comptroller). These deposits are made without notifying the Department of Transportation's Accounts Unit. This requires additional research to determine the validity of the deposit and results in receipts remaining in this fund for extended periods. One deposit processed by the Comptroller into the Department of Transportation account was found to be a Department of Environmental Protection receipt. Two other deposits processed by DAS were found to be for surplus sale of equipment. The correct coding was obtained from the Department's Bureau of Public Transportation to accurately record these receipts. The Accounts Unit continues to research additional DAS deposits into the Department of Transportation account."

Information Systems – Disaster Recovery Plan:

The Department operates in a significantly automated environment, and would not be able to function to any significant degree if it was unable to use its information systems. Our review for an established and specific disaster recovery plan disclosed the following:

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| <i>Criteria:</i> | To ensure the recovery of critical business functions in the event that data processing equipment is significantly damaged or destroyed, establishing a disaster recovery plan is a good business practice. Such a plan minimizes the risk that the Department could not satisfactorily function during an emergency. |
| <i>Condition:</i> | Our review disclosed that the Department does not have a formal disaster recovery plan in place. |
| <i>Effect:</i> | The Department's ability to operate in the event that critical data processing components and systems are significantly damaged or destroyed is difficult to determine. |
| <i>Cause:</i> | According to Department staff, it is believed that a vendor's system or another Department's system that operate compatible systems could be used in the event of an emergency. There is not, however, any written agreements in place to do so and the arrangements appear very informal. |

Recommendation: The Department should establish a formal disaster recovery plan that includes assurance that data processing resources would be available in the event of an emergency. (See Recommendation 13.)

Agency Response: “While the Department does not have a fully comprehensive up-to-date disaster recovery plan, there are procedures to recover critical business functions resulting from specific system outages. In 2001, the Department of Transportation, Office of Information Systems (OIS), developed and published a technology disaster recovery manual. This manual, due to a critical reduction of staffing, has not been sufficiently maintained or updated since that time.

OIS is in the process of filling a technical position that will include the Department’s disaster recovery plan in its responsibilities. OIS also acquired a software program: “Recovery PAC for Business Continuity Planning” that will facilitate the development of the recovery plan. It is anticipated the completion of a comprehensive disaster recovery plan will take approximately 18 months.”

Bureau of Public Transportation:

In October 2004, we issued a special report related to a review of the Bureau of Public Transportation. This review was performed at the request of the Governor, after certain irregularities related to the administration of a capital project within the Bureau were disclosed. The objectives of our review were to:

- Identify instances in which Bureau capital projects were administered by Department contractors rather than being executed through the formal bid and award process.
- Identify revenues generated from Bureau activities and to verify the ultimate deposit of such, including an explanation as to how the amounts were accounted for.
- Review contracts entered into by the Bureau based on “emergency conditions” to determine the reasonableness and validity of such.

Based on our review, we presented eight recommendations, as follows:

- The Department should not purchase goods and/or services that are not properly contracted for. Any contract that allows a vendor, such as the property management company noted above, to perform the duties of supervising capital projects, needs to be executed before such services are provided.
- Invoices for goods and services should include an accurate description of the specific item received or service provided. Advance payments should not be made.
- The Department should ensure a fair and open contracting process by using a formal bid and award process as required by Section 4a-57, subsection (a), of the General Statutes.
- The Department should enter into agreements that provide for compensation that is consistent with services provided. The contract entered into for property management services provides fees that are not consistent with actual services provided, as fees were simply based on an added percentage of operating expenses. Defined fees, for specific tasks and responsibilities, enhance justification for such expenses, and are easier to budget.

- The Department should re-evaluate current conditions at the Stamford and Bridgeport Transportation Centers, and award a contract for property management services based on a formal bid and award process. Individual projects/improvements should also be awarded under a formal bid and award process. As concerns transit operations, the use of “express findings” under Section 13b-35 of the General Statutes, to avoid a competitive process, should not be used unless emergency conditions, which would jeopardize the operation of critical services, truly exist.
- The Department should request a corrective action plan from the parking garage operator and ensure that contemplated action is taken. Any conditions that could indicate that revenue may not be accounted for should be further investigated and resolved to the Department’s satisfaction.
- The Department should ensure that required bank statements and records are obtained, and determine the amount due to/from the property manager, after reconciling authorized reimbursable expenses and actual draws.
- For realty leased by the Bureau, justification in the form of available market data and appraisal reports, when required, should be obtained to support determined lease values. The Department should consider placing all leasing activities within the Rights of Way Unit.

The Department is in the process of addressing the recommendations and taking corrective action. We will perform a follow-up review to determine if corrective actions taken are adequate.

Other Matter:

The Department did not prepare a report on the “current status and progress of the transportation infrastructure program,” as required by Section 13b-79a of the General Statutes. The Department believes that the new CORE-CT accounting system impeded efforts to prepare the report. It does appear that the report could not be prepared accurately under the circumstances, and we believe that such circumstances were, in fact, outside of the control of the Department.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Eighteen recommendations were presented in our previous report. The Department has implemented six of those recommendations, and one will be addressed as a part of a follow-up review related to a performance evaluation. Eleven recommendations are restated and repeated in this report. The following is a summary of the prior recommendations and the action taken by the Department:

- A decision should be made to either eliminate the Maintenance Management System, or modify it to either reduce the cost of its operation, or to make it more accurate and effective as a monitoring, planning, and budgeting tool. After determining that it was not feasible to modify the system in order to make it a viable monitoring, planning and budgeting tool, and confirming that the system was not mandated by the Federal Highway Administration, the Department discontinued its use for that purpose. We are not repeating this recommendation.
- The Department should complete the identification and inventory of surplus real property. The Department is in the process of identifying and recording surplus properties; we are repeating our recommendation pending those efforts. (See Recommendation 1.)
- 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. The Department has contracted for such studies when they have been mandated, and have not experienced the same success that other states have reported. It has been argued that individual states perform differing degrees of preliminary review, and that certain states that do not perform extensive preliminary reviews would be more apt to identify savings with a value engineering study. We are not repeating this recommendation; however, we will consider a follow-up performance evaluation on the subject.
- The Department of Transportation should improve its inspection and design procedures so that it could avoid the need for construction change orders to the greatest extent possible. It should also ensure that construction change orders receive final approval within 90 days of initiation. As we were concluding our review, we were in the process of performing a performance audit related to construction change orders, which will be issued under separate cover. Our preliminary observations noted that the timely approval of construction change orders is not being accomplished. We are, therefore, repeating our recommendation related to such timeliness, and will address the more far-reaching issues related to change orders within our performance audit. (See Recommendation 2.)
- The Department should revise its policies on the administration of aviation and rail construction projects to establish routine intermediate record reviews. The Department instituted a new process to monitor projects that addresses our concern. We are, therefore, not repeating this recommendation.
- Petty cash fund travel advances should be settled promptly. Our review disclosed that significant improvements have not been accomplished. We are repeating this recommendation. (See Recommendation 3.)

- The Department of Transportation's Bureau of Public Transportation and Bureau of Finance and Administration should jointly develop a single unified information system for grant management of transit agreements, budget addenda, and audit reports. Our current review disclosed that a uniform system has not been established. We are repeating this recommendation. (See Recommendation 4.)
- The Department of Transportation should establish and implement a reasonable timetable for project close out and the billing and collection of receivables due from transit grants. Our current review disclosed that significant improvements have not been made. We are repeating this recommendation. (See Recommendation 5.)
- The Department of Transportation should comply with the provisions of Section 3-7 of the General Statutes in the compromise of disputed claims. This issue has not been resolved; we are repeating our recommendation. (See Recommendation 6.)
- The Department should improve its controls and procedures to ensure a more complete review of telephone calling reports and calling cards. Our review disclosed that satisfactory improvements have been made; we are not repeating this recommendation.
- The Department should establish administrative controls and monitoring over its Internet resources. The Department has installed new software and established new procedures to adequately address this recommendation. We are not repeating this recommendation.
- The Department should execute an agreement with the Department of Public Safety for the police services at Bradley International Airport. An agreement has not been developed; we are repeating this recommendation. (See Recommendation 7.)
- The Department should use more care in the calculations of State service time to avoid longevity overpayments. Our current review disclosed no exceptions; we are not repeating this recommendation.
- The Department should ensure that conditions preventing the timely completion of audit reports for the Bradley International Airport Parking Fund are resolved, and the reports are promptly submitted, reviewed, and accepted. We noted that reports were not received, reviewed and accepted in a timely manner and that the cost disagreement between the vendor and the Department had not been resolved. We are repeating this recommendation. (See Recommendation 8.)
- The Department of Transportation should revise its controls and procedures to ensure that all Federal grant receivables are promptly billed and collected. The Department has taken steps to ensure that pending claims are identified and followed-up on. However, our review disclosed that certain payroll related recoverable costs have not been billed due to a conversion problem associated with the CORE-CT accounting system. It was also noted that claims processed through the Bureau of Aviation and Ports were often not made in a timely manner. We are, therefore, repeating this recommendation in modified form. (See Recommendation 9.)

- The Department should require that the operators of all State owned vehicles prepare and submit complete monthly mileage reports. Our review disclosed that reports for certain vehicles at the Bradley International Airport are not prepared. We are repeating this recommendation in modified form. (See Recommendation 10.)
- The Department's annual property report to the Comptroller should accurately report the acquisition costs of all property. Our review disclosed that certain real property is not recognized in the annual property report or within the Department's infrastructure records. We are repeating this recommendation in modified form. (See Recommendation 11.)
- The Department should require accountability reports for the distribution of project plans and specifications. It should also consider combining the administration of these transactions with the map, book, and plan sales. Our review disclosed that the agency did consider combining the units and found the proposal to be unfeasible. Other action was taken to address the issues presented and we are, therefore, not repeating the recommendation.

Current Audit Recommendations:

- 1. The Department should complete the identification and inventory of surplus real property, and market such properties where appropriate.**

Comment:

A review of the status of action to be taken in response to our October 1999 - *Performance Audit Report of Surplus Real Property and Real Property Control Systems - Department of Transportation* disclosed that the Department has not fully implemented the recommendation that such an inventory be established.

- 2. The Department of Transportation should improve its inspection and design procedures so that it may avoid the need for construction change orders to the greatest extent possible. It should also ensure that construction change orders receive final approval within 90 days of initiation.**

Comment:

Our current review of a sample of projects disclosed that, of 801 construction change orders reviewed, 273, or 34.1 percent, were not completed within 90 days.

- 3. The Department should make better efforts to ensure that petty cash fund travel**

advances are settled promptly.

Comment:

Our review of 25 travel advances disclosed that 16, or 64 percent, were not submitted within five working days after return from travel, as required by the State Accounting Manual.

- 4. The Department of Transportation's Bureau of Public Transportation and Bureau of Finance and Administration should jointly develop a single unified information system for grant management of transit agreements, budget addenda, and audit reports.**

Comment:

This system should be designed to incorporate proper controls to completely track the progress of all agreements, from initiation through close out. It should identify all items that are currently pending 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.

- 5. The Department of Transportation should establish and implement a reasonable timetable for project close out and the billing and collection of receivables due from transit grants.**

Comment:

Our review found an unreasonable amount of time was allowed to lapse between the time project activities conclude and when the project is actually closed out. The collection of money due to the State and final project close out in the Department's accounting records are not promptly performed.

- 6. The Department of Transportation should determine amounts due from the New Haven Parking Authority according to the agreement in effect. If it is determined that a reduction is appropriate, the Department should only do so under the provisions of Section 3-7 of the General Statutes in the compromise of disputed claims.**

Comment:

The Department of Transportation authorized the modification of the repayment terms of an agreement and compromised the collection of an \$814,800 receivable without the consent of the Attorney General and the Governor.

- 7. The Department should execute an agreement with the Department of Public Safety for the law enforcement services provided at Bradley International Airport.**

Comment:

The Department of Transportation and the Department of Public Safety annually negotiate a proposed level of staffing and a corresponding budget for the State Police services at Bradley. However, this negotiation does not establish a formal agreement.

- 8. The Department should ensure that conditions preventing the timely completion of audit reports for the Bradley International Airport Parking Fund are resolved, and the reports are promptly submitted, reviewed, and accepted.**

Comment:

The Department did not receive audited financial reports for the Bradley International Airport Parking Fund, for the fiscal years ended June 30, 2001, 2002, 2003 and 2004, until February 2005. The review and acceptance of the reports was not performed in a timely manner. Correspondence on file indicates that a longstanding issue concerning the methodology used by the vendor to recover “home office” expenses has not been resolved.

- 9. The Department should make it a priority to claim project costs in a more timely manner, and develop a system to translate payroll information from the new Core-CT payroll system for use in its programs that compile and bill the Federal government for claimed program costs.**

Comment:

The Department ceased to report personnel costs within Federal reimbursement claims in November 2003. It is estimated that approximately \$34,000,000 in allowable personal service costs were not billed/claimed for the fiscal year ended June 30, 2004.

Our review of projects administered through the Bureau of Aviation and Ports disclosed that certain claims/billings were not submitted promptly to the Federal Aviation Administration. Portions of certain projects were not submitted for Federal reimbursement for periods ranging from seven to 22 months.

- 10. The Department should require that the operators of all State owned vehicles, including Bradley International Airport motor vehicles, prepare and submit complete monthly mileage reports.**

Comment:

Our review disclosed that staff do not prepare monthly usage reports for Department owned vehicles used at Bradley International Airport unless the vehicles are garaged at an employee’s residence. At the time of our review, there were 83 State or Department owned vehicles at the airport; six of the vehicles are garaged at the

homes of certain airport employees.

- 11. The Department should establish procedures for identifying, recording, and reporting all real property in its possession in accordance with the Property Control Manual.**

Comment:

During our testing of Department expenditures, we identified real property purchased for a highway construction project, which was not included as an infrastructure asset or as a capital asset within the Department's property control reports to the State Comptroller.

- 12. The Department should develop receipt and disbursement records for all activity accounted for through the State Funds Awaiting Distribution Fund, and track and account for amounts due from surplus sales. Balances per the Department should be reconciled with amounts presented within the Core-CT system.**

Comment:

Our review disclosed that receipt and disbursement activity records for the "State Funds Awaiting Distribution Fund" were not readily available. It was also noted that differences exist between control records and the totals of individual account balances.

Amounts deposited to the fund, for surplus sale proceeds related to Department assets, were not accounted for within Department records.

- 13. The Department should establish a formal disaster recovery plan that includes assurance that data processing resources would be available in the event of an emergency.**

Comment:

Our review disclosed that the Department does not have a formal disaster recovery plan in place. It is believed that a vendor's system or another Department's system that operate compatible systems could be used in the event of an emergency; this understanding appears very informal.

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, 2003 and 2004. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Transportation for the fiscal years ended June 30, 2003 and 2004, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of 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 controls 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, 2003 and 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed 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 is an inadequate system for the management of grants to transit districts and private carriers, there are poor controls within the Department's Federal billing units, there are inadequate reviews of the recording of values for newly purchased property onto the property control records, and there are inadequate plans to recover and operate if data processing systems are significantly damaged.

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 conditions regarding an inadequate disaster recovery plan for data processing systems, and the poor controls over Federal claims to be material or significant weaknesses.

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.

John A. Rasimas
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts