

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF TRANSPORTATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010*

**AUDITORS OF PUBLIC ACCOUNTS**

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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### **AUDITORS' REPORT DEPARTMENT OF TRANSPORTATION FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010**

We have examined the financial records of the Department of Transportation (Department) as they pertain to that agency's operations for the fiscal years ended June 30, 2009 and 2010.

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 six bureaus, each administered by a Bureau Chief: Engineering and Construction, Highway Operations, Aviation and Ports, Public Transportation, Finance and Administration, and Policy and Planning.

The Bureau of Engineering and Construction is responsible for the implementation of the capital program for all transportation modes, including engineering and construction services as well as property acquisition and management, research and material testing.

The Bureau of Highway Operations is responsible for the safe operation and maintenance of the state's highway and bridge system, including snow and ice control, equipment repair and maintenance.

The Bureau of Aviation and Ports operates six state-owned airports, the State Pier in New London, and 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 15-101l of the General Statutes originally authorized the issuance of airport revenue bonds, which 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. Revenues derived from airport operations are deposited with a corporate trustee and applied, as provided for, in the indenture. As of June 30, 2010, the total airport revenue bonds outstanding amounted to \$188,785,000.

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 services 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.

Joseph F. Marie served as Transportation Commissioner during the audited period, until his resignation, June 29, 2010. Jeffrey A. Parker was appointed as Commissioner and served until his resignation, March 8, 2011. James P. Redeker was appointed Acting Commissioner, to serve until a permanent commissioner is appointed.

**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:

Public Act 10-3, Section 15 of the 2010 Regular Session reduced the transfer from the General Fund to the Special Transportation Fund for the fiscal year ending June 30, 2010 from the sum of \$81,200,000 to the sum of \$71,200,000.

Section 65 (b) of Public Act 09-2 of the September 2009 Special Session requires the Department to submit the state rail plan to the joint standing committees of the General Assembly not later than

sixty days prior to the submission of the state rail plan required by the Passenger Rail Investment and Improvement Act of 2008.

Section 66 of Public Act 09-2 of the September 2009 Special Session, requires the Commissioner of Transportation not to sell, transfer or otherwise dispose of any rail or other track material, unless the commissioner has offered such rail or other track material to freight railroad companies for upgrading state-owned rights-of-way. Any remaining rail or other track material shall be offered to freight railroad companies for upgrading other rail lines located within the state.

Section 67 (b) of Public Act 09-2 of the September 2009 Special Session, effective October 1, 2009, requires the Commissioner of Transportation to provide a report in accordance with the provisions of section 11-4a, to the joint standing committees of the General Assembly having cognizance of matters relating to transportation and finance, revenue and bonding, regarding any railroad crossing at grade, not later than October 1, 2009 and every three years thereafter. The report is required to list all the at-grade rail crossings in the state; identify crossings that create a hazardous situation; provide a budget and identify all funding sources for upgrading or eliminating such hazardous crossings; prioritize the upgrades or eliminations that are recommended; and for reports submitted pursuant to this subsection after the initial report, describe the progress to date in upgrading or eliminating hazardous at-grade crossings.

Section 2 of Public Act 09-154 of the June 2009 Session, effective July 1, 2009, established a Connecticut Bicycle and Pedestrian Advisory Board within the Department of Transportation for administrative purposes only. Section 3 of the act requires the Department to submit a list of transportation projects that contain bicycle and pedestrian access and are funded by the Special Transportation Fund or Title 23 of the United States Code, to the joint standing committee of the General Assembly having cognizance of matters relating to transportation and to the Connecticut Bicycle and Pedestrian Advisory Board, on or before October 1, 2009 and on or before October 1, 2010.

Section 2 of Public Act 09-186 of the June 2009 Session, effective July 20, 2009, modified the methods the Department must use to advertise for consultant services.

Section 8 of Public Act 09-186 of the June 2009 Session, effective October 1, 2009, requires the Department of Transportation to consult with the Connecticut Center for Advanced Technology, Inc. to develop a plan to implement zero-emissions buses throughout the state, and to submit the plan not later than December 31, 2010, to the joint standing committees of the General Assembly having cognizance of matters relating to energy, environment and transportation.

**BOARDS AND AUTHORITIES:**

**Connecticut Transportation Strategy Board:**

Section 13b-57e of the General Statutes created the Connecticut Transportation Strategy Board (CTSB). It is placed within the Office of Policy and Management (OPM), for administrative purposes only. There is a CTSB Projects Account (Account), which is administered by the Department. The expenditures of the Account during the audited period totaled approximately \$4,000,000, net of expenditure transfers. Payments made through the Account totaled approximately \$10,700,000 during the audited period. The major expenditures included payments toward the purchase of Mafersa Rail Cars, payments to municipalities under the Municipal Grant Program, and transfers to the Office of Policy and Management to pay for the consultant OPM contracted with to conduct a review and analysis of electronic tolling and congestion pricing.

As of June 30, 2010, the CTSB Projects Account had \$88,795,969 available for expenditure, with most of it programmed for the New Haven Line revitalization program authorized per Section 13b-78l of the General Statutes.

**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's function is to advocate for 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 also must advocate for 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 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 also must put procedures in place to review significant contracts. The board also is required to submit an annual report to the governor and legislature.

**Connecticut Bicycle and Pedestrian Advisory Board:**

Public Act 09-154, effective July 1, 2009, created the Connecticut Bicycle and Pedestrian Advisory Board. It is within the Department of Transportation for administrative purposes only. The board consists of eleven members; five appointed by the Governor and one each by the speaker of the House of Representatives, the president pro tempore of the Senate, the majority leader of the House of Representatives, the majority leader of the Senate, the minority leader of the House of Representatives and the minority leader of the Senate. The members shall be electors of the state and have a background and interest in issues pertaining to walking and bicycling; specifically, one shall be a representative of an organization interested in the promotion of bicycling, one a representative

of an organization interested in the promotion of walking, one an owner or manager of a business engaged in the sale or repair of bicycles, one a representative of visually impaired persons, one a representative of mobility impaired persons, one a representative of transit workers and one a person sixty years of age or older. All members serve for a term of four years, except the members first appointed by the Governor, for which three shall serve for an initial term of two years and two shall serve for an initial term of three years. Any vacancy in the membership of the board shall be filled by the appointing authority for the unexpired term. Members shall receive no compensation for their services. The board held its first meeting on December 3, 2009, at which Ray Rauth was selected as the chairman.

The duties of the board include examining the need for bicycle and pedestrian transportation, promoting programs and facilities for bicycles and pedestrians in this state, and advising appropriate agencies of the state on policies, programs and facilities for bicycles and pedestrians. The Department of Transportation is required to assist the board in carrying out its responsibilities, by making available Department reports and records related to the board's responsibilities and, within available appropriations, printing the Board's annual report, distributing copies of such report and mailing notices of the board's meetings. According to Department staff, the Department expended \$5,000 supporting board activities during the fiscal year ended June 30, 2010. We note that the board meets regularly and has submitted its annual reports, in January 2010 and 2011, as required by statute.

**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. The Transportation Grants and Restricted Accounts Fund, a Special Revenue Fund, is used to account for restricted transportation monies that were previously accounted for in the Special Transportation Fund and for all federal monies. Major capital projects for roads, bridges, mass transit equipment and facilities, and airports are financed from the Infrastructure Improvement Fund, a Capital Projects Fund, and from the federal monies included in the Transportation Grants and Restricted Accounts Fund. Separate funds, including the Public Bus Transportation Revenue Fund, the Local Bridge Revolving Fund and the Bradley International Airport Operations Fund are used to account for other Department operations.

**Department Receipts:**

The Department's receipts recorded in Core-CT for all funds for the fiscal years ended June 30, 2008, 2009, and 2010, are presented below for comparative purposes:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
General Fund	\$ 7,496	\$ 14,096	\$ 5,380
Special Transportation Fund	30,967,084	26,782,183	18,161,915
Transportation Grants and Restricted Accounts Fund	466,638,465	661,001,933	719,386,801
Public Bus Transportation Revenue Fund	33,343,137	34,224,695	33,963,951
Infrastructure Improvement Fund	38,116	(30,446)	(7,680)
Bradley International Airport Operations Fund	39,853,989	39,531,991	40,992,100
Local Bridge Revolving Fund	<u>60,621</u>	<u>10,302</u>	<u>9,827</u>
<b>Total Receipts</b>	<b><u>\$570,908,908</u></b>	<b><u>\$ 761,534,754</u></b>	<b><u>\$ 812,512,294</u></b>

As indicated above, revenue of the Special Transportation Fund decreased over the audited period. The major revenue sources for the fund include royalties from highway concessions, motor carrier permit fees, rental income, and sales of surplus real property. The significant decrease in revenue for the fund for the fiscal year ended June 30, 2010 was caused by a decrease in royalties received from highway concessions. Revenues from the highway concessions were considerably lower in the 2010 fiscal year due to the new 35-year service plaza agreement the Department entered into during the 2010 fiscal year. Under the new agreement, the Department receives less revenue (an immediate decrease from approximately \$11 million per year to a minimum guaranteed amount of \$1 million per year); however, the contractor must renovate and/or rebuild the 23 service plazas along the state highways, at a budgeted cost of \$178,000,000. The contractor is also required to pay the maintenance and utility costs for the 23 service plazas.

Increases in the overall receipts during the audited period are attributable to increases in the receipts of the Transportation Grants and Restricted Accounts Fund. The major source of the Department's receipts is from federal reimbursements, which are deposited in that fund. Increased reimbursable expenditures for federally participating highway and transit projects resulted in the increase in the 2009 fiscal year. The increases continued in the 2010 fiscal year as a direct result of

the Department's participation in the Federal American Resources Recovery Act (ARRA), effective in the 2009 fiscal year. The Department received significant ARRA funding commitments for several highway and transit projects, and one airport project. The Department received \$69,176 and \$90,656,022 in federal reimbursements from ARRA participating projects during the 2009 and 2010 fiscal years, respectively. Reimbursements for a majority of the ARRA funded projects will come in future years, as the projects progress through completion.

Total federal reimbursements are summarized below:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Federal Highway Administration	\$ 396,010,276	\$ 498,876,762	\$ 570,626,361
Federal Transit Administration	49,273,591	119,466,214	105,748,056
National Highway			
Traffic Safety Administration	11,741,098	8,685,602	8,858,966
Federal Aviation Administration	3,985,668	7,767,093	23,120,631
Other	<u>0</u>	<u>0</u>	<u>249,724</u>
Total Federal Reimbursements	<b><u>\$ 461,010,633</u></b>	<b><u>\$ 634,795,671</u></b>	<b><u>\$ 708,603,738</u></b>

Federal reimbursements from ARRA participating projects are summarized below:

	<b><u>Fiscal Year Ended June 30,</u></b>	
	<b><u>2009</u></b>	<b><u>2010</u></b>
Federal Highway Administration	\$ 69,176	\$ 68,768,331
Federal Transit Administration	0	15,008,123
Federal Aviation Administration	<u>0</u>	<u>6,879,568</u>
Total ARRA Federal Reimbursements	<b><u>\$ 69,176</u></b>	<b><u>\$ 90,656,022</u></b>

**Department Expenditures:**

The Department's expenditures recorded in Core-CT for all funds for the fiscal years ended June 30, 2008, 2009, and 2010, are presented below for comparative purposes:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
General Fund	\$ 127,398	\$ (50,000)	\$ 2,294,500
Special Transportation Fund	492,749,268	513,568,707	488,196,213
Transportation Grants and Restricted			
Accounts Fund	541,827,011	637,320,648	793,450,992
Public Bus Transportation Revenue Fund	33,187,712	29,874,351	36,902,809
Infrastructure Improvement Fund	204,038,179	352,380,342	353,892,225
Bradley International Airport Operations Fund	41,977,527	40,932,489	39,096,356
Local Bridge Revolving Funds	1,544,444	1,582,256	4,534,104
Grants to Local Governments and Others	2,057,120	2,117,252	9,000,605
All Other Funds	<u>(11,675)</u>	<u>169,549</u>	<u>(9,895)</u>
<b>Total Expenditures</b>	<b><u>\$ 1,317,496,984</u></b>	<b><u>\$ 1,577,895,594</u></b>	<b><u>\$ 1,727,357,909</u></b>

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

Expenditures recorded in Core-CT by major types for the Special Transportation Fund (including the Transportation Grants and Restricted Accounts Fund) for the fiscal years ended June 30, 2008, 2009, and 2010, are presented below for comparative purposes:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Personal Services	\$ 151,635,821	\$ 152,726,364	\$ 147,780,033
Other Expenses	55,449,561	56,649,316	52,231,263
General Agency Equipment	2,051,448	2,997,995	866,263
Town Aid Grants**	30,000,000	30,000,000	0
ADA Para Transit Program	20,530,035	23,020,591	24,862,359
Highway Construction - Federal Share	421,161,043	472,002,479	611,749,313
Highway Planning and Research	3,004,895	2,634,109	2,718,280
Highway and Bridge Projects	10,730,329	10,300,402	9,318,638
Highway and Bridge Renewal Equipment	9,370,430	8,824,723	5,484,353
Claim Settlements	16,400,346	5,097,011	425,712
Highway Safety - Federal Share	9,468,963	8,971,980	10,072,276
Transit Assistance - Federal Share	70,311,413	115,448,786	149,662,497
Rail Operations	94,364,226	108,147,408	117,622,332
Bus Operations	111,889,785	115,567,969	124,280,561
Amtrak Pass Through Funds	11,539,161	2,768,116	191,381
Overhaul of M-2 Railcars	8,328,379	6,524,689	908,255
Transportation Strategy Board Projects	(4,883,158)	4,583,381	(563,006)
Airport Improvement - Federal Share	6,017,768	18,164,501	12,811,330
Bradley Airport Improvement	1,670,433	1,336,874	1,168,516
All Other	<u>5,535,401</u>	<u>5,122,661</u>	<u>10,056,850</u>
<b>Total Expenditures</b>	<b><u>\$1,034,576,279</u></b>	<b><u>\$1,150,889,355</u></b>	<b><u>\$1,281,647,206</u></b>

\*\*During the audited period, town aid grants for roads and bridges were funded from the Special Transportation Fund in the 2009 fiscal year and the Infrastructure Improvement and Grants to Local Governments Funds in the 2010 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. Expenditures increased over the audited period due to increased expenditures on federally participating projects, which were caused in part by the Department securing federal ARRA funds.

Overall expenditures of the Special Transportation Fund decreased in the 2010 fiscal year due to \$30,000,000 of Town Aid Grants paid through other funds in the 2010 fiscal year. Other expenditure decreases resulting from spending cuts, including overtime reductions, and the effects of the early retirement incentive plan offered to employees who retired June 1 or July 1, 2009, were offset by increased subsidies for bus and rail operations. The Department's staffing level, excluding Bradley Airport, decreased from 3,198 employees in June 2008 to 2,980 in June 2010. As previously

indicated, payments for Transportation Strategy Board Projects totaled approximately \$10,700,000 during the audited period. The negative expenditures presented above were the result of expenditure transfers that were made.

**Infrastructure Improvement Fund Expenditures:**

Expenditures recorded in Core-CT by major types for the Infrastructure Improvement Fund for the fiscal years ended June 30, 2008, 2009, and 2010, are presented below for comparative purposes:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Personal Services	\$ 16,927,400	\$ 21,575,302	\$ 23,321,959
Employee Fringe Benefits	10,196,330	12,831,050	14,190,913
Other Expenses	45,012,783	105,820,722	107,580,418
Highway and Transit Facility Projects	93,581,195	160,377,411	179,919,298
Land	19,614,684	4,204,813	6,185,083
Equipment	<u>18,705,787</u>	<u>47,571,044</u>	<u>22,694,554</u>
<b>Total Expenditures</b>	<b><u>\$ 204,038,179</u></b>	<b><u>\$ 352,380,342</u></b>	<b><u>\$ 353,892,225</u></b>

Expenditures recorded in this fund are dependent on the number of active construction projects and other major projects. The significant increase in expenditures can be attributed to added programs, such as the fix-it-first programs for roads and bridges, and other major state funded projects, including the New Haven Rail Yard and the new M-8 Rail Cars. Other significant projects during the audited period included projects on I-95, reconstruction of Route 7 in Brookfield, and resurfacing, bridge, and safety improvements on highways throughout the state. In addition, significant amounts were expended for rail improvements. During the 2010 fiscal year, there were minimal payments made toward the new M-8 Rail Cars, as production was essentially stopped while the new cars were being tested. However, expenditures of the fund remained consistent with the prior year expenditures due in part to \$22,000,000 in Town-Aid grants being paid from the fund.

**Expenditures - General Fund:**

General Fund expenditures were \$(50,000) and \$2,294,500 for the fiscal years ended June 30, 2009 and 2010, respectively. The June 30, 2010 fiscal year expenditures were for bus operating subsidies for Connecticut Transit.

**Other Funds:**

**Grant Anticipation Transportation Fund:**

Section 10 of Public Act 06-136, codified as Section 13b-79r of the General Statutes, established the Grant Anticipation Transportation Fund. That section also authorizes the issuance of \$1,300,000,000 of Grant Anticipation Revenue Vehicle Bonds and specifies the conditions under which such bonds can be issued and the purposes for which the bond funds can be used. The Grant Anticipation Transportation Fund was not used during the audited period and there were no bond issues made under this authority during the audited period.

**Public Bus Transportation Revenue Fund:**

Receipts from Connecticut Transit bus fares and parking revenues from the Stamford and Bridgeport parking facilities are deposited to the Public Bus Transportation Revenue Fund. The bus and parking revenues are separately accounted for within the fund and any monies available at year end are carried forward to the next fiscal year.

The bus fare revenue is used toward the operations of the Connecticut Transit bus system, with the remaining operating costs paid from the Special Transportation Fund. Connecticut Transit bus fare receipts per Core-CT totaled \$29,271,533 and \$29,146,476, for the fiscal years ended June 30, 2009 and 2010, respectively. Expenditures of the Public Bus Transportation Revenue Fund for Connecticut Transit operations were \$25,230,911 and \$30,945,672 for those same fiscal years, respectively.

Parking revenues from the Stamford and Bridgeport parking facilities per Core-CT totaled \$4,953,162 and \$4,817,474, for the fiscal years ended June 30, 2009 and 2010, respectively. Parking revenue declined in the 2010 fiscal year because of renovations being made to the Bridgeport parking garage that required closure of a portion of the garage. Parking revenues are used to pay property management expenses for the Stamford and Bridgeport rail facilities and, most recently, to fund minor capital projects along the New Haven Rail Line. Property management expenses were \$4,643,440 and \$4,987,937 for the fiscal years ended June 30, 2009 and 2010, respectively, and in the 2010 fiscal year there were expenditures of \$969,200 that were made for the New Haven Line light pole replacement program, the first project funded with the parking garage revenue. As of June 30, 2010, the available balance relating to the parking revenues was \$6,194,788. (See the Condition of Records Section of this Report, Page 14.)

**Bradley International Airport Operations Fund:**

Income from airport parking, car rentals, landing fees, and concessions at Bradley International Airport is reflected in the receipts of the Bradley International Airport Operations Fund. Revenues of the fund recorded in Core-CT totaled \$39,531,991 and \$40,992,100 for the fiscal years ended June 30, 2009 and 2010, respectively. Expenditures from the fund for airport operations, primarily for the cost of payrolls, fringe benefits, and contractual services were \$40,932,489 and \$39,096,356 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. During the audited period there were no excess funds available.

**Local Bridge Revolving Funds:**

The Local Bridge Revolving Funds consist of a Bond Financed Fund and a Revenue Financed Fund. During the audited period, both funds were used for grants or loans to municipalities for the repair, rehabilitation or replacement of local bridges.

Activities of the Bond Financed Fund during the audited fiscal years consisted of investment interest of \$129,888 and \$762, revenues from loan repayments and loan interest of \$10,302 and \$9,827, and expenditures for grants and loans of \$1,582,256 and \$3,968,164 for the fiscal years ended June 30, 2009 and 2010, respectively. As of June 30, 2010, the Bond Financed Fund had a total of \$3,062,342 available for expenditures.

Activities of the Revenue Financed Fund during the audited fiscal years consisted of investment interest totaling \$387,366 and \$3,032 for the fiscal years ended June 30, 2009 and 2010, respectively, and expenditures for grants of \$565,940 for the fiscal year ended June 30, 2010. As of June 30, 2010, the Revenue Financed Fund had a total of \$211,663 available for expenditures. The decrease in the investment interest is attributable to Public Act 09-2, passed during the 2009 Regular Session. Section 12(a) of the act required that \$28,000,000 be transferred from the Local Bridge Revolving Fund to the General Fund for the fiscal year ended June 30, 2009. This transfer was made on April 23, 2009.

**State Funds Awaiting Distribution Fund:**

Receipts credited to the Department's account in the State Funds Awaiting Distribution Fund totaled \$7,535,051 and \$4,329,073 for the fiscal years ended June 30, 2009 and 2010, respectively. Disbursements and transfers from the Department's account in the fund were \$11,217,832 and \$4,027,854 for the same fiscal years, respectively.

## CONDITION OF RECORDS

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

### **Cash Advances Paid for Capital Projects to Avoid Lapsing Budgeted Funds:**

*Background:* The Department uses Metro-North Railroad as a vendor on railroad capital projects. The payments the Department makes to Metro-North for these projects are advance payments made with state funds, usually from non-lapsing funds available in the Infrastructure Improvement Fund or the Transportation Grants and Restricted Accounts Fund. There are some instances in which budgeted appropriations are used. Metro-North subsequently submits invoices supporting the use of the advances.

*Criteria:* Budgeted appropriations should be used in the period for which the appropriations cover.

*Condition:* The Department receives annual budgeted appropriations for the Special Transportation Fund to support the Department's operations. Any unexpended funds at the end of the appropriation period will lapse. There is a line item appropriation for Rail Operations which was \$108,678,770 and \$117,635,770 for the fiscal years ended June 30, 2009 and 2010, respectively. For the fiscal year ended June 30, 2009, the Department lapsed \$531,362, including \$500,000 which was unallotted. For the fiscal year ended June 30, 2010, the Department lapsed \$12,876.

During the fiscal year ended June 30, 2009, payments from budgeted appropriations within the Special Transportation Fund to Metro-North for capital project cash advances totaled \$2,872,682, of which \$1,432,000 were made in June 2009. During the fiscal year ended June 30, 2010, the Department made a total of \$7,794,702 such payments, of which \$6,522,934 were made in June 2010. We reviewed the year end payments to determine the timeliness of the uses of the advances and noted that, as indicated below, a considerable amount of the advances were unused as of December 31, 2010.

We reviewed two payments that the Department made on June 26, 2009, totaling \$1,432,000. One was for \$1,087,000, for which the records indicate \$130,199 in Metro-North invoices were subsequently received and reviewed covering project expenditures incurred during the 2010 fiscal year. Invoices covering project expenditures incurred during the 2011 fiscal year through December 31, 2010, totaled \$326,246, leaving an unused advance balance of \$630,555 as of December 31, 2010. For the other payment of \$345,000, invoices approved for payment for expenditures incurred during the 2010 fiscal year totaled \$24,802, and \$41,199 for expenditures incurred during the 2011 fiscal year through December 31, 2010. We note that the Department also advanced

\$224,246 for this project on June 29, 2010, even though the outstanding advance at the time exceeded \$300,000, making the total unused advance balance held by Metro-North equal to \$503,245 as of December 31, 2010.

At the end of the 2010 fiscal year, there were eight payments made to Metro-North on June 29, 2010, totaling \$6,522,934. We reviewed six of the payments, totaling \$6,296,246, including the \$224,246 payment mentioned above. Our review disclosed that, for three payments totaling \$1,635,000, which were advanced for three projects, there were no invoices submitted by Metro-North for expenditures incurred through December 31, 2010. We also noted that two of these projects, with advances totaling \$1,235,000, were identified as temporary. For the other two payments we reviewed, totaling \$4,437,000, Metro-North submitted invoices for expenditures incurred through December 31, 2010, covering most of the advanced amounts.

Normally, Metro-North submits cash flow requests for the projects; however, we did not note the submission of the requests for several of the projects for which the year end payments were made.

*Effect:* The advance payments essentially extended the budgeted appropriations beyond the period covered by them, inflating the expenditures incurred during the period of the appropriations and decreasing the amount that should have lapsed for those periods.

*Cause:* It is apparent that payments were made to avoid lapsing funds.

*Recommendation:* The Department should not make cash advance payments from the Special Transportation Fund to Metro-North for capital projects at the fiscal year end for the purpose of using up available appropriations. (See Recommendation 1.)

*Agency Response:* “The Department does not agree that the purpose of the payments identified above were to use up available Rail Appropriation funding to avoid lapsing. It is more a function of the process explained below.

Operating Capital Maintenance projects provide the greatest challenge since the funding available to do these projects can be impacted by the favorable or unfavorable budget performance of the primary NHL and SLE Rail Services. Therefore, these projects are rarely committed to MNR earlier than the last quarter of the fiscal year. The Rail Appropriation is and continues to be an appropriate and vital means to fund relatively small capital maintenance project needs associated with the New Haven Line Rail operations, that shouldn't be bonded, on a funding availability basis.

With regard to the project payments mentioned in the finding that have unapplied advances existing well beyond the fiscal year end, the

Department agrees. Metro North has in the past, as illustrated in the Condition Statement, identified projects requiring “priority” authorization and payment. Once authorization and payment is made, Metro North has been less than expedient in administering the projects/incurred the cost and billing CDOT in a timely manner. The Department continues to work with Metro North, including biweekly conference calls, to address this issue as well as many others.

With regard to the two projects being identified as “temporary” totaling \$1,235,000, they were for the NHL Head End PA System and the NH Yard Voice Recorders. Both of these projects were approved by the Department in our Budget Approval Letter dated December 1, 2009, for the New Haven Line Calendar Year 2010 Budget. Both projects also were individually authorized via a Capital Action Form.

In summary, the Department’s disagreement with this finding related to the expenditure of appropriated funds at the end of the fiscal year comes down to intent. The Department’s intent to live within its appropriated budget results in delays in the approval of appropriate expenditures until the end of the fiscal year. At that time decisions are made to authorize work identified as required and appropriate and that are now clearly within available appropriations. This authorization and resulting expenditure is exactly what the funding was intended for, but unfortunately because of its timing and the inability of the Department to directly control Metro North expenditures, can give the appearance of a year-end expenditure to avoid the lapse of funding.”

*Auditors’ Concluding  
Comments:*

The payments made at the end of the fiscal year from budgeted appropriations were cash advances that were made in support of projects for which the actual expenditures will be made in future periods. As indicated in the Criteria section of this finding, budgeted appropriations should be used in the period for which the appropriations cover. The Department had funding for minor capital projects available from the rail parking garage revenues deposited in the Public Bus Transportation Fund, a non-lapsing fund, but elected to fund the projects identified in this finding using its budgeted appropriations instead.

**Bridgeport and Stamford Parking Garage Revenues:**

*Background:* Effective in the 2005 fiscal year, the Department began depositing parking revenues from the Stamford and Bridgeport rail parking facilities to the Public Bus Transportation Revenue Fund. The parking revenues are separately accounted for within the fund and any monies available at year end are carried forward to the next fiscal year. The Department has been using the parking revenues to pay property management expenses

for the Stamford and Bridgeport rail facilities, and beginning in the 2010 fiscal year, to fund minor capital projects along the New Haven Rail Line (NHL).

*Criteria:* Prior to the 2005 fiscal year, the Public Bus Transportation Revenue Fund was used solely for revenue derived from the operations of the CT Transit bus system. The revenue was used to support the bus system's operations with subsidies paid using monies appropriated to the Special Transportation Fund. Since the Stamford and Bridgeport rail parking revenue is mainly attributable to the riders of the NHL, the revenue should be used to support the NHL operations, similar to the way the CT Transit revenues are used to support the CT Transit operations. Subsidies for the NHL operations are currently paid solely from monies appropriated to the Special Transportation Fund.

*Condition:* The Department is consistently collecting more in parking revenue from the Stamford and Bridgeport parking facilities than it needs to pay the property management expenses, and as previously indicated, has begun using the accumulated monies to fund minor capital projects along the NHL. The available balances per Core-CT that were carried forward as of the fiscal years ended June 30, 2005 through 2010 are presented below:

- June 30, 2005: \$3,963,735
- June 30, 2006: \$5,739,170
- June 30, 2007: \$6,316,954
- June 30, 2008: \$6,850,406
- June 30, 2009: \$7,464,723
- June 30, 2010: \$6,194,788\*

\*Parking revenue declined in the 2010 fiscal year because of renovations being made to the Bridgeport parking garage that required closure of a portion of the garage.

*Effect:* Monies that could be used to offset operating costs are being accumulated in the Public Bus Transportation Revenue Fund for minor capital projects that could be funded from other sources.

*Cause:* We did not determine the cause.

*Recommendation:* The Department should use the rail parking revenue deposited in the Public Bus Transportation Revenue Fund to reduce the annual New Haven Line subsidy currently paid through a Special Transportation Fund appropriation. (See Recommendation 2.)

*Agency Response:* "The Department agrees with the information provided in the Condition Statement.

As background, in SFY 2005 the Department requested and the

Comptroller approved the creation of a SID to record the existing and future revenues and expenses of the parking garages in Bridgeport and Stamford.

The revenues are primarily used to fund the Property Management costs associated with the Department's operation of the Bridgeport and Stamford Rail Stations and associated Parking Garages.

Since the Fund's inception, the Department has sought to act conservatively in programming this funding for anything other than its primary purpose. In recognition of the accumulating balance identified in this finding, in SFY 2010, the Department did, in fact, program \$1,265,000 to two small capital projects.

Going forward, the Department will continue to look for ways to better program needs from the parking revenues, while continuing to ensure there is sufficient funding to pay for the primary purpose."

*Auditors' Concluding  
Comments:*

As noted previously in this report, the Department used its remaining budgeted Rail Operations appropriations at the end of each audited fiscal year to provide advance funds for minor capital projects. If the Department intends to use its year end remaining budgeted Rail Operations appropriations to fund the capital projects that could be funded using the revenue from the parking garage revenue, then the parking garage revenue should not be allowed to accumulate in this non-lapsing fund.

**Expenditure Transfer from the Public Bus Transportation Revenue Fund to the Special Transportation Fund to Avoid Lapsing Funds:**

*Background:* The revenue resulting from the operations of the CT Transit bus system are accounted for within the Public Bus Transportation Revenue Fund, a non-lapsing Special Revenue Fund. The revenues are used to offset the cost of operating CT Transit by reducing the operating subsidy that is paid from the Bus Operations appropriation within the Special Transportation Fund.

*Criteria:* Expenditures should be charged to the funds that incurred the costs.

Budgeted appropriations should be used in the period for which the appropriations cover.

*Condition:* The Department receives an annual appropriation for the Special Transportation Fund for Bus Operations. For the fiscal year ended June 30, 2010, the appropriation was \$124,282,445, and the Department

lapsed \$1,884. Our review of fiscal year 2010 expenditures disclosed that the Department coded expenditures totaling \$2,154,877 to the Bus Operations appropriation in error, and corrected the error in June 2010, thus creating an available balance that would have lapsed. However, instead of allowing the balance to lapse, the Department processed journal entries transferring \$1,638,900 of expenditures from the Public Bus Transportation Revenue Fund to the Special Transportation Fund. We were told that the expenditure transfers were made so that the balance in the Special Transportation Fund would not lapse and would be available to the Public Bus Transportation Revenue Fund in the next fiscal year.

*Effect:* \$1,638,900 that should have lapsed was transferred to a non-lapsing fund so that it could be used in the following fiscal year.

*Cause:* We were told that the expenditure transfers were made to avoid lapsing funds.

*Recommendation:* The Department should not make year end expenditure transfers for the purpose of using up available appropriations before they lapse. (See Recommendation 3.)

*Agency Response:* “The Department agrees that the effect of the expenditure transfers identified in the finding reduced the lapse of funds in the Bus Appropriation (STF). The effect of what happened is largely a function of the year-end close-out process associated with the Bus Appropriation.”

**Documentation Supporting Payments to a Grantee:**

*Criteria:* Sound internal control requires adequate procedures to ensure that payments are for actual services. In reimbursing grantees for expenditures, such procedures would include verification that the documentation supporting the reimbursement requests be verified completely prior to making the reimbursement.

*Condition:* The Department provided a \$4,250,000 grant to the City of Bridgeport for work on the rail parking garage. The Department paid the city on a reimbursement basis, with each reimbursement request supported by project-related invoices that were submitted with the requests. Our expenditure testing included a payment of \$2,615,228 that was made to the city for project-related activities associated with this project (DOT Project #DOT00150293CN). The documentation supporting this payment consisted of a Department review checklist that included approval for the \$2,615,228 payment; a lead sheet listing each invoice that made up the payment amount; and 79 individual project invoices that were subject to Department review and approval, and were supposed to agree with the lead sheet total. Our review of the supporting invoices disclosed several exceptions. We noted twelve invoices totaling \$65,987, for which there

was no approval on the invoices submitted to the Department for reimbursement. Also, we noted four invoices attached as backup which did not agree with the approved amounts on the lead sheet and a payment of \$5,094, for which there was no invoice attached. The total paid for these five items was \$102,776, and the total per the attached invoices was \$77,544. We were told that incorrect invoices were attached, or were not provided, in error. We were subsequently provided with invoices that we were told should have been attached.

*Effect:* Payments made for this project may not be proper.

*Cause:* It appears that there was a weakness in the payment review procedure for this project.

*Recommendation:* The Department should perform a detailed review of every payment it made to the City of Bridgeport for Project #DOT00150293CN to ensure that the payments it made were for valid project expenditures. (See Recommendation 4).

*Agency Response:* “The Department agrees that the finding regarding the City of Bridgeport payment identified is accurate. The long established Bureau of Public Transportation invoice review process created in consultation with the State Auditors back in the 1990’s require Project Managers to document their thorough review of invoices via an Invoice Verification Checklist that is signed by the Invoice Reviewer as well as the Supervisor or Manager of the Unit. In this instance, the invoice presented to the Office of Financial Management and Support contained a signed Invoice Verification Checklist by the Project Manager and Manager. The invoice also contained a substantial amount of backup. The Fiscal office relied on the Invoice Verification Checklist when processing the invoice payment. The Fiscal Office responsible for processing the payments for this project has reached out verbally and via email to the Project Manager in question to remind him of the requirements associated with the substantiation of backup required to support invoices. Additionally, all other payments made to the City of Bridgeport on this project have been reviewed by the Fiscal Office, as recommended by the Auditors, and have been found to include all the subcontractor invoices needed to substantiate the payments.”

**Vehicle and Related Equipment Purchases:**

*Criteria:* The Department of Administrative Services (DAS) has several contracts that the Department used for purchasing vehicles and related equipment. In most cases, the contract terms indicate a base price for the vehicle and a percentage discount off the Manufacturers’ Suggested Retail Price (MSRP) for the various vehicle options.

*Condition:* Our review included twenty payments for either new trucks or truck

components that were purchased on various dates from various vendors listed on the DAS contracts. Our review disclosed that, for nine of the payments, the Department did not have documentation supporting that the discounts stated in the DAS contract were taken. We also noted that the vendor invoices supporting these payments indicated only the final prices paid for the vehicle and for each option. We reviewed a total of \$247,215 in vehicle options paid for by the Department for which there was no documentation supporting that the discounts were taken. The contractual discount rates ranged from 9 percent to 25 percent.

*Effect:* Compliance with the contract terms regarding the prices paid for vehicle options could not be determined.

*Cause:* The Department did not ask for the MSRP and the vendors did not provide it on the invoices or any other documentation provided to the Department.

*Recommendation:* The Department should retain the documentation necessary to support that the discounts provided for in the state contracts it uses to purchase new trucks or truck components are received. (See Recommendation 5).

*Agency Response:* “The Department reviewed the procedures related to the purchase of both on-road and off-road highway equipment. In both areas the proper discounts were being taken, but the discount amount was not readily identifiable by the documentation supporting the on-road highway equipment purchases. The Department, as of March 2011, has already instituted procedures requiring that a document identifying the appropriate contract discount be included with all requests to purchase both on-road and off-road highway equipment. This supporting documentation identifying the appropriate contract discounts will be stored together with the purchase order in the Fiscal Office responsible for supporting the Office of Property & Facilities to facilitate future reviews.”

### **Motor Vehicle Transfers within the Department:**

*Criteria:* The State of Connecticut Property Control Manual requires that each request for an equipment transfer must be submitted to the agency's Property Control Unit on a suitable agency form authorizing the transfer of the property. The manual states that property should not be transferred without formal written authorization. The Department's procedures require that the Asset Management/Inventory Control Unit be immediately provided with the proper inventory documentation, using the Department Form PRO-67, whenever there is a motor vehicle transfer.

*Condition:* We selected 20 vehicles for physical inspection and accurate recording in the records. We also selected 31 vehicles that we observed at various locations throughout the state to verify that each was properly recorded in

the records. Our review disclosed three trucks that were not at the locations assigned per the Core-CT asset management system. In one instance, we observed a truck in the Hartford maintenance garage, but per Core-CT it was assigned to Waterford. Further review by the Department disclosed that, at the time of our review, it was actually assigned to Old Saybrook. In another instance, we observed a truck at the Torrington maintenance garage, but per Core-CT it was assigned to the North Haven maintenance garage. In the other instance, the truck was purchased during the audited period and per Core-CT is located in East Hartford. However, the truck was delivered to the Windsor maintenance garage and observed there. We were told that the Windsor garage transferred one of its trucks to East Hartford when the new truck was delivered.

*Effect:* There are vehicles on the asset listing that are not in their listed locations. Unless vehicle transfers are formally authorized, property cannot be controlled.

*Cause:* The PRO-67 forms were not provided to the Asset Management/Inventory Control Unit.

*Recommendation:* The Department should reinforce its policies regarding equipment transfers to ensure that all staff is aware to immediately notify the Asset Management/Inventory Control Unit whenever any equipment is transferred to another location. (See Recommendation 6.)

*Agency Response:* “The Department’s Asset Management/Inventory Control Unit has disseminated information and instructions regarding the importance of completing the Notice of Equipment Transfer forms (PRO-67 and PRO-67A), as listed below:

- On December 13, 2010, an email notification was sent to the Bureau Chiefs at the end of last year’s physical inventory process requesting that they remind their staff of the importance of utilizing the equipment transfer forms throughout the year in an effort to properly track and safeguard the Department’s assets.
- During this year’s annual physical inventory process the instructional memorandum, dated February 28, 2011, also included this information, reemphasizing the importance of utilizing the equipment transfer forms.
- On March 9, 2011 and March 15, 2011, the Asset Management/Inventory Control Unit also provided a PowerPoint presentation for Department employees on the proper method in conducting a physical inventory, reiterating the key to ensuring an accurate inventory begins with the proper inventory notification throughout the year.

- The equipment transfer instructions and the Notice of Equipment Transfer Forms (PRO-67 and PRO-67A) have been made available on the Department’s intranet for easy accessibility.”

**Expenditure Coding:**

*Criteria:* The State Comptroller maintains the state’s accounting records and establishes the coding requirements for expenditures. A key control regarding expenditure coding is at the point of initial entry of the purchase order in the Core-CT system.

*Condition:* Our review of Department expenditures disclosed numerous instances in which expenditure coding was incorrect.

We noted account coding errors on payments made to CT Transit for operating the bus service. The payments totaled \$32,584,572, and were coded to Account #51210 (Engineer/Architect Services) rather than Account #52033 (Public Transportation). We also noted expenditure account coding errors on some highway projects, including expenditures for a portion of the Q-Bridge Project and some highway resurfacing projects being charged to Account #55810 (Government Buildings). The Department did not detect these errors.

We also noted Special Identification Code (SID) coding errors. Our review disclosed several expenditure transactions totaling \$2,154,877 during the 2010 fiscal year for the Americans with Disabilities Act (ADA) Para-Transit program that were charged to the Bus Operations SID. These errors occurred throughout the fiscal year. The ADA program receives a lapsing annual budgeted appropriation and is assigned a specific SID. The Department discovered the errors in June 2010, when it noticed the unexpended balance being higher than it should have been, and corrected them before fiscal year end.

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

*Cause:* The errors were caused by incorrect information entered in Core-CT when the purchase orders were created. The errors occurred even though the procedures require that different staff set up and approve each purchase order.

*Recommendation:* The Department should improve controls regarding the set-up and approval of purchase orders to ensure that expenditure coding is proper. (See Recommendation 7.)

*Agency Response:* “The Department agrees with this finding. The Account Code error identified with CT Transit and the ADA SID error, as identified above, were detected and corrected prior to the end of the fiscal year.

The use of Account code 55810 in conjunction with the Q-Bridge project was merely a keypunch error from the correct code of 55850.

The Department's Office of Financial Management and Support will immediately initiate, on a quarterly basis, running periodic exception reports to identify and correct these types of keypunch errors in a more timely manner in the future."

**Damage Recoveries from Motor Vehicle Accidents:**

*Background:* When motor vehicle accidents occur on roads in the state and result in damage to state property, whenever possible, the Department will set up accounts receivable and bill the responsible parties for the damage that was incurred.

*Criteria:* Proper internal controls over accounts receivable include procedures that provide assurances that the billing unit receives the information required to bill the parties who owe money.

The Department's four district offices are responsible for making the repairs necessary to state property that is damaged as a result of motor vehicle accidents and determining the costs associated with those repairs. Each district office is also responsible for obtaining and completing the required paperwork, forwarding it to the Department's Revenue Accounting Unit, and tracking the open accidents (accidents for which the information needed for billing has not been received). It is the responsibility of the Revenue Accounting Unit to set up accounts receivable and bill the liable parties after it has received the information from the district offices.

Our prior report included a recommendation that the Department implement procedures providing assurance that the Revenue Accounting Unit receives the accident information it needs from the district offices so that it can bill the responsible parties for damage caused by motor vehicle accidents.

*Condition:* Our current review disclosed instances in which accident information sent to the Revenue Accounting Unit was never received by that unit.

Our current review also disclosed that each of the Department's four district offices uses different methods for recording and tracking accidents, and that there is no formal procedure to monitor the listings of open accidents that each district office maintains. We noted that only some of the open accidents on the listings were classified by type (to identify those that may be eligible for billing), and that the district offices rely on receiving the information from the police or other sources, rather than actively attempting to get the information.

We reviewed six accidents selected from the district 1 listing of open accidents maintained for the period from July 1, 2009 through May 14, 2010, consisting of 171 open accidents, and noted two exceptions. In one instance, district 1 did not obtain the police report, even though it was available; thus, nothing was sent to Revenue Accounting for billing. Subsequent to our inquiry regarding the accident, district 1 requested the police report. Also, there was another instance in which an accident was on the open list but was actually closed.

*Effect:* The Department does not collect damage recoveries when the required information is not provided to the Revenue Accounting Unit for processing.

*Cause:* The lack of formal documented procedures for the district offices to follow contributes to the cause. There are no standardized recordkeeping procedures for the district offices to follow, no guidance regarding communication between the district offices and the Revenue Accounting Unit, and no required procedures for the districts to monitor the open accident listings.

*Recommendation:* The Department should develop formal written procedures for tracking motor vehicle accidents that result in damage to state property and for recovering the costs of the damage. The procedures should include requirements for standardized recordkeeping, periodic monitoring of the open accident lists, and communication between the district offices and the Revenue Accounting Unit. (See Recommendation 8.)

*Agency Response:* “The Department’s Bureau of Finance and Administration, in order to assist the Bureau of Highway Operations in monitoring the open accident list, created a cover memo to accompany all accident information packages sent from the four District offices to Revenue Accounting. Upon receipt of the package, Revenue Accounting signs and returns a copy to the Bureau verifying the package was received. In December 2010, the Bureau of Highway Operations implemented the use of this cover memo.

The Bureau of Highway Operations will develop a standardized method for tracking and processing damage reports for all four Districts. The District Maintenance Director will be responsible for quarterly reviews of the outstanding reports to ensure completion. The District Maintenance Director will send a copy of the quarterly review to the Bureau of Finance and Administration’s Revenue Accounting Unit.”

**Fuel Inventory Variances:**

*Criteria:* Adequate internal controls for perpetual inventory systems require that balances per the records be compared to the physical count of items

periodically, and any variances be appropriately investigated.

*Condition:* The Department's fuel inventory is maintained on a perpetual basis using the automated Fuelmaster® system. Periodic manual fuel readings are performed by fuel station attendants and reported to the Fuel Control Unit on a special form, called a GAS 19 report. The Fuel Control Unit is responsible for preparing a monthly Inventory Comparison Report that compares the gallons of gasoline per the Fuelmaster® system and the manual readings performed by fuel station attendants, and summarizes the variances. The comparison report includes every Department fuel station. We were informed that the Fuel Control Unit's informal policy required it to research all variances over 200 gallons to determine the reasons for each variance.

Our review of selected Inventory Comparison Reports disclosed the following:

- The Department did not review all variances over 200 gallons. There are some 70 fuel stations, and we noted that, for the nine-month period from June 2009 through February 2010, for unleaded fuel, there was an average of 27 stations each month with variances over 200 gallons; for diesel the average was 22. An average of seven variances per month, for both fuel types combined, was investigated over that period.
- We noted that for the variances that were researched, adequate documentation supporting the resolution of the variances was not maintained.
- We noted instances in which the inventory balances on the monthly comparison reports for some fuel stations exceeded the tank capacity.
- There is no supervisory review of the entries made in the Fuelmaster® system and there is no audit trail linking the entries back to the source documents or the purpose of the entries. Our testing disclosed one data entry error and one unsupported entry.
- There are no written guidelines or procedures regarding the investigation of the variances or documenting the results of the investigated variances.

*Effect:* Errors could go undetected.

*Cause:* All of the variances over 200 gallons were not investigated because the employee responsible for investigating them was only investigating variances in excess of 20% of the tank capacity. The lack of a written procedure guide appears to have contributed to the cause.

*Recommendation:* The Department should formalize its policy for reviewing the fuel inventory variances noted from its comparison of the fuel balance per the records and the manual readings performed by fuel station attendants. The policy should include procedures regarding investigating the variances

and documenting the results of the investigated variances. In addition, controls over entries made in the Fuelmaster® system, including an audit trail linking the entries back to the source documents or the purpose of the entries, should be established. (See Recommendation 9.)

*Agency Response:* “On July 1, 2010 the Department established written procedures for reviewing the fuel inventory variances from its comparison of the Fuelmaster® records and the actual fuel inventory readings. This procedure also includes instructions in investigating the variances and documenting the results. On March 30, 2011 the Department revised the investigating variance from 200 gallons to criteria of a 3% inventory variance and the procedures have been updated to reflect this change.

On June 30, 2010 additional procedures were also developed to document entries made in the Fuelmaster® system noting the source documents or the purpose of the entries for future audit purposes. On April 5, 2011 these procedures were revised to also include Supervisor review and approval.”

## **Reporting Systems:**

*Background:* The Department of Transportation is mandated to submit numerous reports under various sections of the General Statutes or by individual legislative acts. The Governor, the General Assembly as a whole, and various joint standing committees of the General Assembly are included among the designated recipients of these reports. The information provided is necessary to facilitate both executive and legislative branch oversight of the projects administered by the Department.

*Criteria:* An adequate system of internal control should include a method for management to ensure that all mandated reports are submitted as required.

*Condition:* In our prior report, we recommended that the Department institute a centralized monitoring procedure that provides assurance that all Department reports mandated by statutes or legislative acts are submitted as required. Our current review disclosed that a centralized monitoring procedure has been set up; however, several of the Department’s required reports were not submitted. Our review of 15 reports selected for testing disclosed that the Department did not prepare or submit ten of them. We were told that five of the reports were not submitted due to lack of funding. In such cases, it appears reasonable that the Department submit the reports to the required recipients, noting that the funding issues prevented the Department from performing the statutorily assigned tasks.

Those that we were told were not submitted due to lack of funding are:

- A report on the noise reduction open graded friction course pilot

program per Public Act 07-7, Section 95, subsection (g) of the June 2007 Special Session, no later than January 1, 2011. The public act authorized the issuance of \$1,500,000 in bonds for use by the Department of Transportation and The University of Connecticut Transportation Institute for the purpose of establishing a noise reduction open graded friction course pilot program; however, there were no bond allocations made for the program.

- A study on the transportation and mobility needs of residents and businesses in Eastern Connecticut per Public Act 06-136, Section 24, no later than January 1, 2008.
- A study on the development of an assessment and plan for the implementation of commuter rail service between New London and Worcester, Massachusetts, per Public Act 06-136, Section 25, no later than January 1, 2008.
- Conducting the first phase of a study examining construction of a Route 2A bypass alternative that would begin in Preston, proceed in a northerly direction toward downtown Norwich, and end at Route 2 in Preston, as per Section 13b-79p, subsection (b) (1) of the General Statutes, no later than September 30, 2008.
- A report listing all at-grade railroad crossings and identifying any that create hazardous situations, etc., as per Public Act 09-2, Section 67 (b), on or before October 1, 2009.

The reports we selected for testing that were not completed include an annual report on the New Haven Line Revitalization Program that is required to be submitted not later than September 1st of each year per Section 13b-78o of the General Statutes and a ten-year plan for bridge repair and road resurfacing, as required by Section 13b-79 of the General Statutes, which we were told the Department has not prepared since around 2000, but might be covered in one of the Department's other required reports.

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

*Cause:* We were informed that certain reports were not prepared due to a lack of funding and/or lack of staff. Apparently, there was confusion over the unit responsible for completing the annual report on the New Haven Line Revitalization Program. There were reports that were not submitted due to the change to the Core-CT system.

*Recommendation:* The Department should institute a monitoring procedure that provides assurance that all Department reports mandated by statutes or legislative acts are submitted as required. The Department should notify the required recipients, on or before the due dates, of any reports that cannot be completed because of lack of funding. (See Recommendation 10.)

*Agency Response:* "The Department's Legislative Program Unit has continued to improve on the process established to maintain and monitor the schedule of state

mandated reports and plans that are required by various Public Acts and sections of the General Statutes. Plans are being made to set up this report on the Departments' intranet for access by the Bureaus to identify their specific requirements. The Legislative Program Unit will monitor completion of these reports and will retain copies of all reports. Due to some confusion with who should be preparing the reports, further review of the requirements need to be made to determine the responsible person preparing the reports. For those reports identified as not complete due to a lack of funding, notification to the responsible party will be made that a report is still required."

### **Bridge Inspections and Repairs:**

*Criteria:*

The Department has a Bridge Inspection Manual (Manual) that was developed to provide a uniform standard for performing and reporting structure inspections in the State of Connecticut. According to the Manual, after an inspection, the inspection report reviewer, with input from the inspection team, will prepare a list of possible maintenance items that should be performed to extend the useful life of the structure and to ensure its continued safety. These items are presented in a memo to the Bridge Maintenance Unit, referred to as a BMM, and prioritized as indicated below:

- Priority A - Critical - IMMEDIATE response by Bridge Maintenance.
- Priority B - Urgent, but not critical - Response within 1 WEEK.
- Priority C - Important, but not urgent - Response within 2 MONTHS.
- Priority D - Of lesser importance, but needing attention - Response within 6 MONTHS.
- Priority E - Routine repairs - scheduled by Bridge Maintenance to coincide with other commitments of the same type or within the same general area. – Response within 2 YEARS.

The Manual states that, when reviewing bridge maintenance memorandums, it is important that the repairs be meaningful to prolong the life of the structure and are cost-effective when considering the life cycle costs of the structure.

Section 3.2.2 of the Department's Bridge Inspection Manual states "Each qualifying structure will be inspected in accordance with ConnDOT procedures by qualified bridge inspectors at regular intervals of 24 months, unless they meet the increased or decreased inspection interval requirements explained below. The frequency of all inspections shall be reviewed after each inspection and adjusted as appropriate. All inspections and inspection reports shall meet the appropriate requirements of Title 23 part 650 subpart C of the Code of Federal Regulations." We note that the Increased Inspection Interval section of the Manual referred to above was removed, March 14, 2008.

*Condition:* Our prior report included a recommendation that the Department should comply with the bridge maintenance repair requirements set forth in its Bridge Inspection Manual. Specifically, the Department was unable to address the BMM issues in accordance with the requirements stated in the Manual. In following up on this matter, we noted that, in March of 2010, the Department committed to allocating \$100 million over the following five years in an effort to reduce the current backlog of outstanding Bridge Commitments. Our review of the January 2011, Bridge Maintenance Monthly Status Report disclosed that, during the period from April 30, 2010 through December 30, 2010, the Department reduced the number of bridges with maintenance issues by 18, from 1,322 to 1,304. However, over that period, the number of items listed in the BMMs increased from 3,472 to 3,827. The Department was able to keep the outstanding BMM line items from increasing further because additional funding for bridge maintenance was provided. Extra contractors were hired using the additional funding, and even with that, the Department could not keep up with the BMM line items. It should also be noted that we were informed that there are instances in which the Priority A and B repairs are temporary fixes, which usually require additional repair work at a later date, rather than making permanent repairs the first time.

*Effect:* The Department cannot keep pace with the line item issues reported in the BMMs. Regarding the temporary fixes, certain bridge conditions will continue to worsen if the required permanent repairs are not made in a timely manner and may result in significantly increased repair costs.

*Cause:* We were told that the main cause of the Department being unable to keep up with the BMMs is inadequate staffing. We note, from information on file at the Department, that bridge maintenance staff below the level of supervisor in 1988 and 1995, were 202 and 142, respectively, compared to 70 now. We also note that it was cited in 1988 that the volume of corrective maintenance work was so large that only a limited amount of preventative bridge maintenance work was being undertaken. Currently, with a significantly smaller staff and those bridges being 23 years older and most likely in worse condition, the Department clearly cannot keep up with the bridge maintenance requirements detailed in the Bridge Inspection Manual.

The cause also appears to be attributable to the time periods between inspections. All bridges are treated the same as far as the maximum time between inspections. This causes inspections of bridges that are in good enough shape to warrant more time between inspection periods to be inspected as scheduled, usually resulting in BMMs indicating minor problems which could have been uncovered during a later inspection, without causing any risk as to the safety of the bridge.

*Recommendation:* The Department should consider modifying its bridge inspection policies to allow increased inspection intervals for structures that meet specific

requirements that would allow for such an increase. (See Recommendation 11.)

*Agency Response:* “The Department’s Bureau of Highways has worked to aggressively abate the outstanding Bridge Maintenance Memorandums in Fiscal Years 2011 and 2012 by investing more PAYGO funding for contractual services, soliciting volunteers from highway maintenance garages, scheduling night crews and packaging federal projects. However, the end result was a net increase in outstanding Bridge Maintenance Memos. Due to budgetary constraints, additional staffing is not an option. Therefore, the bridge maintenance crews will continue to work as funding dictates on its comprehensive five-year plan.

The Department agrees with the findings. Reduced frequency of inspections on highly rated structures will save money by eliminating the inspections performed by Contract services and state forces. The savings (any savings anywhere in the Department) provides the flexibility to expend more in the Bridge Maintenance program.

In accordance with the Federal Highway Administration (FHWA) approval in July 1999, the Department began to take advantage of the flexibility provided by the FHWA under the National Bridge Inspection Program. With FHWA approval the Department employed a 4 year frequency under certain criteria. In 2008, the Department reviewed those rules in light of ongoing national attention on bridge conditions and decided (along with our various stakeholders) that it would return to the more conservative approach to the inspection effort.

The Department could support a return to the reduced frequency and has proposed such action as part of 2012 budget reduction options. The Department will not implement the change in a unilateral fashion. However, the Department is cognizant of the potential for savings in this arena and will continue to discuss it with appropriate officials.”

### **Computer Support Provided to Department Engineering Staff:**

*Criteria:* The cost of internal controls should not outweigh the benefits of the controls.

The effectiveness of a system of internal control depends on continuous supervision of all staff. In fulfilling their responsibilities, managers and supervisors should assign tasks and establish written procedures for completing assignments.

*Condition:* The Department has an Office of Information Systems (OIS) that includes an Engineering Support Group (ESG). The ESG staff consists of specialized information technology employees assigned to work on complex computerized engineering applications. The engineering

applications are part of individual workstations that include other agency applications. Our review disclosed that the ESG is restricted in its access to the other agency applications, including networking, servers, and desktop software and hardware, causing unnecessary delays in fixing computer problems that the Department's engineering staff experience. We note further that there are no written procedures that the OIS staff must adhere to, including the ESG. Specific written procedures that the ESG must follow could allow for the elimination of the computer access restrictions without compromising the internal controls, and could result in the engineering staff's computer problems being fixed without having to experience any unnecessary delays.

*Effect:* It takes additional time to fix engineers' computer problems because of the access restrictions, which could result in lost work time for the engineers.

*Cause:* Apparently, OIS limits the ESG computer access to maintain effective internal controls over computer software and hardware.

*Recommendation:* The Department should develop written procedures for its Office of Information Systems employees to follow and consider providing the Engineering Support Group the access it needs to effectively maintain the computers that the engineering staff use. (See Recommendation 12.)

*Agency Response:* "The Department's Office of Information Systems (OIS) agrees that the cost of internal controls should not outweigh the benefits of the controls but concurrently maintains that any controls that are in place do not outweigh the benefits of said controls.

It should be noted that OIS recently migrated all computers and servers to a new Microsoft AD (Active Directory) environment. During the process of implementing this new environment there were some issues with ESG access restrictions that did cause delays in fixing computer problems experienced by engineering staff. OIS and Engineering Management as well as the ESG were aware of these issues and everyone was asked to be patient while OIS resolved them. These issues were subsequently resolved such that the ESG now has full access to all of the CAD Workstations that the ESG supports.

Note that the ESG does not have access to other agency applications outside of engineering which are supported by a separate OIS PC Support Unit.

Also note that the review states that access to both networking and servers is restricted. This access is restricted for security and control purposes and will remain restricted because both of these areas are highly specialized and have their own dedicated teams. The Networking and Security Team Unit within the OIS are the only ones properly trained,

qualified and authorized to handle networking issues and the Server Support Team Unit are the only staff allowed to handle server issues. OIS does not plan any changes in either of these areas since this organizational support model follows Best Practice for IT in terms of control and security. If there are any service delays in Engineering caused by the aforementioned OIS groups (i.e., Networking and Server) whose job it is to support the ESG in these specialized areas, then OIS will take appropriate action to correct the response times and service levels within those groups.

In response to the recommendation, OIS has provided the Engineering Support Group the access it needs to effectively maintain the computers that the engineering staff uses. Temporary issues that caused access problems in the ESG were resolved and are no longer germane to the audit findings. OIS will work with the ESG and the other units that provide external support to the ESG (i.e., Server Support and Network Support) to ensure that specific requests are prioritized to minimize the downtime of engineering computers and systems.

OIS will continue to monitor the service levels in the ESG and make necessary changes to improve service as needed. Bi-weekly OIS/Engineering management meetings will be used to monitor any service areas that need to be addressed. OIS will make sure that a discussion of service issues becomes a permanent part of the meeting agenda.

OIS will also develop written procedures that will specify the proper use of the Help Desk Software for the assignment of tasks that all OIS staff will follow.”

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

We presented 21 recommendations in our previous departmental report. The Department has implemented 18 of those recommendations.

This report contains 12 recommendations, three from our prior report, and nine from our current review. The following is a summary of the recommendations presented in our prior report and the actions taken by the Department.

### **Status of Prior Audit Recommendations:**

- The Department should improve internal controls over the payments it makes to employees who leave state service. The Department has resolved this recommendation.
- The Department should improve internal controls over employee timesheet approvals by implementing procedures that provide for adequate documentation supporting that all employee timesheet transactions are approved by the employees' supervisors. The Department has complied with the recommendation.
- The Department should implement procedures to ensure that access to the State's Core-CT computer system is deactivated immediately upon termination of an employee and the Department should review the status of all of its Core-CT users to ensure that all of them are active employees. The Department has resolved this recommendation.
- The Department should require that the Office of Human Resources inform the Security Office immediately of any terminated employee so that the access rights to the Department's facilities can be removed. This recommendation has been resolved.
- The Department should take the steps necessary to ensure that its annual infrastructure valuation is submitted to the State Comptroller before the established deadline. This recommendation has been resolved.
- The Department should enter the receipt dates of goods or services in Core-CT in accordance with Section 1.7 of the State Accounting Manual. This recommendation has been resolved.
- The Department's Accounts Payable Unit should not make payments without first obtaining the proper supporting documentation. The Department should make reviewing any time-sensitive agreements priority items to ensure that the Department's best interests are protected. There were no instances noted during our current audit. We are not repeating this recommendation.
- The Department should not commingle other projects within the New Haven Rail Yard Bond Fund Account and should adjust the records for those expenditures erroneously charged to that account. This recommendation has been resolved.

- The Department should implement internal controls that provide reasonable assurance that financial transactions associated with any unusual agreements it enters into are properly recorded and reflected in the state's financial statements. There were no such agreements noted during the audited period. We are not repeating this recommendation.
- The Department should implement procedures that provide assurance that the Revenue Accounting Unit receives the accident information it needs from the district offices so that it can bill the responsible parties for damage caused by motor vehicle accidents. Consideration should also be given to reviewing the records supporting closed accidents at the Department's District 1 office to identify any others which might not have been billed. We are restating this recommendation. (See Recommendation 8.)
- The Department should implement the procedures necessary to provide assurances that the supply inventory valuations maintained in Core-CT are accurate. The Department has resolved this recommendation.
- The Department should comply with the bridge maintenance repair requirements set forth in its Bridge Inspection Manual. The Department has been unable to make any considerable progress regarding this matter. We are restating this recommendation (See Recommendation 11.)
- The Department should obtain the required Certificates of Insurance for all of the tenants who lease property from it and should implement procedures that provide assurance that the required certificates are on file and are up-to-date. The Department has resolved this recommendation.
- The Department should enforce its policies regarding the use of the supervisor key for dispensing gasoline and revise its manual transaction slips to require the employee name and signature, and an explanation in every instance why the policy maximum is overridden. The Department has complied with this recommendation.
- The Department should improve its procedures for reviewing mileage reimbursements and require that evidence of insurance coverage supporting all mileage reimbursement payments be retained. This recommendation has been addressed and will not be repeated.
- The Department's Bureau of Aviation and Ports should make it a priority to claim Federal Aviation Administration (FAA) participating project costs in a timely manner and should correct the expenditure and revenue errors in Core-CT at both the project and SID levels so that the accounting system contains accurate information. Also, the Department should review its procedures for recording and monitoring FAA participating transactions and modify them as necessary to ensure that these transactions are properly recorded in Core-CT. The Department has complied with this recommendation. Federal billings were done in a timely manner, and procedures have been set up to adjust the Core-CT records as necessary for financial reporting purposes when each project is closed out.
- The Department should implement procedures to effectively monitor those transit grants that are awaiting closeout. The Department has complied with this recommendation.

- The Department should institute a centralized monitoring procedure that provides assurance that all Department reports mandated by statutes or legislative acts are submitted as required. This recommendation has not been fully complied with and is being restated as Recommendation 10.
- The Department should improve the procedures it has in place for obtaining the required annual campaign contribution and gift affidavits from the consultants and contractors it hires. The Department has complied with this recommendation.
- The Department should require that monthly mileage reports be submitted for the state-owned vehicles used exclusively at Bradley International Airport. This recommendation has been resolved.
- The Department should not use the funding sources it receives for anything except that which is authorized under each specific funding source and should adjust the records for those expenditures it charged to SID #41404 that are applicable to new railcar purchases. The Department has complied with this recommendation.

*Current Audit Recommendations:*

- 1. The Department should not make cash advance payments from the Special Transportation Fund to Metro-North for capital projects at the fiscal year end for the purpose of using up available appropriations.**

Comment:

Our review of year end payments made in June 2009 and June 2010, disclosed several advance payments made to Metro-North for capital projects, totaling approximately \$8,000,000, some of which appeared to have been made to avoid lapsing budgeted funds. We reviewed balances on hand with Metro-North and noted that approximately \$3,000,000 of the advances was unused as of December 31, 2010. The outstanding balance includes two projects with advances totaling \$1,235,000 identified as temporary, with no expenditures charged.

- 2. The Department should use the rail parking revenue deposited in the Public Bus Transportation Revenue Fund to reduce the annual New Haven Line subsidy currently paid through a Special Transportation Fund appropriation.**

Comment:

The Department uses the rail parking revenue to pay property management expenses and has recently begun using it to fund minor capital projects. Since the Stamford and Bridgeport rail parking revenue is mainly attributable to the riders of the NHL, it appears reasonable that the revenue be used to support the NHL operations. Subsidies for the NHL operations are currently paid solely from monies appropriated to the Special Transportation Fund. We also noted minor capital projects being funded with the Rail Operations appropriation, as indicated in Recommendation 1. The Department is consistently collecting more in parking revenue from the Stamford and

Bridgeport parking facilities than it needs to pay the property management expenses and has accumulated a balance of \$6,194,788 as of June 30, 2010.

- 3. The Department should not make year end expenditure transfers for the purpose of using up available appropriations before they lapse.**

Comment:

The Department transferred \$1,638,900 of expenditures from the Public Bus Transportation Revenue Fund to the Special Transportation Fund Bus Operations account. We were told that the transfers were made so that those funds would not lapse and would be available to the Public Bus Transportation Revenue Fund in the next fiscal year.

- 4. The Department should perform a detailed review of every payment it made to the City of Bridgeport for Project #DOT00150293CN to ensure that the payments it made were for valid project expenditures.**

Comment:

Supporting documentation attached to the \$2,615,228 payment we reviewed disclosed that, of the 79 individual project invoices the City of Bridgeport submitted for reimbursement, there were twelve invoices totaling \$65,987 for which there were no approvals on the submitted invoices, four invoices attached as backup which did not agree with the paid amounts and a payment of \$5,094 for which there was no invoice attached. The total paid for these five items was \$102,776, and total per the attached invoices was \$77,544.

- 5. The Department should retain the documentation necessary to support that the discounts provided for in the state contracts it uses to purchase new trucks or truck components are received.**

Comment:

There were several instances noted in which the Department did not have documentation supporting that the discounts stated in the state contracts were taken. We reviewed a total of \$247,215 in vehicle options paid for by the Department for which there was no documentation supporting that the discounts were taken.

- 6. The Department should reinforce its policies regarding equipment transfers to ensure that all staff is aware to immediately notify the Asset Management/Inventory Control Unit whenever any equipment is transferred to another location.**

Comment:

Our review disclosed motor vehicles that were transferred to various locations throughout the state without the proper paperwork being submitted to the Asset

Management/Inventory Control Unit. In these instances, the records were not updated to reflect the actual locations of the vehicles.

**7. The Department should improve controls regarding the set-up and approval of purchase orders to ensure that expenditure coding is proper.**

Comment:

Our review disclosed several account coding errors, including \$32,584,572 in payments for operating the CT Transit bus system that were coded as Engineer/Architect Services, and expenditures for a portion of the Q-Bridge Project and some highway resurfacing projects that were coded to an account titled Government Buildings. We also noted several expenditure transactions totaling \$2,154,877 during the 2010 fiscal year for the ADA program that were charged to the Bus Operations SID. Although the SID errors occurred throughout the fiscal year, the Department did not discover them until June 2010, and corrected them before fiscal year end.

**8. The Department should develop formal written procedures for tracking motor vehicle accidents that result in damage to state property and for recovering the costs of the damage. The procedures should include requirements for standardized recordkeeping, periodic monitoring of the open accident lists, and communication between the district offices and the Revenue Accounting Unit.**

Comment:

Our current review disclosed instances in which accident information sent to the Revenue Accounting Unit was never received by that unit. We also noted that each of Department's four district offices used different methods for recording and tracking accidents and that there are no formal procedures for monitoring the listings of open accidents that each district office maintains.

**9. The Department should formalize its policy for reviewing the fuel inventory variances noted from its comparison of the fuel balance per the records and the manual readings performed by fuel station attendants. The policy should include procedures regarding investigating the variances and documenting the results of the investigated variances. In addition, controls over entries made in the Fuelmaster® system, including an audit trail linking the entries back to the source documents or the purpose of the entries, should be established.**

Comment:

We were informed that the Fuel Control Unit's informal policy required it to research all variances over 200 gallons to determine the reasons for each variance. Our review of selected Inventory Comparison Reports disclosed that the Department did not review all variances over 200 gallons. We also noted that, for the variances that were researched, adequate documentation supporting the resolution of the variances was

not maintained and instances in which the inventory balances on the monthly comparison reports for some fuel stations exceeded the tank capacity.

- 10. The Department should institute a monitoring procedure that provides assurance that all Department reports mandated by statutes or legislative acts are submitted as required. The Department should notify the required recipients, on or before the due dates, of any reports that cannot be completed because of lack of funding.**

Comment:

Our review of 15 reports selected for testing disclosed that the Department did not prepare or submit ten of them. We were told that five of the reports were not submitted due to lack of funding. In such cases, it appears reasonable that the Department submit the reports to the required recipients, noting that the funding issues prevented the Department from performing the statutorily assigned tasks.

- 11. The Department should consider modifying its bridge inspection policies to allow increased inspection intervals for structures that meet specific requirements that would allow for such an increase.**

Comment:

All bridges are treated the same as far as the maximum time between inspections. This causes inspections of bridges that are in good shape to warrant more time between inspection periods to be inspected as scheduled, usually resulting in BMMs indicating minor problems which could have been uncovered during a later inspection, without risking the safety of the bridge. The Department currently does not have enough bridge maintenance staff to keep up with the line item issues reported in the BMMs.

- 12. The Department should develop written procedures for its Office of Information Systems employees to follow and consider providing the Engineering Support Group the access it needs to effectively maintain the computers that the engineering staff use.**

Comment:

Our review disclosed that the Department's Engineering Support Group is restricted in its access to certain agency applications, including networking, servers, and desktop software and hardware, causing unnecessary delays in fixing computer problems that the Department's engineering staff experience. We note further that there are no written procedures that the OIS staff must adhere to, including the Engineering Support Group. Specific written procedures that the Engineering Support Group must follow should allow for the elimination of the computer access restrictions without compromising the internal controls, and should result in the engineering staff's computer problems being fixed without having to experience any unnecessary delays.

## 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, 2009 and 2010. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Department are complied with, (2) the financial transactions of the Department are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Transportation for the fiscal years ended June 30, 2009 and 2010, 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 grant agreements, 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.

### **Internal Control over Financial Operations, Safeguarding of Assets and Compliance:**

Management of the Department of Transportation is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Department of Transportation's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Department's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Department of Transportation's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Condition of Records and Recommendations sections of this report, we identified deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be a material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control exists when the design or operation of a control does not allow*

management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any assets or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Department's financial operations will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be material weaknesses: Recommendation numbers 1 – Cash Advances Paid for Capital Projects to Avoid Lapsing Budgeted Funds, 3 – Expenditure Transfer from the Public Bus Transportation Fund to the Special Transportation Fund, 4 – Documentation Supporting Payments to a Grantee, and 7 – Expenditure Coding.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendation numbers 5 – Vehicle and Related Equipment Purchases, 6 – Motor Vehicle Transfers within the Department, and 8 – Damage Recoveries from Motor Vehicle Accidents.

### **Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Department of Transportation complied with laws, regulations, contracts and grant agreements, 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 Department's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*.

The Department of Transportation's response to the findings identified in our audit is described in the accompanying Condition of Records section of this report. We did not audit the Department of Transportation's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Department management, 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:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts