

# STATE OF CONNECTICUT



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

**AUDITORS OF PUBLIC ACCOUNTS**  
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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December 13, 2007

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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, 2005 and 2006.

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 52 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. The Bureau's 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. In July 2004, \$30,640,000 in refunding bonds were issued to refund the outstanding Series 1992 bonds. Total Airport revenue and refunding bonds outstanding amounted to \$226,375,000 as of June 30, 2006. Revenues derived from airport operations are deposited with a corporate trustee and applied as provided for in the indenture.

The Bureau of Public Transportation is responsible for the operations of three mass transit systems: 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.

Stephen E. Korta, II served as Commissioner during the audited period. He was succeeded on August 4, 2006, by Ralph J. Carpenter.

**Significant Legislation:**

Several legislative acts affecting the Department were passed by the General Assembly or became effective during the audited period. Some of the more significant legislation is presented below:

Various Sections of Public Act 05-4, of the June 2005, Special Session, authorized the issuance of Special Tax Obligation Bonds for the Department's general operations, for the Commissioner of Transportation to acquire not less than 342 self-propelled rail cars for use on the New Haven Line and to design and construct rail maintenance facilities to support them, to design and construct operational improvements to Interstate 95 between Greenwich and North Stonington, to purchase 25 transit buses and to consult with the Transportation Strategy Board and others to design and construct transportation system improvements other than projects on Interstate 95.

Section 33 of the Act required that on and after January 1, 2008, and terminating on June 30, 2015, there will be a \$1 surcharge per trip on the New Haven Line imposed on each ticket for travel either originating or terminating in the State, and required the Commissioner of DOT to adopt regulations to determine the method by which the surcharge shall be applied to weekly and monthly commutation tickets. This section also created the New Haven Line Revitalization account, a restricted capital account within the Special Transportation Fund, for which the surcharges shall be deposited. The account is to be used for capital costs incurred as part of the New Haven Line Revitalization program. As of July 18, 2007, alternatives to the \$1 per trip surcharge were being considered, as considerable opposition to it was raised during the 2007 Session.

Section 37 of the Act requires that during the 2006 and 2007 fiscal years, the sum of \$5,000,000 be expended from the Transportation Strategy Board account for grants-in-aid and administrative expenses for the State matching grant program for elderly and disabled demand responsive transportation established per Section 13b-38bb of the General Statutes.

Public Act 06-136, effective July 1, 2006, details several significant strategic transportation projects and initiatives, including restoring commuter rail service on the New Haven-Hartford-Springfield line, implementing the New Britain-Hartford busway, rehabilitating rail passenger coaches for use on various rail lines, and developing a new commuter rail station between New Haven and Milford.

Section 10 of the Act, effective July 1, 2006, established the "Grant Anticipation Transportation Fund."

Section 13 of the Act, effective July 1, 2006, placed the Connecticut Transportation Strategy Board within the Office of Policy and Management, for administrative purposes only.

Section 19 of the Act, effective July 1, 2006, requires that the Department study the feasibility of building a fuel cell power station to generate power for the New Haven Line, and shall report its findings and recommendations on or before January 1, 2008, to the joint standing committees of the General Assembly having cognizance of matters relating to transportation and the budgets of State agencies.

Section 24 of the Act, effective July 1, 2006, requires the Department to study the transportation needs of residents and businesses in eastern Connecticut and to report its findings and recommendations to the joint standing committees of the General Assembly having cognizance of matters relating to transportation planning and development.

Section 25 of the Act, effective July 1, 2006, requires the Department to develop an assessment and plan for the implementation of commuter rail service between New London and Worcester, Massachusetts and submit its findings and recommendations to the Governor and the joint standing committees of the General Assembly having cognizance of matters relating to transportation; finance revenue and bonding; planning and development and the budgets of State agencies.

**BOARDS AND AUTHORITIES:**

**Connecticut Transportation Strategy Board:**

Section 13b-57e of the General Statutes created the Connecticut Transportation Strategy Board (CTSB). The 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 from 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 a report describing any revisions to its transportation strategy to the Governor and the General Assembly not later than January 1, 2007, and biennially thereafter. The report must include a prioritized list of projects which the Board, in consultation with the Commissioner of Transportation, determines are necessary to implement the recommended strategy, including the estimated capital and operating costs and time frame of such projects.

The Board was funded by an appropriation from the State General Fund. Expenditures for the fiscal years ended June 30, 2005 and 2006, were \$1,202,780 and \$1,810,062, respectively. Expenditures made on behalf of the Board for capital improvements from the Infrastructure Improvement Fund totaled \$1,055,197 and \$826,949, for the fiscal years ended June 30, 2005 and 2006, respectively, and those made through the Transportation Grants and Restricted Accounts Fund totaled \$20,053,196 and \$18,140,510 for the fiscal years ended June 30, 2005 and 2006, respectively.

As previously indicated, effective July 1, 2006, Section 13 of Public Act 06-136, placed the Connecticut Transportation Strategy Board within the Office of Policy and Management, for administrative purposes only.

**Bradley Airport Board of Directors:**

Per Section 15-101mm of the General Statutes, the Bradley Airport Board of Directors consists of seven members. These members include the Commissioners of Transportation, and Economic and Community Development, who serve as ex-officio members. The five appointed members include a representative from the CTSB, a member of the Bradley International Community Advisory Board, and three private sector members. Each appointed member serves a four-year term, with 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:**

Public Act 04-143, effective July 1, 2004, terminated the Connecticut Port Authority and established its successor, the Connecticut Maritime Commission (CTMC), within the Department of Transportation. The CTMC consists of fifteen members, as follows: The Commissioners of Transportation, Economic and Community Development and Environmental Protection, the Secretary of the Office of Policy and Management and the chairman of the Transportation Strategy Board, established pursuant to section 13b-57e of the General Statutes, or their respective designees; four members appointed by the Governor; and one member each appointed by the president Pro Tempore of the Senate, the Speaker of the House of Representatives, the majority leader of the Senate, the minority leader of the Senate, the majority leader of the House of Representatives and the minority leader of the House of Representatives. All appointed members shall serve for terms coterminous with their appointing authority and until their successor is appointed and has qualified. Vacancies on said commission shall be filled for the remainder of the term in the same manner as original appointments. The chairman shall be selected by the Governor from among the appointed members of the Commission. The members shall annually elect one of their numbers as secretary, and the Commission may elect such other officers as it deems proper.

The Commission's statutory duties include advising the Commissioner of Transportation, the Governor and the General Assembly concerning the State's maritime policy and operations; developing and recommending to the Governor and the General Assembly a maritime policy for the State; supporting the development of Connecticut's maritime commerce and industries, including its deep water ports; recommending investments and actions, including dredging, required in order to preserve and enhanced maritime commerce and industries; conducting studies and presenting recommendations concerning maritime issues, and supporting the development of Connecticut's ports, including; identifying new opportunities for the ports, analyzing the potential for and encouraging private investment in the ports and recommending policies which support port operations. The Commission unanimously approved the Maritime Policy at its November 17, 2005 meeting, and in December 2005, forwarded it to the Governor and the legislative leaders for approval. The Commission schedules meetings once per month to discuss issues concerning the State's maritime operations and other matters required to meet its statutory obligations. The Commission expended \$9,502 and \$5,279, for the fiscal years ended June 30, 2005 and 2006, respectively.

**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 and the Transportation Grants and Restricted Accounts Fund. Public Act 04-2 of the May Special Session of the 2004 General Assembly, effective July 1, 2004, established the Transportation Grants and Restricted Accounts Fund, a new Special Revenue Fund, used to account for restricted transportation monies that were previously accounted for 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 Special Transportation 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, 2004, 2005, and 2006, are presented below for comparative purposes:

**Schedule of Receipts - by Fund:**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
General Fund	\$ 6,369	\$ 7,578	\$ 3,266
Special Transportation Fund	129,921,239	25,954,676	30,331,493
Transportation Grants and Restricted Accounts Fund	0	84,855,418	117,792,019
Public Bus Transportation Revenue Fund	23,148,807	28,969,287	30,629,183
Infrastructure Improvement Fund	502,215,595	339,598,292	448,302,923
Bradley International Airport Operations Fund	30,305,211	31,826,359	35,149,646
Local Bridge Revolving Fund	317,104	201,913	164,952
Other	<u>6,319,207</u>	<u>(212,241)</u>	<u>50,000</u>
<b>Total Receipts</b>	<b><u>\$692,233,532</u></b>	<b><u>\$ 511,201,282</u></b>	<b><u>\$ 662,423,482</u></b>

**Schedule of Expenditures - by Fund:**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
General Fund	\$ 5,931,261	\$ 1,202,780	\$ 1,810,062
Special Transportation Fund	415,812,587	372,909,028	410,321,843
Transportation Grants and Restricted Accounts Fund	0	94,696,996	95,193,864
Public Bus Transportation Revenue Fund	22,280,000	22,450,000	29,983,156
Infrastructure Improvement Fund	653,336,164	588,101,416	562,295,728
Bradley International Airport Operations Fund	29,120,706	31,340,632	35,540,165
Local Bridge Revolving Fund	1,820,378	3,062,263	2,020,530
Grants to Local Governments and Others	133,500	0	1,968,814
All Other Funds	<u>4,510,128</u>	<u>563,181</u>	<u>1,172,334</u>
<b>Total Expenditures</b>	<b><u>\$ 1,132,944,724</u></b>	<b><u>\$ 1,114,326,296</u></b>	<b><u>\$ 1,140,306,496</u></b>

**Special Transportation and Transportation Grants  
and Restricted Accounts Funds – Expenditures:\***

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
Personal Services	\$110,300,139	\$121,005,115	\$124,236,227
Other Expenses	32,836,365	41,821,220	50,257,118
Highway Planning and Research	1,670,779	2,618,471	2,762,236
Highway and Bridge Projects	13,320,070	11,883,334	13,153,897
Handicap Access Program	11,945,711	13,294,537	15,479,804
Rail Operations	75,689,956	69,215,131	81,384,260
Bus Operations	76,460,043	82,555,172	86,937,384
Dial-A-Ride	2,500,000	2,499,995	2,485,294
Amtrak Pass Through Funds	3,783,318	1,416,512	(143,175)
Town Aid Grants	12,449,800	19,919,919	27,887,928
Highway and Bridge Renewal Equipment	2,551,017	5,489,354	3,771,268
Transit Equipment	129,604	66,267	10,138
General Agency Equipment	819,102	2,251,247	1,386,693
Airport Improvement - Federal Share	390,909	319,503	779,773
Highway Construction - Federal Share	54,039,124	57,724,237	57,896,794
Transit Assistance - Federal Share	4,515,617	4,695,025	4,960,848
Non-Urban Transit Assistance - Federal Share	1,431,746	1,070,211	1,887,608
Highway Safety - Federal Share	10,026,510	8,442,265	9,688,560
Transportation Strategy Board Projects	0	20,053,196	18,140,511
Bradley Airport Improvement	163,737	475,030	963,991
All Other	<u>789,040</u>	<u>790,283</u>	<u>1,588,549</u>
<b>Total Expenditures</b>	<b><u>\$415,812,587</u></b>	<b><u>\$467,606,024</u></b>	<b><u>\$505,515,706</u></b>

\* For comparison purposes, the expenditures of both Funds are combined.

**Infrastructure Improvement Fund - Expenditures:**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
Personal Services	\$ 42,943,949	\$ 48,297,325	\$ 47,077,916
Employee Fringe Benefits	16,639,447	21,645,723	24,948,028
Other Expenses	140,087,504	120,381,321	113,302,151
Highway and Transit Facility Projects	418,051,242	371,705,503	343,046,706
Land	33,176,480	22,719,866	14,860,827
Equipment	<u>2,437,542</u>	<u>3,351,678</u>	<u>19,060,100</u>
<b>Total Expenditures</b>	<b><u>\$653,336,164</u></b>	<b><u>\$588,101,416</u></b>	<b><u>\$562,295,728</u></b>

**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 \$339,598,292 and \$448,302,923 for the 2004-2005 and 2005-2006 fiscal years, respectively, as compared to \$502,215,595 for the 2003-2004 fiscal year. Revenues for the Special Transportation Fund, including the Transportation Grants and Restricted Accounts Fund, totaled \$110,810,094 and \$148,123,512 for the 2004-2005 and 2005-2006 fiscal years, respectively, as compared to \$129,921,239 for the 2003-2004 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 and Restricted Accounts Fund. Federal grant receipts recorded in the Infrastructure Improvement Fund totaled \$338,447,964 and \$446,804,442 for the fiscal years ended June 30, 2005 and 2006, respectively, as compared to \$471,509,856 for the 2003-2004 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 and Restricted Accounts Fund totaled \$51,816,092 and \$91,325,380 for the fiscal years ended June 30, 2005 and 2006, respectively, as compared to \$71,602,211 for the 2003-2004 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 during the audited period were accounted for in the Infrastructure Improvement Fund, one of the Capital Projects Funds. Expenditures of the Infrastructure Improvement Fund totaled \$588,101,416 and \$562,295,728 for the fiscal years ended June 30, 2005 and 2006, respectively, as compared to \$653,336,164 for the fiscal year ended June 30, 2004. As such, there was a net decrease in expenditures of \$65,234,748 in the 2004-2005 fiscal year as compared to the 2003-2004 fiscal year, and a further net decrease in expenditures of \$25,805,688 in the 2005-2006 fiscal year, as compared to the 2004-2005 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, 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, several new buses were purchased for Connecticut Transit and significant amounts were expended for rail cars.

**Expenditures - Special Transportation and Transportation Grants and Restricted Accounts Funds:**

Department expenditures from the Special Transportation and the Transportation and Restricted Accounts Funds totaled \$467,606,024 and \$505,515,707 for the fiscal years ended June 30, 2005 and

2006, respectively, as compared to \$415,812,587 for the fiscal year ended June 30, 2004. There was a net increase in expenditures of \$51,793,437 in the 2004-2005 fiscal year, as compared to the 2003-2004 fiscal year, and a net increase of \$37,909,683 in the 2005-2006 fiscal year, as compared to the 2004-2005 fiscal year.

Payments for personal services, subsidies for bus and rail transit, highway construction, and the maintenance of highways and bridges, including snow and ice removal, were the major expenditures made by the Special Transportation and the Transportation Grants and Restricted Accounts Funds. The expenditure increases were primarily attributed to increases in public transportation operations, personal services, town aid grants, and expenditures made from the Transportation Strategy Board projects account. Increases in personal services expenditures were mainly due to increased overtime, and payments for accumulated leave time that were made to employees who accepted the State's Early Retirement Incentive Plan in 2003. Also, the number of fulltime permanent employees increased from 2,937 as of June 2004, to 3,076 as of June 2006.

**Expenditures - General Fund:**

The Department received appropriations from the State General Fund during the audited period. General Fund expenditures were \$1,202,780 and \$1,810,062 for the fiscal years ended June 30, 2005 and 2006, respectively, and were exclusively for operations of the Connecticut Transportation Strategy Board.

**Public Bus Transportation Revenue Fund:**

Receipts from Connecticut Transit bus fares are deposited to the Public Bus Transportation Revenue Fund. Also, effective in the 2005 fiscal year, parking revenues from the Stamford and Bridgeport parking facilities are deposited to this Fund. Revenues of the Fund totaled \$28,969,287 and \$30,629,183 for the fiscal years ended June 30, 2005 and 2006, respectively, as compared to \$23,148,807 for the 2004 fiscal year. The significant increase in revenues resulted from the parking revenues from the Stamford and Bridgeport parking facilities being deposited into State bank accounts that in previous years were deposited into an account operated by the property manager. Such parking revenues for the 2005 and 2006 fiscal years totaled \$4,546,006 and \$3,740,225, respectively. Expenditures from the Fund totaled \$22,450,000 and \$29,983,156 for the fiscal years ended June 30, 2005 and 2006, respectively. Payments for Connecticut Transit operations were \$22,450,000 and \$27,595,900 for those same fiscal years, respectively. Fiscal year 2006 expenditures also included \$2,387,256 for property management expenses associated with the Bridgeport and Stamford rail facilities.

**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 \$31,826,359 and \$35,149,646 for the fiscal years ended June 30, 2005 and 2006, respectively. Expenditures from the Fund for airport operations, primarily for the cost of payrolls and fringe benefits, were \$31,340,632 and \$35,540,165 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 the garage parking facilities. In addition, certain excess funds are required to be used to make an annual developer payment as required under the lease agreement.

**Local Bridge Revolving Funds:**

The Local Bridge Revolving Funds consist of a Bond Financed Fund and a Revenue Financed Fund. The Bond Financed Fund was used for granting loans to municipalities for the repair, rehabilitation or replacement of local bridges. The Revenue Financed Fund had no expenditures during the audited period. Investment interest for the Funds for the Fiscal Years Ended June 30, 2005 and June 30, 2006, totaled \$788,116 and \$1,489,819, respectively. Revenues of the Funds from loan repayments and loan interest totaled \$201,913 and \$164,952 for the fiscal years ended June 30, 2005 and 2006, respectively. Expenditures from the Bond Financed Fund for grants and loans were \$3,062,263 and \$2,020,530 for the fiscal years ended June 30, 2005 and 2006, respectively. As of June 30, 2006, the Funds had a total of \$36,848,050 available for expenditures.

**State Funds Awaiting Distribution Fund:**

Receipts credited to the Department's account in the State Funds Awaiting Distribution Fund, totaled \$10,406,750 and \$3,088,893 for the fiscal years ended June 30, 2005 and 2006, respectively. Expenditures from the Department's account in the Fund were \$8,323,721 and \$2,508,926 for the same fiscal years, respectively.

## **PROGRAM EVALUATION:**

### **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. Subsequent audit reports noted improvements in this area, as our recommendations were continually being implemented. Our prior audit report included one recommendation concerning surplus real property; that the Department should complete the identification and inventory of surplus real property, and market such properties where appropriate. Our current review disclosed that the Department has identified and inventoried its surplus real property and has implemented procedures to monitor surplus real property on an ongoing basis, and market it as deemed appropriate. We conclude that the Department has resolved this recommendation.

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

Construction orders, or change orders, come about when specifications for a construction project are changed after a contract has been issued. Specification changes could result from design errors or changes in the design, either of which would result in changes in the materials initially estimated for the project, among other things. Usually, when change orders are issued the Department must negotiate the price for the additional items after the contract has been awarded and work begun, which in most cases results in prices that exceed that which were agreed to in the original contract. Therefore, it is in the best interest of the Department to limit the number of change orders it issues. This can be accomplished by ensuring accurate design of projects and the associated materials estimates. However, there will always be instances in which unforeseen circumstances will arise and change orders must be issued. In summary, it would be impossible to completely eliminate the need for change orders.

Our previous audit report included a recommendation that 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 and should also ensure that construction change orders receive final approval within 90 days of initiation. The Department's response that was included in our previous report indicated that its Office of Construction was reallocating resources by putting personnel in place to staff a new office section that was being created to exclusively perform Program Management and in-depth Constructability reviews; one of the major recommendations resulting from the 2004 Cost Overrun Committee Study Report. The response mentions that the Office of Construction is also working with the Office of Design to pursue the remainder of the Committee's major recommendations, and that 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.

Our current review disclosed that the Department did make several changes regarding the construction change order process, including the establishment of a Constructability Review Unit and revisions to the construction manual, which were effective April 1, 2006. One of the changes concerned a reduction in the processing time for change orders from 90 days to 60 days. Our testing of the overall processing of change orders included a review for timeliness of processing, the reasons for issuing them, and the functionality of the new Constructability Review Unit. Our review covered the period from April 1, 2006 through January 27, 2007. Over that period, a total of 875 change

orders were processed, and 98 of them, or 11 percent exceeded the 60-day processing time goal. There were 46, or five percent that exceeded 90 days. This is a considerable improvement over our prior audit finding, in which, 273, or 34 percent of the 801 change orders reviewed exceeded the 90-day processing time. Our review of 24 of the 98 change orders that exceeded the 60-day processing time disclosed that the documentation supporting them was complete as far as sign-offs by Department personnel and contractors, and reasons for the orders. Our review also disclosed that the cost for traffic control was one of the main causes for issuing change orders and that for several projects the bid prices for traffic control were significantly less than the total costs. For the 14 projects we reviewed, the total costs for traffic control was \$13,103,263, as compared to the bid amounts which totaled \$4,267,000. We noted further that the change orders for traffic control made up over 20 percent of the total change orders for the 14 projects. In reviewing this matter with the Department's Constructability Unit, it was evident that the Unit had recognized the problem and was in the process of developing procedures to review these particular costs for the construction contract bids received. For the most part these costs are out of the Department's control because the police determine the safety requirements and provide the necessary staffing to meet those requirements. In summary, we conclude from our review that the procedures the Department has put in place should provide reasonable assurance that change orders are necessary and are processed in a timely manner.

It should be noted however, that during the audited period, there were significant deficiencies identified concerning a construction project on Interstate-84, in the Waterbury/Cheshire area. This resulted in a detailed audit of the project that was performed by J.R. Knowles/Hill International, a firm hired by the State's Office of Policy Management, at the direction of the Governor. A final report was issued on May 18, 2007, that resulted in six corrective actions ordered by the Governor, covering a wide range of construction monitoring activities, including those issues we reported on in previous audit reports. Therefore, we are not repeating our prior audit recommendation concerning change orders. See the "Other Reviews" Section of this report.

## CONDITION OF RECORDS

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

### **Expenditure Account Coding:**

*Criteria:* The State Comptroller maintains the State's accounting records and establishes account coding for expenditures. State agencies are required to comply with the coding that is established.

*Condition:* Our review of Department expenditures disclosed numerous instances in which expenditure account coding was incorrect. Examples of the errors we noted include some \$16,000,000 in expenditures for new buses that were coded to a Public Transportation operating account rather than to an equipment account, and other equipment items similarly coded; several Public Transportation expenditures coded to the generic account titled "Highways;" payments for leased locomotives coded to an expenditure account titled Office Equipment Lease/Rental; and several instances in which payments to employees for out of State travel reimbursements, in excess of \$1,000 each, were coded as mileage reimbursements. It should be noted that these exceptions do not represent unauthorized expenditures, as they were made from authorized appropriations.

*Effect:* The accounting system does not accurately present the actual expenditures for certain accounts.

*Cause:* We were told that the coding regarding the Public Transportation expenditures is consistent with that which was adapted from the Department's legacy computer system. Although that may be the case, Core-CT is the official accounting system of the State, and it should accurately reflect the account coding for which the expenditures were made.

*Recommendation:* The Department should review its Core-CT account code structure and code its expenditures accordingly, so that the accounting system accurately reflects what the Department's expenditures were made for. (See Recommendation 1.)

*Agency Response:* "As pointed out in the report, the Bureau of Public Transportation did adhere to the Department's legacy Core-CT coding translations regarding the coding of transactions that resulted in Public Transportation expenditures being classified as "Highways." However, the Department agrees with the finding and the Bureau of Public Transportation will review the listing of account codes in Core-CT and code expenditures according to the Core-CT account coding that best classifies the type of expenditure."

**Review of Bi-weekly Employee Paycheck Amounts:**

- Criteria:* Internal controls over amounts paid to employees in addition to their regular pay should include a procedure to ensure that the additional amounts paid are reasonable.
- Condition:* Bi-weekly paychecks to employees may include several types of payments in addition to regular pay, including longevity payments and travel reimbursements. Our review of additional payments disclosed that there is not an effective procedure in place to ensure that these payments are reasonable. Longevity payments normally occur twice per year, in April and October, but there are instances in which manual adjustments must be made. We found that one employee received a longevity payment of \$223.50 in April 2005, and continued to receive the longevity payment for 12 consecutive paychecks after that. We brought this matter to the Department's attention, at which time it requested and received repayment from the employee. Our review also disclosed two instances in which employees were significantly overpaid for mileage reimbursements. These errors resulted from input errors, specifically the omission of a decimal point in the dollar amount. One employee was paid \$3,807 instead of \$38.07, and another was paid \$4,272 instead of \$42.72. The employees repaid the amounts, in installment payments, prior to our review. Also there were several instances in which out-of-state travel reimbursements were coded as mileage reimbursements in excess of \$1,000, and were paid without question. Mileage reimbursements are seldom, if ever, over \$1,000 for a pay period.
- Effect:* Overpayments may occur and not be detected.
- Cause:* The Department does not have procedures in place to review for the reasonableness of additional amounts paid to employees in their bi-weekly paychecks.
- Recommendation:* The Department should implement procedures to ensure that the bi-weekly payments to employees that are in addition to their regular pay are reasonable. (See Recommendation 2.)
- Agency Response:* "The Department is in the process of adding additional staffing to monitor payroll-related expenditures including manual payroll adjustments. In addition to running reports designed to detect errors in payroll coding, this staff will be responsible for assisting in the development of procedures to correct payroll expenditures, and developing and presenting Department-wide training classes to provide our employees with a better understanding of the payroll process and the areas where special attention is required."

**Final Vouchering for Federally Funded Highway Projects:**

*Criteria:* Within a reasonable time after the completion of a Federally funded highway project, the Department is required to prepare a final voucher to close the project and make the final billing to the Federal Highway Administration (FHWA).

*Condition:* The final vouchering process is performed by the Department's Federal Billing Unit at the completion of various phases of the projects, which include preliminary engineering, rights of way, and construction. Completion of each phase includes an internal review of all costs, vouchers, and expenditures to determine the final project costs so that the Federal participation amount is known and the Department can submit its final voucher. The Department's Unit that performs the internal review depends on the phase of the project. The final vouchers are normally prepared for each phase after each has been accepted by the Department. We were informed that as of June 11, 2007, the Federal Billing Unit has not completed the final vouchering procedures for some 900 Federally participating highway projects. The projects in the construction and rights of way phases make up most of the 900 projects waiting for final vouchering. The Department has been working with the FHWA in determining how to best address this backlog.

*Effect:* The number of open highway construction projects that are Federally participating is significantly overstated because of the Department's inability to determine the total project costs and submit the final vouchers to the FHWA to close them out.

*Cause:* The combination of staff reductions and the implementation of the State's Core-CT accounting system caused problems in the Federal Billing Unit's ability to make final determinations of project costs for final vouchering. The system was unable to capture all project costs, mainly payroll, that may be Federally participating. The payroll cost issue was resolved during the 2005-2006 fiscal year, however, there are other cost issues that remain outstanding which need to be resolved before the final vouchers can be prepared.

*Recommendation:* The Department should make every effort to resolve the remaining cost issues that are causing the delays in the final vouchering process for Federally participating highway projects and should work toward eliminating the backlog of projects waiting for final vouchering. (See Recommendation 3.)

*Agency Response:* "In February 2007, the Department presented to FHWA a plan to eliminate the backlog of projects waiting for final vouchering. Reconciliation issues associated with maintaining duplicate systems since the Core-CT implementation has delayed progress in this area. The implementation of the new Core-CT Projects module in July 2007, along with the re-establishment of a team (Step-P) to specifically work on the

identification and resolution of issues impeding the closing of Federal projects, will put the Department in a significantly better position to reduce the backlog of project closeouts. Key areas of difficulty have been identified and additional staffing and other resources are being employed to help remove the backlog of projects waiting for final vouchering. These initiatives will help ensure that projects are closed in a timely manner, and Federal funding is being used efficiently and effectively.”

**Transit Grants Awaiting Closeout:**

*Criteria:* An adequate system of internal control should include effective communication among various Units to ensure that the business processes are carried out completely.

*Condition:* The Department of Transportation expends over \$20,000,000 in grant payments to 13 transit districts, numerous private carriers, and other providers in each fiscal year. The Department has a process in place to close out transit grants, which includes the receipt and review of audit reports from grant recipients, a financial review completed by the Department’s Internal Audit Unit, and the determination and subsequent resolution of monies due to or from the grantees. Grants are left open until all of the outstanding obligations are settled. The Accounts Receivable Unit is responsible for collecting funds owed by transit districts and the Office of Transit and Rideshare is responsible for closing the grants. There is no reporting mechanism to make the Office of Transit and Rideshare aware of when receivables are collected, nor is there a complete listing maintained of the grants awaiting closeout. The Office of Transit and Rideshare does perform periodic reviews of open transit grants to determine whether to inquire if they may be closed out.

*Effect:* Prompt closeout of Transit grants cannot be accomplished without timely information being shared between the Unit responsible for collecting the receivables from the transit districts and the Unit responsible for closing out the grants.

*Cause:* The Accounts Receivable Unit is responsible for the collection efforts for the entire Department and, because of the transaction volume, cannot notify the Office of Transit and Rideshare whenever a collection is made on their behalf. The Office of Transit and Rideshare does not maintain an aging schedule showing the status of the grants awaiting closeout that could be provided to management for monitoring timely closeouts.

*Recommendation:* The Department should implement procedures to effectively monitor those transit grants that are awaiting closeout and to close them out as necessary. (See Recommendation 4).

*Agency Response:* “The Department’s Bureau of Public Transportation, Finance and Administration Unit, initiates the requests for the Accounts Receivable

Unit to bill transit districts. Future requests will include a statement asking the Accounts Receivable Unit to inform them when payment is received. This will assist in providing for prompt closeout of transit grants. As the Accounts Receivable Unit completes the migration of their legacy financial “MAPPER” system to Core-CT, a viewer role will be assigned to allow the Bureau of Public Transportation to determine directly when the requested payment is received. The Department’s Office of Transit and Ridesharing, Division of Internal Audits, and the Accounts Receivable Unit will continue to refine and coordinate efforts to ensure that transit subsidy closeouts are affected and receivables are collected in a timely manner. As recommended, the Department’s Bureau of Public Transportation procedure for tracking aging transit subsidy grants will be reviewed and modified as necessary.”

**Prompt Federal Billing - Bureau of Aviation and Ports:**

*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’s Bureau of Aviation and Ports bills the Federal Government for airport related projects and has set an objective to bill all projects over \$10,000 as soon as possible, or at least quarterly.

*Condition:* 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. We reviewed four projects that were over \$10,000. None of the four tested met the minimum quarterly billing objective, and we noted that for these projects, expenditures ranging from \$100,000 to \$1,000,000 were not submitted for Federal reimbursement for periods ranging from five to ten months.

*Effect:* When reimbursable expenditures are not promptly billed the State is not making full use of its financial resources and is losing any interest income that would accrue during the period in which the grant receivables are delayed.

*Cause:* A reduction in staff has been cited as the cause for the condition.

*Recommendation:* The Department’s Bureau of Aviation and Ports should make it a priority to claim project costs in a more timely manner. (See Recommendation 5.)

*Agency Response:* “The Department’s Bureau of Aviation and Ports agrees with the stated objective and has made progress in achieving it. Progress has been adversely affected by staff turnover and dedication of resources to the implementation of Core-CT. Recent filled vacancies and the current status of Core-CT implementation should lead to further progress.”

**New Haven Parking Authority - Compromise of Receivable:**

In our two previous audits we reported that 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 of the two 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 it 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 it was 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." This was done without a formal modification to the contract. The 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. This receivable was cancelled without the consent of the Attorney General and the Governor, as required under Section 3-7, subsection (c), of the General Statutes. Our prior audits recommended that the Department should determine the amount due from the New Haven Parking Authority according to the agreement in effect, and if it is determined that a reduction of the receivable is appropriate, the Department should make such a reduction under the provisions of Section 3-7 of the General Statutes.

*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:* We found no evidence to support any attempts to resolve our prior recommendations, either by enforcing the terms of the original agreement or obtaining the statutory authorization to reduce the balance due. We do note that the Department continued to collect \$25,000 per month throughout the audited period.

*Effect:* By accepting \$25,000 per month for the life of the agreement, the Department would receive \$814,800 less than it would have had the payments been \$28,395 per month, as per the original agreement.

*Cause:* It appears that the Department believes that it will be paid the full amount due under the original agreement by extending the life of the agreement, and therefore did not address the prior recommendation.

*Recommendation:* The Department of Transportation should enforce the terms of the original agreement it has with the New Haven Parking Authority or obtain the proper authorization under the provisions of Section 3-7, subsection (c), of the General Statutes to reduce the balance it is due. (See Recommendation 6.)

*Agency Response:* “The Department is currently in the process of renegotiating the lease agreement with the city of New Haven and the New Haven Parking Authority to include the construction of a second parking garage at the Union Station Transportation Center. This renegotiation will address the payment of the audited monthly amount due the Department and payment differential amounts due from prior years.”

**Receipts from Surplus Equipment Sales:**

*Criteria:* Reconciling the total of individual items to control totals is an internal control process that should identify any differences in a timely manner.

*Condition:* The Department of Administrative Services (DAS) makes deposits on behalf of the Department for the surplus equipment it sells for the Department. The monies that DAS deposits is derived mainly from surplus vehicles that it sells at auctions it periodically holds. Deposits that DAS coded to the Department’s accounts during the 2005 and 2006 fiscal years totaled \$107,415 and \$188,535, respectively. Our review disclosed that the Department accepted the amounts DAS deposited without a review to ensure the completeness of them. We note further that although the Department tracks the surplus vehicles to their ultimate disposition, there is no procedure in place to ensure that the Department received all of the funds it was due. We reviewed the amounts DAS deposited to the Department’s accounts and compared them with a DAS summary report that lists the vehicles sold and the amounts each sold for. That review disclosed that the amounts per the DAS listing of vehicles sold exceeded the amounts coded to the Department’s accounts by

\$57,154 and \$25,090 for the fiscal years ended June 30, 2005 and 2006, respectively.

*Effect:* The Department did not appear to get credit for all of the money that it was entitled to from the sales of its surplus vehicles. Without effective review procedures in place, errors could occur and not be detected.

*Cause:* DAS does not consistently provide detailed information supporting the amounts it deposits, thus the Department does not review the details of the deposits.

*Recommendation:* The Department should implement a reconciliation procedure to ensure it receives the amount it is due from surplus equipment sales. (See Recommendation 7.)

*Agency Response:* “On June 1, 2007, employees from the Department’s Accounts and Property and Facilities Services Units held a meeting to discuss the processing of receipts from surplus equipment sales. The requirements needed to allow the Department to reconcile equipment submitted for sale at auction to DAS with the actual revenue deposited by DAS into the Department accounts were identified. It was determined that DAS needs to provide an itemized listing of all vehicles sold at each auction, including the selling price and buyer information, and provide a deposit summary report for all Department equipment sold. In addition, the Department would require notification from DAS of all items transferred at a value of \$0, or sold to towns or municipalities for the cost of a service fee of \$100.

On June 20, 2007, the Department and DAS met to discuss the above issues. It was agreed that the information needed by the Department would be supplied by DAS in a spreadsheet format. With this information, the Department will be able to reconcile the equipment submitted to DAS to their deposit summary report and identify discrepancies (unsold items) and research their status. Unsold equipment can be monitored until final disposition. The Department will also be able to monitor the sale of federally funded equipment to determine that the federal agency is reimbursed and identify variances between the amount of receipts generated from the sale of equipment by DAS and the Department posting.”

**Equipment Inventory:**

*Criteria:* To maintain effective control over equipment inventory, items should be physically located in the location indicated on the official inventory listing and the listing should be updated when the locations of the items change.

*Condition:* The Department owns 318 motorcycles that are used in motorcycle training classes that are held at 14 locations throughout the State. There

are 19 locations where the motorcycles are stored when they are not in use. Our review of the Department's records disclosed that its official inventory listing, maintained by the Department's Property and Facilities Administration Unit, showed that 287 of the motorcycles were located at the Department's headquarters in Newington, when in fact they were scattered at the various locations throughout the State. The tracking of the motorcycles is assigned to a separate unit which monitors the actual locations; however, there is no information provided to the Property and Facilities Administration Unit so that it could update its inventory listing.

*Effect:* Internal controls are weakened when the official records do not present accurate information.

*Cause:* We did not determine the cause.

*Recommendation:* The Department should correct its official inventory records to accurately reflect the physical locations of the motorcycles it uses for motorcycle training classes and require that any location changes be reported to the Property and Facilities Administration Unit. (See Recommendation 8.)

*Agency Response:* "The Department's Office of Transportation Safety has provided a listing of the physical locations of all motorcycles it utilizes for training to the Office of Property and Facilities. Future location changes will also be promptly reported. The Asset Management Section will update the Department's official inventory records to accurately reflect the physical location of each motorcycle and will promptly record future changes when notified."

### **Employee Mileage Reimbursements:**

*Criteria:* An effective system of internal control over mileage reimbursements paid to employees requires that payments are properly reviewed and approved prior to being made.

*Condition:* Our review of mileage reimbursements disclosed four instances in which employees received reimbursements on certain dates in which their timesheets indicated they were out for the day, either on a holiday or on vacation or personal leave. We also noted several instances in which the required mileage reimbursement request forms were either not signed by the employee, not signed by an approver, or both, and several other instances in which the required signatures were typed. In addition, we found that there were inconsistencies among the Department's four District Offices as to the method in which reimbursement amounts are entered in the payroll system and in the signing and approving of the reimbursement request forms. Mileage reimbursements exceeded \$1,000,000 for each of the years in the audited period.

*Effect:* Employees received mileage reimbursements for which they were not entitled. Documents supporting mileage reimbursement payments made were not always signed and/or approved.

*Cause:* The payment errors appeared to be caused by reimbursement amounts entered on employee timesheets in total for the pay period rather than an amount for each day. Concerning mileage reimbursement requests, we were told that because employees are usually in the field the forms might be e-mailed to the office and then printed, in which case they may have typed names instead of signatures.

*Recommendation:* The Department should establish formal standardized procedures for entering mileage reimbursement amounts into the payroll system and for signing and approving mileage reimbursement request forms. (See Recommendation 9.)

*Agency Response:* “The Department’s Bureau of Finance and Administration will develop procedures that allow for the consistent coding of mileage reimbursements on employee time sheets. These procedures will provide direction to all employees, on a Department-wide basis, to ensure that employee requests for payment are coded accurately, signed by the employee, and signed and approved by the employee’s supervisor.

A form will also be developed that will require consistent information being included as supporting documentation. For employees working in the field, an e-mail copy of the form may be submitted for review and preliminary approval. However, the original copy of the form will need to be sent to the supervisor for record retention.”

**Highway Safety Program Grants:**

*Criteria:* The Department’s Office of Transportation Safety administers several grant programs under the U.S. Department of Transportation National Highway Traffic Safety Administration, including Highway Safety. The Highway Safety Program Time Sheets require that both the employee participating in the program and the employee’s supervisor sign them for the employee to be paid from the program. An adequate internal control system should include procedures designed to ensure that program requirements are met.

*Condition:* Certain of the grants made by the Department’s Office of Transportation Safety are made on a cost reimbursement basis, whereby grantees submit expenditure documentation supporting its requests for reimbursement. A review of selected grants performed by the Department’s Internal Audit Unit disclosed that during the period from July 1, 2004 through February 12, 2005, questioned costs totaling \$7,778.83 resulted from reimbursement requests made to the Department without adequate documentation supporting those costs. The Department made payments based on employee timesheets that were not approved by a supervisor,

and for timesheets that were signed by one person as the employee and the supervisor. There were also questioned costs that resulted from missing timesheets. The Department subsequently recovered \$5,522.97 from the grantee, which represents the percentage of the questioned costs that the Department actually paid to the grantee. Our audit included a test of grant reimbursements made by the Office of Transportation Safety, which included a review of selected timesheets supporting the reimbursements. Our review disclosed additional instances in which timesheets submitted for reimbursement were signed by one person as the employee and the supervisor, and reimbursements were made.

*Effect:* Weak internal controls within the payment process increase the risk that errors could be made and not be detected in a timely manner. It was evident that the Department's Office of Transportation Safety should not have made reimbursements in the situations identified above.

*Cause:* We did not determine the cause.

*Recommendation:* The Department's Office of Transportation Safety should improve internal controls over the reimbursement payments it makes to grantees. (See Recommendation 10.)

*Agency Response:* "All reimbursements that are submitted to the Department's Transportation Safety Section are verified by the Program Coordinator, the Program Manager, and a staff member from the Office of Fiscal Administration. With each application, the Transportation Safety Section includes detailed instructions on filing an application. These instructions have been revised to include new core hours of operation and explicit directions on filing a time sheet for reimbursement. There are specific instructions that state no one person, as the employee, can sign his/her time sheet, and that all time sheets MUST be signed by a supervisor other than the employee.

There are future plans to conduct Regional Grants Application Workshops, in which all grantees will learn how to submit a grant application for review and how to submit the proper documentation (time sheets, copies of receipts, etc.) for reimbursement."

### **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:

*Criteria:* 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.

*Condition:* Our review disclosed that the Department does not have a formal disaster recovery plan in place.

*Effect:* 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.

*Cause:* According to Department staff, it is believed that a vendor's system or another Department's system that operates a compatible system could be used in the event of an emergency. There is not, however, any written agreement in place to do so and the arrangements appear very informal.

*Recommendation:* The Department should continue its efforts to establish a formal disaster recovery plan to ensure that data processing resources would be available in the event of an emergency. (See Recommendation 11.)

*Agency Response:* "The Department's Office of Information Systems (OIS) has progressed in developing a formal information technology disaster recovery plan. Guidelines were established for the recovery of specific areas of the Department's information technology infrastructure that include personal computers, network facilities, and business applications. OIS also participated with the Department of Information Technology in the design of the State's backup data center that will include disaster recovery options for State agencies.

In May 2007, a major hardware and software upgrade was completed in the Department's data center that mitigates the risk of information technology service interruptions. The data center is also protected by an Uninterruptible Power Supply (UPS) and a diesel generator that provides electrical power in case of disruption in electrical service.

OIS' guidelines for technology recovery address localized or minor information technology service interruptions and development of a formal comprehensive disaster recovery plan that incorporates contingencies for major service interruptions will continue."

**Statutory Reporting Requirements:**

*Criteria:* The Department is mandated to submit several different reports under various sections of the General Statutes or by individual legislative acts. The reports are due at various times throughout the year. An adequate system of internal control should include a method for management to track or otherwise monitor the submission of all mandated reports.

*Condition:* The preparation of the statutorily required reports is assigned to various personnel throughout the Department. There is no complete listing maintained of all of the required reports and there is no one unit assigned the task of monitoring their submission to the required parties. Our

review disclosed that the Annual Financing Plans for Transportation Strategy Board Projects, required per Section 13b-57q of the General Statutes, and for Non-Transportation Strategy Board Projects, required per Section 13b-57k of the General Statutes, were not prepared for the Fiscal Year Ended June 30, 2006. We also noted other required reports that were not prepared, apparently because of issues pertaining to the State's Core-CT accounting system.

*Effect:* Executive and/or legislative oversight of the Department is diminished.

*Cause:* The Department lacks a system capable of monitoring and tracking the submission of mandated reports on a Department-wide basis.

*Recommendation:* The Department should maintain a complete listing of all of the reporting requirements mandated by the General Statutes or by legislative acts, and consider creating a central reporting function to monitor the submission of them. (See Recommendation 12.)

*Agency Response:* "The Department's Bureau of Finance and Administration will develop and maintain a complete listing of all reporting requirements mandated by General Statutes, legislative acts, and any other mandates. Each Department Bureau Chief will be required to submit a listing of reports they prepare that meet this requirement, including a description of the report, the mandate, due date, and distribution. This information will be compiled and made available for review on a Department-wide basis. Updates and monitoring of submissions will be performed centrally."

### **Interagency Agreement - Police Services at Bradley International Airport:**

Our previous audits 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 2004-2005 and 2005-2006 fiscal years payments from the Bradley International Airport Operations Fund to the Department of Public Safety was some \$3,300,000, and \$3,500,000, respectively. 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 13.)

*Agency Response:* "The Department's Bureau of Aviation and Ports has established the annual budget for police services at Bradley International Airport based on the level of service required and annual increases provided in appropriate collective bargaining agreements. The annual budget is provided, in writing, to the Department of Public Safety. The Bureau of Aviation and Ports will renew its efforts to establish a more formal inter-agency agreement. The Assistant Attorney General will work with appropriate staff in drafting an agreement."

## **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 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 prior audit included a recommendation that the Department require that the operators of all State-owned vehicles, including Bradley International Airport motor vehicles, prepare and submit complete monthly mileage reports. Our current review disclosed that monthly usage reports for Department owned vehicles used at Bradley International Airport are still not prepared, unless the vehicles are garaged at an employee's residence. We noted further that the mileage reports we tested for those vehicles that are garaged at an employee's residence were incomplete; reports we reviewed did not include daily entries of travel or mileage, some included only the vehicle's beginning of the month and end of the month mileage, and others had no indication of any mileage whatsoever.

*Effect:* Internal controls over the proper use of certain 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:* We did not determine the cause.

*Recommendation:* The Department should require that the operators of State-owned vehicles used at Bradley International Airport prepare and submit properly completed monthly mileage reports. (See Recommendation 14.)

*Agency Response:* "The Department's Bureau of Aviation and Ports requires that monthly usage reports be completed for all State-owned vehicles including those at Bradley International Airport in accordance with General Letter 115 (all vehicles including those garaged at the employee's residence and those that remain on the airport). Additional enforcement of this policy will be evaluated and implemented."

## **Bureau of Public Transportation Special Report Follow-Up:**

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 Special Report contained eight recommendations, all of which were complied with. It should be noted that during the 2005 fiscal year, the Department reduced its Federal participation in a project by \$615,609 as a result of the reviews that were completed concerning certain activities of the Bureau of Public Transportation.

During our follow-up on the findings in that Special Report, we noted an area requiring improvement that is presented below:

### **Review of Monthly Bills for Property Management Services:**

*Criteria:* The Department entered into an agreement with Fusco Management, LLC, for management services related to the Transportation Centers in Bridgeport and Stamford. The agreement references “DOT policy number F&A 34,” which specifically details allowable and unallowable costs relating to the contract services.

Article 55 of the agreement pertains to payment to subcontractors that are hired by Fusco. It states in part that “...The Contractor shall pay the subcontractor for work performed within thirty days after the Contractor receives payment for the work performed by the subcontractor...”

*Condition:* The Department’s Office of Rails reviews Fusco bills prior to payment, following a “checklist” that is used to document the review. Our review of selected Fusco bills disclosed that the review procedure is ineffective in identifying unallowable direct costs that are included in the bills. We tested 18 invoices totaling \$71,171, from three different months of Fusco bills. We noted that payments were made for items on ten of those invoices, totaling \$3,737, that are considered unallowable under DOT policy number F&A 34. Unallowable costs on those ten invoices included phone charges, miscellaneous supplies, and other items classified as tools of the trade. We also noted two invoices that were paid, totaling \$5,988, which were clearly identified as advance payments to a subcontractor for work to be completed at a later date. These payments do not comply with Article 55 of the agreement referred to above. Also, the Department’s Office of External Audits performed certain agreed upon procedures concerning the Fusco agreement and issued its “Report on Agreed Upon Procedures” in November 2006, covering the period from August 1, 2005 through July 31, 2006. Several findings were cited in that report, including certain unallowable direct costs.

*Effect:* An ineffective review procedure of the bills submitted by contractors can result in overpayments that may not be detected. We noted unallowable costs totaling \$3,737 from the small sample of invoices we reviewed, in addition to advance payments which are not allowed under the contract.

*Cause:* The procedure that the Department’s Office of Rails follows in reviewing the Fusco bills is ineffective as far as identifying and deducting unallowable costs from the billings that Fusco submits. It appears that reliance is placed on the Department’s Office of External Audits agreed upon procedures review, which is to be performed annually.

*Recommendation:* The Department should implement a procedure to effectively review the monthly billings of the property manager it contracts with to provide management services related to the Transportation Centers in Bridgeport and Stamford, and identify and adjust for any unallowable costs prior to making the monthly payment. (See Recommendation 15.)

*Agency Response:* “The Department agrees with the Auditors of Public Accounts’ recommendation of identifying and adjusting for any unallowable costs during review of a monthly bill for property management services prior to authorizing payment. The Department’s Office of Rails will review its current procedure and checklist related to the review of property management invoices to ensure that unallowable costs are excluded from payments.”

**Other Reviews:**

**I-84 Construction Oversight and Audit Services – Task 3 – Construction Audit:**

As a result of known problems with an Interstate 84 construction project, J.R. Knowles/Hill International was hired by the State’s Office of Policy Management, at the direction of the Governor, to perform an audit of the I-84 expansion project in the Cheshire/Waterbury area. A final report, titled the I-84 Construction Oversight and Audit Services – Task 3 – Construction Audit (the Task 3 Report), was issued on May 18, 2007. The report documents several significant deficiencies, including errors in the design phase, improper installation of bridge bearings, defective light poles, problems with the drainage systems, and payments to the contractor for work that was never done. The report presents that the contractor, L.G. DeFelice, and the Construction Inspection firm, Maguire Group, did not perform all of their work in accordance with their contractual responsibilities. We noted certain excerpts from the Task 3 Report that clearly present this position, including the following:

- “The I-84 construction project was built by the Contractor with major flaws in the drainage systems that were not documented by the Construction Inspection Contractor. These flaws included both work installed improperly and work not installed at all. The extent of the flaws and the records generated by the Construction Inspection Contractor indicate the construction inspection staff most likely observed the flaws but did not report them.”
- “The extent of the defective work makes clear that the Contractor was purposely constructing them with no regard for their structural integrity, functionality, or adherence to the Contract documents. That extent of defective work and the Construction Inspection staff’s records, which note items proven defective without noting deficiencies and recommend payment, make it clear that the Construction Inspector was not observing work as required by their contract or not noting deficiencies observed.”

- “Poorly located catch basins, median barrier and bridge bearings all point to a breakdown in both the Contractor’s responsibility to do that layout and the Construction Inspector’s responsibility to verify that layout.”

The Task 3 Report also presents the following information regarding the contract values for the Contractor and the Construction Inspection firm and the duration of the project.

	<u>Original</u>	<u>Change</u>	<u>Final</u>	
<b>The Contractor Contract Value</b>	\$51,984,906	\$13,381,444	\$65,366,350	27.5%
<b>Contract Duration (calendar days)</b>	726	74	800	10.2%
<b>Maguire Group Contract Value</b>	\$4,443,230	\$1,250,283	\$5,693,513	28.1%

The Department nonetheless bears the ultimate responsibility for the project, and certain problems were outlined in the report, including general oversight of the project, inspection procedures, and design procedures, each of which require the Department’s immediate attention.

**Corrective Actions Ordered by the Governor:**

Effective with the release of the Task 3 Report, the Governor ordered certain immediate corrective actions at the Department, which are summarized below, followed by the Department’s responses to each:

**1) Improve DOT Risk Management and Analysis Procedures:**

The Governor’s corrective actions include that the Department perform a “constructability review” for all road projects, require a bid analysis for all projects, conduct a strategic project review when projected change orders exceed five percent of the total bid price, and require that contracts explicitly state if work will be day or night work. The constructability review will include a traffic control and protection assessment as part of the sequence of construction. Where the intent is to limit contractor activities to night or other specific time periods such as weekends, the contract will spell out those limitations and require the contractor to reflect them in the construction schedule.

*Agency Response:* “(A) Require a “constructability review” for all road projects to ensure they are buildable, biddable, cost-effective, and maintainable.

The Department has put together a Constructability Unit based on a recommendation of the 2004 Cost Overrun Committee Report. This unit consists of staff engineers (5 employees) supplemented by a task-based consultant (currently seeking a consultant through an RFP). The Constructability Unit is reviewing larger projects (≥ \$25 million) along with a random cross section of typical Department projects (e.g., bridges, drainage, highway safety improvements). The task-based consultant will assist in project reviews and prepare a database to assess trends. Additional staff is planned to expand the number of projects reviewed by the unit.

(B) Require a bid analysis for all projects to ensure clarity and consistency of interpretation of bid documents, including a detailed review of the five low bids to assess patterns that may indicate

misunderstanding of the contract intent.

Proposed Bid Analysis Procedure:

- The Engineers Estimate will be prepared by the Cost Estimating Unit (CEU).
- The Engineers Estimate will be based upon bid history and an "actual cost approach." The revised methodology will require training and will be phased in over the next 6-12 months.
- The actual cost approach will focus on significant items in the bid. Items of significance will include items bid which cumulatively total 75 percent of the Contract Value.
- A formal bid analysis will be prepared by the CEU for all projects.
- The formal bid analysis encompasses the five (5) lowest bidders.
- The formal bid analysis addresses all items of significance.

There will be items where the apparent low bid falls outside the expected bid range for that item. The CEU will identify these items and attempt to determine the reason for the price differential. The CEU may consult with the designer to have the specification for the item reviewed or have the quantity estimate confirmed. If no logical reason is apparent for the price differential, the bid analysis will include a recommendation for further review by the Department's Office of Contracts. The follow-up review by the Office of Contracts could simply be consultation with the Office of Construction or a face-to-face meeting with the apparent low bidder.

(C) Conduct a strategic project review when projected change orders exceed five percent of the total bid price. The review will assess trends in the project to determine if corrective actions are required.

Procedures will be established such that all change orders are reviewed when a project cost increases by 5 percent (or a multiple of 5 percent). These procedures will include an analysis of the root cause of the overrun, an assessment of the project budget, and include reporting requirements to the Office of Construction and the Chief Engineer. Remedial steps will be taken where appropriate.

(D) Require that contracts explicitly state if work will be day or night work.

Department construction contracts currently specify limits of operations when work may be performed. The Department's Constructability Unit will coordinate with the Division of Traffic to ensure that the proper provisions are included in the contract documents so that there is no misunderstanding as to the intent of the contract. It will be specified in

the contract where work can only be done during the day, night, or on weekends.”

**2) Limit Project Engineers on Major Projects to One Project:**

The Department of Transportation Commissioner is required to review the capital program annually and determine which projects qualify as major projects. Project engineers with responsibility for major projects will not be assigned other projects.

*Agency Response:* “The Department’s Office of Construction has already implemented a policy for larger projects. Project Engineers assigned a project with a contract value greater than \$50 million will not have any other projects assigned to them. This policy applies to all projects administered by the Office of Construction.

Additional guidance will be developed regarding what is to be considered a major project. Among the factors that will be considered are cost, complexity, and duration.”

**3) Require Contractors and Contract Inspectors to Certify That All Work Was Performed According to Specifications:**

The payment process will be modified to include specific statements by the construction inspectors that construction items being authorized for payment were done in accordance with the contract. The contract process will include certification by the construction contractor that the work done was done in accordance with the contract. This will be done at the completion of construction stages and the contract as is deemed appropriate. Likewise, Department personnel will certify that required oversight activities have been conducted.

*Agency Response:* “The Department is currently working with the contracting and consultant communities to develop certification forms for Department projects. The Department is also reviewing the certifications required by supervisory staff. These changes will be implemented in the next 6-9 months.”

**4) Separate the Positions of Bureau Chief and Chief Engineer:**

The Department is required to reduce span of control and improve oversight by requiring the Bureau Chief to be responsible for the operation and maintenance of Department highway facilities and the Chief Engineer to be responsible for the planning, design and construction of those same facilities.

*Agency Response:* “This recommendation is under review by the Department’s Office of the Commissioner and will be discussed with the Department of Administrative Services and the Office of Policy and Management. Historically, the positions of Bureau Chief and Chief Engineer have been separate until the ERIP and layoffs took place in the late 1990s. This matter will be dealt with in the study of the Department’s organization ordered by the Governor.”

**5) Create a Formalized QA/QC Structure and Process for Projects:**

A Quality Control/Quality Assurance Program will be developed for Department construction projects that will include a Quality Control Plan developed and managed by the project designer during the design phase and by the construction contractor during the construction period. The Department will develop a Quality Assurance Plan that includes documentation of its processes related to construction, such as field inspection, materials testing, progress payments, and audits on the designer's and contractor's Quality Control Plans including on actual work done. Commissioner approval will be required for deviation from approved plans such as changes in Department or contractor personnel involved in QA/QC activities. Reasons for any approved changes will be documented.

*Agency Response:* “Staffing for a QA/QC unit has been requested in the current budget, the development of a QA/QC unit will consist of 16 employees to address the above recommendations. The QA/QC unit will be part of the Chief Engineer’s Office and have the flexibility to provide project oversight on all units within the Bureau of Engineering and Highway Operations. The Department has also separated the Rocky Hill Lab as a separate Office within the Bureau of Engineering and Highway Operations. This will allow the Lab to be independent of construction and maintenance and be under the direct supervision of the Chief Engineer.”

**6) Require DOT to Directly Pay for Department of Public Safety Personnel Used for Traffic Control at Job Sites:**

This will change the existing procedure under which payment is made through the contractor and eliminate the administrative fee paid to contractors.

*Agency Response:* “The Department is reviewing a process to allow direct payment to the Department of Public Safety. A Memorandum of Understanding will be written with the Department of Public Safety to identify the terms of service and payment for State Police services on Department projects. A pilot project will be initiated in 30-60 days with a goal of all projects being converted to this procedure by next year.”

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

Thirteen recommendations were presented in our previous Departmental report, issued on February 1, 2006. The Department has implemented six of those recommendations. Seven recommendations are repeated or restated in this report. In addition, on October 25, 2004, we issued a special report, titled "Department of Transportation - Special Review of the Bureau of Public Transportation" that contained eight recommendations. The Department has implemented all of those recommendations. Also, an audit of the I-84 expansion project in the Cheshire/Waterbury area was conducted by a private firm. The report was issued on May 18, 2007, and resulted in six immediate corrective actions ordered by the Governor, which are presented on the preceding pages.

In addition to those corrective actions ordered by the Governor, this report contains 15 recommendations, seven from those prior reports mentioned above, and eight from our current review. The following is a summary of the recommendations in those prior reports and the action taken by the Department:

### **Prior Departmental Audit Report:**

- The Department should complete the identification and inventory of surplus real property. The Department has identified and inventoried its surplus real property and has implemented procedures to continually monitor surplus real property, and market it as deemed appropriate. We are not repeating this recommendation.
- 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. The Department has instituted procedures to address this matter. Also, the six corrective actions ordered by the Governor cover a wide range of construction monitoring activities, including those issues we reported on in previous audit reports. We are not repeating this recommendation.
- The Department should make better efforts to ensure that petty cash fund travel advances are settled promptly. The Department has complied with this 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. Our current review disclosed that the Department has an adequate system in place. We are not repeating this 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. Our current review disclosed that the Department has not addressed this matter completely. We are restating this recommendation. (See Recommendation 4.)

- 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. This issue has not been resolved; we are restating our recommendation. (See Recommendation 6.)
- The Department should execute an agreement with the Department of Public Safety for police services at Bradley International Airport. An agreement has not been developed; we are repeating this recommendation. (See Recommendation 13.)
- 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. The Department has substantially complied with this recommendation; the only exception being the acceptance of the reports, which the Department is working on. The recommendation will not be repeated.
- 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. The Department has developed a system to translate payroll information for Federal billing purposes. However, claims processed through the Bureau of Aviation and Ports were often not made in a timely manner. We are, therefore, restating this recommendation. (See Recommendation 5.)
- 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. Our review disclosed that reports for certain vehicles at Bradley International Airport still are not prepared. We also noted that several of the reports we tested were incomplete. We are repeating this recommendation. (See Recommendation 14.)
- The Department should establish procedures for identifying, recording, and reporting all real property in its possession in accordance with the Property Control Manual. The Department has complied with this recommendation. Land purchased for highway projects is now reported as real property when it is purchased.
- 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. The Department has partially complied with this recommendation. We are restating the recommendation. (See Recommendation 7).
- 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. The Department has not yet established such a plan. This recommendation is being repeated. (See Recommendation 11).

**Bureau of Public Transportation - Special Report:**

- 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, to perform the duties of supervising capital projects, needs to be executed before such services are provided. This recommendation has been resolved.
- Invoices for goods and services should include an accurate description of the specific item received or service provided. Advance payments should not be made. This recommendation is being restated. (See Recommendation 15).
- 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 has complied with this recommendation.
- The Department should enter into agreements that provide for compensation that is consistent with services provided. The Department entered into a new contract for certain property management services that addressed these prior issues. This recommendation will not be repeated.
- 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 has complied with this recommendation.
- 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 has addressed these issues. Parking revenues are now deposited into a State bank account and procedures have been implemented which should provide reasonable assurance that revenues are properly deposited and accounted for.
- 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. The Department addressed this issue. The Department’s Internal Audit Unit reviewed this matter and found that during the period from April 1, 2000 through October 6, 2004, \$11,799,652 was deposited into the account that was operated by the property manager at the time. On October 6, 2004, the account was closed, and the remaining \$1,332,562 was deposited into a State bank account.
- 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. This recommendation has been complied with.

*Current Audit Recommendations:*

- 1. The Department should review its Core-CT account code structure and code its expenditures accordingly, so that the accounting system accurately reflects what the Department's expenditures were made for.**

Comment:

Our review of Department expenditures disclosed numerous instances in which expenditure account coding was incorrect. Examples of the errors we noted include some \$16,000,000 in expenditures for new buses that were coded to a Public Transportation operating account rather than to an equipment account, and other equipment items similarly coded; several Public Transportation expenditures coded to the generic account titled "Highways;" payments for leased locomotives coded to an expenditure account titled Office Equipment Lease/Rental; and several instances in which payments to employees for out of State travel reimbursements, in excess of \$1,000 each, were coded as mileage reimbursements.

- 2. The Department should implement procedures to ensure that the bi-weekly payments to employees that are in addition to their regular pay are reasonable.**

Comment:

Our review of payments made to employees that are in addition to their regular pay and are included in their bi-weekly paychecks disclosed that there is not an effective procedure in place to ensure that these payments are reasonable. We noted an employee who received a longevity payment for 12 consecutive paychecks, and two instances in which employees were significantly overpaid for mileage reimbursements. Also there were several instances in which out-of-state travel reimbursements were coded as mileage reimbursements in excess of \$1,000, and were paid without question. Mileage reimbursements are seldom, if ever, over \$1,000 for a pay period.

- 3. The Department should make every effort to resolve the remaining cost issues that are causing the delays in the final vouchering process for Federally participating highway projects and should work toward eliminating the backlog of projects waiting for final vouchering.**

Comment:

We were informed that as of June 11, 2007, the Federal Billing Unit has not completed the final vouchering procedures for some 900 Federally participating highway projects. Projects in the construction and rights of way phases make up most of the 900 projects waiting for final vouchering. The Department has been working with the FHWA in determining how to best address this backlog.

- 4. The Department should implement procedures to effectively monitor those transit grants that are awaiting closeout and to close them out as necessary.**

Comment:

Transit grants are left open until all outstanding obligations are settled. The Accounts Receivable Unit is responsible for collecting funds owed by transit districts and the Office of Transit and Rideshare is responsible for closing the grants. There is no reporting mechanism to make the Office of Transit and Rideshare aware of when receivables are collected, nor does that Office maintain an aging schedule showing the status of the grants awaiting closeout.

- 5. The Department's Bureau of Aviation and Ports should make it a priority to claim project costs in a more timely manner.**

Comment:

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. For the projects we tested, expenditures ranging from \$100,000 to \$1,000,000 were not submitted for Federal reimbursement for periods ranging from five to ten months.

- 6. The Department of Transportation should enforce the terms of the original agreement it has with the New Haven Parking Authority or obtain the proper authorization under the provisions of Section 3-7, subsection (c), of the General Statutes to reduce the balance it is due.**

Comment:

The Department continues to accept a monthly payment of \$25,000, which is \$3,395 less than the amount due per the terms of the original agreement. By accepting \$25,000 per month for the life of the agreement, the Department would receive \$814,800 less than it would have had the payments been \$28,395 per month.

- 7. The Department should implement a reconciliation procedure to ensure it receives the amount it is due from surplus equipment sales.**

Comment:

The Department of Administrative Services (DAS) makes deposits on behalf of the Department for the surplus equipment it sells for the Department. Deposits that DAS coded to the Department's accounts from surplus equipment sales during the 2005 and 2006 fiscal years totaled \$107,415 and \$188,535, respectively. The Department accepted DAS deposits without a review to ensure the completeness of them. Our review disclosed that the amounts per the DAS listing of vehicles sold exceeded the amounts coded to the Department's accounts by \$57,154 and \$25,090 for the fiscal years ended June 30, 2005 and 2006, respectively.

- 8. The Department should correct its official inventory records to accurately reflect the physical locations of the motorcycles it uses for motorcycle training classes and require that any location changes be reported to the Property and Facilities Administration Unit.**

Comment:

The Department owns 318 motorcycles that are used in motorcycle training classes and are physically stored in 19 locations throughout the State. Our review of the Department's records disclosed that its official inventory listing showed that 287 of the motorcycles were located at the Department's headquarters in Newington, when in fact they were scattered at those various locations throughout the State.

- 9. The Department should establish formal standardized procedures for entering mileage reimbursement amounts into the payroll system and for signing and approving mileage reimbursement request forms.**

Comment:

Our review disclosed that there were inconsistencies among the Department's four District Offices as to the method in which mileage reimbursement amounts are entered into the payroll system and in the signing and approving of the reimbursement request forms. There were instances we noted in which employees received mileage reimbursements for which they were not entitled and others in which the documents supporting mileage reimbursement payments made were not always signed and/or approved.

- 10. The Department's Office of Transportation Safety should improve internal controls over the reimbursement payments it makes to grantees.**

Comment:

The Office of Transportation Safety made reimbursements to grantees without adequate documentation supporting the full amounts it reimbursed. Instances were noted in which grantee timesheets that were submitted to the Department for reimbursement were signed by one person as the employee and the supervisor, and others which were not approved by a supervisor.

- 11. The Department should continue its efforts to establish a formal disaster recovery plan to ensure 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.

- 12. The Department should maintain a complete listing of all of the reporting requirements mandated by the General Statutes or by legislative acts, and consider creating a central reporting function to monitor the submission of them.**

Comment:

The preparation of the statutorily required reports is assigned to various personnel throughout the Department. There is no complete listing maintained of all of the required reports and there is no one unit assigned the task of monitoring their submission to the required parties.

- 13. 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.

- 14. The Department should require that the operators of State-owned vehicles used at Bradley International Airport prepare and submit properly completed monthly mileage reports.**

Comment:

Our review disclosed that monthly usage reports for Department owned vehicles used at Bradley International Airport were not prepared unless the vehicles were garaged at an employee's residence, and that the mileage reports we tested for those vehicles were incomplete; reports we reviewed did not include daily entries of travel or mileage, some included only the vehicle's beginning of the month and end of the month mileage, and others had no indication of any mileage whatsoever.

- 15. The Department should implement a procedure to effectively review the monthly billings of the property manager it contracts with to provide management services related to the Transportation Centers in Bridgeport and Stamford, and identify and adjust for any unallowable costs prior to making the monthly payment.**

Comment:

The Department's Office of Rails reviews the property manager's monthly bills prior to payment, following a "checklist" that is used to document the review. Our review of selected bills disclosed that the review procedure is ineffective in identifying unallowable direct costs that are included in the bills.

## 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, 2005 and 2006. 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, 2005 and 2006, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of 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, 2005 and 2006, 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: the Department's inability to code expenditures to the proper accounts, the lack of an effective review procedure to ensure that payments to employees that are in addition to their regular pay are accurate, the Department's inability to submit final vouchers to Federal Highway Administration on a timely basis, the lack of a reconciliation procedure for ensuring that the Department receives the correct amount of money for surplus equipment sold, the lack of an effective review procedure of the monthly billings submitted by the property manager that provides management services to the Transportation Centers in Bridgeport and Stamford, and that 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 condition regarding an inadequate disaster recovery plan for data processing systems to be a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

**CONCLUSION**

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

Michael DiDomizio  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts