

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF TRANSPORTATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2012*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

INTRODUCTION	1
COMMENTS	1
FOREWORD	1
Significant Legislation.....	3
BOARDS AND AUTHORITIES.....	3
Connecticut Transportation Strategy Board	3
Bradley Airport Board of Directors/Connecticut Airport Authority Board of Directors	3
Connecticut Bicycle and Pedestrian Advisory Board	3
RÉSUMÉ OF OPERATIONS.....	5
Department Receipts	5
Department Expenditures	6
Special Transportation Fund.....	7
Rail and bus operations payments increased during the audited period due to increased costs and various projects on the rail lines.	7
Transportation Grants and Restricted Accounts Fund.....	7
Infrastructure Improvement Fund Expenditures	8
Expenditures in this fund are dependent on the number of active construction and other major projects. Capital Outlays-Equipment varied over the fiscal years due to the timing of payments for rail cars based on production. Capital Outlays – Building Highway & other included the reconstruction of Route 7, CT Transit New Haven Bus Facility and the overhaul of 242 M-2 railcars in fiscal year 2010. Expenditures increased in 2012 due to resurfacing projects, and the construction of the new West Haven Rail Station.	9
Other Funds	9
Grant Anticipation Transportation Fund	9
Public Bus Transportation Revenue Fund.....	9
Bradley International Airport Operations Fund	9
Bradley International Parking Operations Fund.....	10
Local Bridge Revolving Funds.....	10
State Funds Awaiting Distribution Fund.....	10
CONDITION OF RECORDS.....	11
Vehicle and Related Equipment Purchases	11
Purchases recorded in the Asset Management System.....	12
Motor Vehicle Transfers within the Department, Annual Physical Inventory, and Tagging of Equipment.....	13
Expenditure Coding.....	16
Fuel Inventory Variances	17
Gasoline Dispensed in Vehicles by Using the Manual Fuel Key.....	19
Gasoline Dispensed for Equipment Using the Miscellaneous Fuel Key.....	21
Lost Fuel Keys.....	23
Reporting Systems.....	25
Federal Billing Delays for Metro-North Commuter Rail Company	28
Amendments to Metro-North Railroad Agreement.....	29
Financial Reviews of Transit Districts	31
Accountability of Revenue Collection from State Ferries	32
Investigations Concerning Ferry Operations.....	34

Reporting of Supply Inventory on the CO-59 Asset Management/Inventory Report..... 37
Inventory of Supply 38
Compensatory Time 40
Mileage Reimbursement and Insurance Certificates 42
Security Division 42
Telecommunications..... 44
Rail Car Purchases..... 46
Rail Car Assets 48
Software Inventory 49
Billing Discrepancies and Performance Appraisal Process..... 50
Non-Collusion Monitoring 55
State Ethics Law Summary and Affirmation of Receipt 57
Time Extension Approval on Construction Contracts..... 58
Change Order Approvals..... 59
Duplicate Reporting of Infrastructure and Recording of Infrastructure in Core-CT..... 61
Department of Transportation Family Member Employer Disclosure Form 62
Meal Tickets 63
Unspent Federal Funds 64
RECOMMENDATIONS 67
INDEPENDENT AUDITORS' CERTIFICATION 78
CONCLUSION..... 80

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ROBERT J. KANE

April 26, 2017

**AUDITORS' REPORT
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We have examined the financial records of the Department of Transportation for the fiscal years ended June 30, 2011 and 2012. Financial statement presentation and auditing has been done on a Statewide Single Audit basis to include all state agencies. This examination has therefore been limited to assessing the department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the department's internal control policies and procedures established to ensure such compliance. This report on that examination consists of the Comments, Recommendations and Certification that follow.

COMMENTS

FOREWORD

The Department of Transportation (DOT) operates generally under Title 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, and 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 bond indenture, which secures revenue bonds issued to finance major renovations at the airport. Section 15-1011 of the General Statutes originally authorized the issuance of airport revenue bonds, 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, 2012, the total airport revenue bonds outstanding amounted to \$155,800,000.

The Bureau of Public Transportation is responsible for the operation 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 train service between New Haven and New York and 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 of Transportation 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 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 of Transportation.

The Bureau of Policy and Planning provides roadway traffic volumes, accident information, travel forecasting models, intermodal policy planning, and environmental planning services.

Joseph Marie served as Transportation Commissioner until his resignation effective July 30, 2010. Jeffrey A. Parker, appointed July 30, 2010 as Transportation commissioner, served until his resignation, effective February 10, 2011. James P. Redeker was appointed acting commissioner, effective March 1, 2011, then commissioner effective August 26, 2011, and continued to serve through the audited period.

Significant Legislation

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

Public Act 11-84, effective July 1, 2011, established the Connecticut Airport Authority to operate Bradley International Airport and the state's other five airports (Danielson, Groton/New London, Hartford Brainard, Waterbury-Oxford, and Windham). The act established that the Connecticut Airport Authority will be governed by an 11-member board that replaces the Bradley International Board of Directors.

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 which is administered by DOT. The expenditures of the account were \$15,188,134 and \$65,266,657, for fiscal years ended June 30, 2011 and 2012, respectively. The major expenditures were for the M-8 rail cars. As of June 30, 2012, the CTSB Projects account had \$23,641,148 available for expenditures.

Public Act 11-61, effective July 1, 2011, eliminated the Transportation Strategy Board, but retained the CTSB Projects account.

Bradley Airport Board of Directors/Connecticut Airport Authority Board of Directors

The Bradley Airport Board of Directors' function was to advocate for the airport's interests, ensure resources were being fully utilized, and that an appropriate mission statement and goals were in place. Public Act 11-84, effective July 1, 2011, replaced the Bradley Airport Board of Directors with the Connecticut Airport Authority Board of Directors. The Connecticut Airport Authority is a quasi-public agency separate from the Department of Transportation.

Connecticut Bicycle and Pedestrian Advisory Board

Section 13b-13a of the General Statutes created the Connecticut Bicycle and Pedestrian Advisory Board 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 leaders 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. 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. Neil S. Pade was the chairman of the board as of June 30, 3012.

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 assists 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. We note that the board meets regularly and has submitted its annual reports, 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 previously accounted for in the Special Transportation Fund and 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 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 departmental operations.

Department Receipts

The department’s receipts recorded in Core-CT for all funds for the fiscal years ended June 30, 2010, 2011, and 2012, are presented below for comparative purposes.

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund	\$ 5,380	\$ 3,461	\$ 8,499
Special Transportation Fund	18,161,915	17,939,975	19,314,750
Public Bus Transportation Revenue Fund	33,963,951	36,073,959	42,366,000
Transportation Grants and Restricted Accounts Fund	719,386,801	787,960,404	736,763,316
Infrastructure Improvement Fund	(7,680)	0	4,800
Bradley International Airport Operations Fund	41,002,681	39,685,920	42,983,606
Local Bridge Revolving Fund	9,827	9,350	8,860
Connecticut Airport Authority	<u>0</u>	<u>0</u>	<u>275,000</u>
Total Receipts	<u>\$812,522,875</u>	<u>\$881,673,069</u>	<u>\$841,724,831</u>

Increases in the overall receipts during the fiscal year ended June 30, 2011, are attributable to increases in 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 an increase in the 2011 fiscal year, mainly due to the department’s participation in the federal American Resource Recovery Act (ARRA) program. Revenue decreased in the subsequent fiscal year as projects for this program were completed.

Total federal reimbursements are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Federal Highway Administration	\$570,605,106	\$559,458,412	\$543,764,117
Federal Transit Administration	105,748,056	198,320,043	150,314,580
National Highway Traffic Safety Administration	7,858,965	12,232,420	10,910,279
Federal Aviation Administration	23,128,311	12,347,648	14,438,851
Federal Emergency Management Administration	249,724	2,714,555	2,592,841
Federal Railroad Administration	0	0	4,256,568
Other	<u>21,255</u>	<u>0</u>	<u>0</u>
Total federal reimbursements	<u>\$707,611,417</u>	<u>\$785,073,078</u>	<u>\$726,277,236</u>

Federal reimbursements from ARRA participating projects are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Federal Highway Administration	\$ 68,768,331	\$116,062,738	\$ 66,290,029
Federal Transit Administration	15,008,123	90,948,220	31,301,245
Federal Aviation Administration	6,879,568	417,516	0
Federal Railroad Administration	<u>0</u>	<u>0</u>	<u>4,256,568</u>
Total ARRA federal reimbursements	<u>\$ 90,656,022</u>	<u>\$207,428,474</u>	<u>\$101,847,842</u>

Department Expenditures

The department's expenditures recorded in Core-CT for all funds for the fiscal years ended June 30, 2010, 2011, and 2012, are presented below for comparative purposes.

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund	\$ 2,294,500	\$ 0	\$ 0
Special Transportation Fund	488,196,213	532,631,010	551,211,140
Transportation Grants and Restricted Accounts Fund	793,450,992	774,838,011	821,257,530
Public Bus Transportation Revenue Fund	36,902,809	34,247,385	44,802,234
Infrastructure Improvement Fund	353,892,225	374,015,251	406,045,892
Bradley International Airport Operations Fund	39,096,356	41,700,438	40,164,265
Grants to Local Governments and Others	9,000,605	11,926,232	4,002,328
Local Bridge Revolving Funds	4,534,104	1,886,773	34,305
Connecticut Airport Authority	0	0	74,718
All Other Funds	<u>(9,895)</u>	<u>22,832</u>	<u>135,354</u>
Total Expenditures	<u>\$1,727,357,909</u>	<u>\$ 1,771,267,932</u>	<u>\$1,867,727,766</u>

Expenditure fluctuations by fund are described below.

Special Transportation Fund

Expenditures recorded in Core-CT by major types for the Special Transportation Fund for the fiscal year ended June 30, 2010, 2011, and 2012, are presented below for comparative purposes.

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Personal Services	\$ 147,780,033	\$161,349,424	\$140,069,901
Other Expenses	52,231,263	57,338,652	49,129,997
Equipment	866,263	2,854,772	1,256,892
Town Aid Grants	0	0	30,000,000
ADA Para Transit Program	24,862,359	25,523,811	27,674,980
Highway Planning and Research	2,718,280	2,463,061	3,082,750
Highway and Bridge Projects	9,318,638	13,730,027	(577,262)
Highway and Bridge Renewal Equipment	5,484,353	7,197,441	8,780,476
Rail Operations	117,622,332	126,681,216	137,284,937
Bus Operations	124,280,561	132,605,184	131,794,529
Tweed – New Haven Airport Grant	1,425,000	1,500,000	1,500,000
Pay-As-You-Go Transportation Projects	0	0	20,413,055
All Other	1,607,131	1,387,422	800,885
Total Expenditures	<u>\$ 488,196,213</u>	<u>\$ 532,631,010</u>	<u>\$551,211,140</u>

Payments for personal services and subsidies for bus and rail transit were the major expenditures made by the Special Transportation Fund. Personal services expenditure fluctuations were due to salary increases and overtime from fiscal year 2010 to 2011, and a decrease in the number of filled positions from fiscal year 2011 to 2012.

Town aid grants typically are funded with bond authorizations. However, such grants were funded from the Special Transportation Fund for fiscal year 2012.

Rail and bus operations payments increased during the audited period due to increased costs and various projects on the rail lines.

Pay-As-You-Go Transportation projects were funded in the 2012 fiscal year. These projects are non-bondable and include activities such as resurfacing, line striping, bridge inspections and repairs, as well as other projects.

Transportation Grants and Restricted Accounts Fund

Expenditures recorded in Core-CT by major types for the Transportation Grants and Restricted Accounts Fund for the fiscal years ended June 30, 2010, 2011 and 2012, are presented below for comparative purposes:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Highway Construction – Federal Share	\$ 611,749,313	\$ 526,731,418	\$ 531,938,872
Highway Safety – Federal Share	10,072,276	11,361,984	11,314,847
Transit Assistance – Federal Share	149,662,497	191,834,375	177,410,412
Airport Improvement – Federal Share	12,811,330	16,281,766	12,691,396
Bradley International Airport	1,168,516	1,403,225	1,195,387
Claim Settlements	425,712	75,692	820,417
Transportation Strategy Board Projects	(563,006)	15,188,134	65,266,657
Amtrak Pass-through Funds	191,381	991	0
Overhaul of M-2 Railcars	908,255	347,201	165,892
High Speed Rail – Federal Share	0	0	3,305,652
All Other	<u>7,024,719</u>	<u>11,613,226</u>	<u>17,147,999</u>
Total Expenditures	<u>\$ 793,450,993</u>	<u>\$ 774,838,012</u>	<u>\$ 821,257,531</u>

Payments for highway construction and transit assistance were the major expenditures of the Transportation Grants and Restricted Accounts Fund. Federal expenditures vary based on amounts awarded by the federal government and vary during the project period for each project based on the length and circumstances of that particular project. Highway Construction expenditures decreased by \$85,017,895 from the 2010 fiscal year to the 2011 fiscal year because of the declining expenditures for two significant highway projects. Transit Assistance –Federal share expenditures increased by \$42,171,878 from the 2010 to the 2011 fiscal year. While there were increased expenditures for ARRA projects, there were also increased expenditures in the 2011 fiscal year for construction work at the New Haven and East Bridgeport Railyards. Expenditures for the Transportation Strategy Board Projects account consisted mainly of payments to Metro-North for the M-8 railcars.

Infrastructure Improvement Fund Expenditures

Expenditures recorded in Core-CT by major types for the Infrastructure Improvement Fund for the fiscal year ended June 30, 2010, 2011 and 2012, are presented below for comparative purposes:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Salary and Wages	\$ 23,321,959	\$ 20,318,615	\$ 27,890,565
Employee Benefits	14,107,629	13,755,059	18,092,448
Employee Allowances, Fees and Mileage	592,261	623,302	1,043,024
Purchased and Contracted Services	82,535,578	81,419,918	94,548,674
Other Expenses	3,676,200	3,825,799	4,450,580
Fixed Charges	23,516,101	22,797,618	341,306
Capital Outlays – Land and other costs	6,658,344	4,550,303	8,094,350
Capital Outlays – Equipment	18,898,392	68,891,994	43,670,273
Capital Outlays – Building/Highways & other	<u>180,585,761</u>	<u>157,832,643</u>	<u>207,914,673</u>
Total Expenditures	<u>\$ 353,892,225</u>	<u>\$ 374,015,251</u>	<u>\$406,045,893</u>

Expenditures in this fund are dependent on the number of active construction and other major projects. Capital Outlays-Equipment varied over the fiscal years due to the timing of payments for rail cars based on production. Capital Outlays – Building Highway & other included the reconstruction of Route 7, CT Transit New Haven Bus Facility and the overhaul of 242 M-2 railcars in fiscal year 2010. Expenditures increased in 2012 due to resurfacing projects, and the construction of the new West Haven Rail Station.

Other Funds

Grant Anticipation Transportation Fund

Section 13b-79r of the General Statutes established the Grant Anticipation Transportation Fund. That section also authorizes the issuance of \$1,300,000 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, and no bond issues were made under this authority during the audited period.

Public Bus Transportation Revenue Fund

Receipts for bus fares from Connecticut Transit and several private operators, and parking revenues from the Stamford, Bridgeport and Fairfield 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 for 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 \$29,770,504 and \$33,280,163 for the fiscal years ended June 30, 2011 and 2012, respectively. Expenditures of the Public Bus Transportation Revenue Fund for Connecticut Transit operations were \$28,375,000 and \$35,671,220 for those same fiscal years, respectively.

Parking revenues from the Stamford, Bridgeport, and Fairfield parking facilities per Core-CT totaled \$4,999,100 and \$5,719,309, for the fiscal years ended June 30, 2011 and 2012, respectively. Parking revenue increased in the 2012 fiscal year because of the opening of the Fairfield parking facility in December 2011. Parking revenues are used to pay property management expenses for the Stamford and Bridgeport rail facilities and to fund minor capital projects along the rail line. Property management expenses were \$4,891,387 and \$5,066,287 for the fiscal years ended June 30, 2011 and 2012, respectively. As of June 30, 2012, the available parking revenue balance was \$5,218,429.

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. Fund revenues recorded in Core-CT totaled \$39,685,920 and \$42,983,606 for the fiscal years ended June 30, 2011 and 2012, respectively. Expenditures from the fund for airport

operations, primarily for the cost of personal services, fringe benefits, and contractual services were \$41,700,438 and \$40,164,265 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. Fund revenues are held by a trustee and are used for operating and maintenance expenses and to repay bonds issued to fund the construction of the parking garage 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 \$524 and \$73, revenues from loan repayments and loan interest of \$9,349 and \$223,365 and expenditures for grants and loans of \$1,886,773 and \$34,305 for the fiscal years ended June 30, 2011 and 2012, respectively. As of June 30, 2012, the Bond Financed Fund had a total of \$1,352,926 available for expenditures.

Activities of the Revenue Financed Fund during the audited fiscal years consisted of investment interest totaling \$790 and \$1,670 for the fiscal years ended June 30, 2011 and 2012, respectively. There were no expenditures for grants during our audited period.

State Funds Awaiting Distribution Fund

Receipts credited to the department's account in the State Funds Awaiting Distribution Fund totaled \$8,468,644 and \$9,980,581 for the fiscal years ended June 30, 2011 and 2012, respectively. Disbursements and transfers from the department's account in the fund were \$8,237,917 and \$10,547,774 for the same fiscal years, respectively.

CONDITION OF RECORDS

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

Vehicle and Related Equipment Purchases

Background: The Department of Transportation purchased truck chassis from one vendor and the dump body and attachments or “allied equipment” (plows, spreaders, etc.) from a different vendor during the audited period.

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

The department provides payment based on invoices received. Invoices should be supported by contract specifications.

Condition: We reviewed ten payments for the purchase of large equipment and vehicles on various dates from various vendors listed on the DAS contracts. Our review disclosed the following:

- Six of the invoices sampled did not have sufficient documentation detailing the MSRP for either the base cost or options ordered. The invoices did not provide detailed information related to individual costs. We were subsequently provided with vendor quotes to support the MSRP and the discounts provided. However, this information was not incorporated into the DAS contract.
- We were unable to verify the actual prices noted on the invoice against the contract for four of the invoices sampled. Although the invoices were itemized, the options or accessories purchased were shown at a discounted rate based on the MSRP. Three of the four invoices were supported by vendor quotes. The MSRP was not outlined in the contract, thus could not be adequately verified.

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

- Cause:* The vendors did not provide MSRP for options on the invoice. DAS contracts did not provide detailed information concerning the pricing of vehicle equipment options.
- Recommendation:* The Department of Transportation should ensure that detailed documentation concerning pricing be incorporated into Department of Administrative Services contracts to ensure the discounts are taken based on the manufacturer's suggested retail price. Vendor invoices and purchase orders should include all necessary information to detail the products purchased along with relevant pricing and discounts applied. (See Recommendation 1).
- Agency Response:* "The Department agrees with the finding and is currently making sure that all detailed documentation on pricing is gathered and maintained for purchases on contracts that have been awarded with percentage off MSRP options, from fiscal year 2013 to current. Trucks built within the past contracts are custom configurations built to meet the requirements of Severe Service Snow and Ice control. The custom nature of equipment does not conform to MSRP pricing structure and creates difficulty in verifying actual price. The current contracts used to manufacture snow plow trucks expired in November 2014 and the new specifications/contracts have been revised to be all inclusive: chassis, body and plow all on one contract. The new specifications also include specific line item pricing for allied equipment options and configurations that may be added to the plow trucks. Contracts being all inclusive, as well as requiring line item pricing for any options, will eliminate pricing questions for the future."

Purchases recorded in the Asset Management System

- Criteria:* Contract 11PSX0164 allows for the purchase of 14-foot Proline Dump Bodies (a dump body is mounted to the chassis of a dump truck). A contract option allows DOT to purchase "allied equipment," including dump bodies and plows at "percentage off manufacturer's list price options for all allied equipment supplied". In addition, the "invoices and payments" section of Exhibit A states in part that invoices should include the following: itemized description of the services and/or material supplied, adjustments if applicable, and quantity unit of measure, unit prices, and extended amount.

DOT provides payment based on invoices received and records the equipment purchased in Core-CT. The equipment purchased

should be properly recorded in the Core-CT Asset Management System.

Condition: We found the value of 22 dump bodies were not accurately reflected in the Core-CT Asset Management System. The department purchased 10-foot dump bodies rather than the 14-foot bodies indicated in the contract. The invoices did not accurately reflect a price difference between the price noted in the contract for a 14-foot dump body and the actual 10-foot dump body purchased. DOT entered the value of 14-foot bodies into the Asset Management System. We calculated that the value was overstated by \$2,800 for each dump body or \$39,200. Each plow purchased was understated by \$2,800, or \$39,200 in total, since the discount was deducted from the plow rather than the dump body. Dump bodies and plows are recorded separately in the Asset Management System since they are considered interchangeable parts.

In addition, a credit of \$1,000 was received due to a change in the type of controller purchased for the dump body. This would bring the total overstatement to \$3,800 per dump body.

Effect: The Asset Management System does not accurately reflect the value of the dump bodies or plows.

Cause: The purchase orders and invoices did not accurately reflect the prices paid for each item. The credit was applied to a subsequent purchase order. Necessary information was not forwarded to the Asset Management Division in order to make an adjustment.

Recommendation: The Department of Transportation should make adjustments to the Asset Management System to accurately reflect the pricing for the dump bodies and related equipment. Purchase orders and invoices should be itemized to indicate the items purchased and the actual prices of each item. (See Recommendation 2).

Agency Response: “The department agrees with the finding. The cost adjustments have been made to the 22 snow plow trucks and wing plows in the Asset Management System.”

Motor Vehicle Transfers within the Department, Annual Physical Inventory, and Tagging of Equipment

Criteria: Section 4-36 of the General Statutes requires that all state agencies conduct an annual physical inventory of all property, real and personal, owned by or in the custody of that agency.

The DOT Purchasing and Material Management Unit issues instructions for annual physical inventories at various locations in a memorandum. These instructions state that the “purpose of a physical inventory is to insure that the department’s property control records accurately reflect the actual status and location of all state-owned property.” The instructions also state that the person performing the inventory should confirm the existence of an asset at the site by writing either a Y (yes) or N (no) in the column next to the asset description field, along with their initials, for each asset record. Equipment that is missing or unaccounted for must be listed on Form M. Each location that performs a physical inventory is required to submit a Certificate of Completion Form to show that the inventory was taken by the authorized employee, the office supervisor/manager has reviewed and validated the inventory, all forms are accurate and complete and that the bureau chief approves the results for processing.

The *State Property Control Manual* establishes policies and procedures for the proper recording, maintenance, and control of assets. It also states that the main purpose of tagging an asset is to control the location of all physical assets. Tags should be placed in an area where the number can be seen easily.

The *State 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 seeking authorization for the transfer of the property. The manual states that property should not be transferred without formal written authorization. DOT procedures require that the Asset Management/Inventory Control Unit be provided immediately with the proper inventory documentation using the Department Form PRO-67 whenever there is a motor vehicle transfer.

Condition:

We performed site inspections at four of the 65 maintenance and/or repair garages and conducted an inventory review between April 23, 2014 and April 29, 2014. We found that physical inventories had been conducted at the garages from April 7, 2014 through April 9, 2014. We selected 147 registered vehicles and 40 other assets from the Asset Management System to verify their existence.

We found that 33 of the registered vehicles were not at their assigned location. We were provided with documentation supporting the transfer of 16 vehicles to another location. It appears that the Asset Management Unit had not yet entered these

transfers into Core-CT. We had exceptions for the other 17 vehicles. We found that seven of the vehicles had been transferred to another location without a PRO-67 form on file with the Asset Management Unit. We found that some of the PRO-67 forms were forwarded after the annual inventory was conducted in April 2014, even though the vehicle had been transferred out of that location for several months. For the other ten vehicles, we found that the vehicles were either being repaired or sent to surplus. Upon further review for these ten vehicles, we found that the physical inventories at the four garages had not been properly conducted. The inventory designee had checked off these items as seen when we found documentation or were informed by department personnel that the items were transferred prior to the inventory designee taking a physical inventory. Some of the vehicles were noted on the Vehicle & Equipment Operator's Daily Inspection forms as sent to repair in order to track the location of the vehicle. However, this is not an official DOT procedure.

We also found two vehicles at these facilities (not in our sample) that were recorded in the Asset Management System as being at another location.

We were unable to locate eleven of the 40 other assets. All 11 items had been recorded as having been inspected by the inventory designee. For 6 of the 11 assets, the inventory designee checked that the item was seen when we found documentation to support that the items could not have been at the garage at the time of inventory. The other 5 items were checked as seen but were not at that garage when we performed our inventory.

We also found an exception regarding the tagging of mobile radios. We were unable to observe the tags for all the mobile radios in the trucks because the tags were placed in an area where the numbers are not visible. Radios were locked in a metal case and the keys for the case were maintained at the Radio Lab, because the lab is responsible for the placement of mobile radios in vehicles. We found that the listing maintained by the Radio Lab was not updated and did not match the list in Core-CT.

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.

DOT does not have assurance that its inventory records reflect the actual status and location of its property. Inventories conducted by the department cannot be relied on if employees are marking items

as inspected when, in fact, the employees did not see the items. DOT equipment could be missing without the department being aware of it.

Cause: DOT is not following proper procedures when transferring equipment.

It appears that the inventory designee did not confirm the existence of all assets at the location where the inventory was taken. Supervisors and managers may not have reviewed work properly.

The department does not have a formal document to track a vehicle that has been transferred for repair.

Paperwork had been completed for the two vehicles sent to surplus a month or two prior to our testing. The vehicles were not removed from the Asset Management System, as the Asset Management Unit has a backlog of paperwork to process.

Recommendation: The Department of Transportation should take measures to ensure that its asset inventory records are accurate. It should reinforce its policies regarding equipment transfers to ensure that all employees are aware they should immediately notify the Asset Management/Inventory Control Unit whenever any equipment is transferred to another location. The department should develop a form to show that a vehicle is at a different location because it is being repaired. The department should ensure that inventory designees are performing physical inventories in accordance with the department's instructions and that the supervision of that inventory is validated. (See Recommendation 3).

Agency Response: "The department agrees with the finding. Equipment Repair has issued a procedure memorandum REP-14-06 Revised Equipment Surplus Procedures (Repair Holding Units), reinforcing the need to promptly submit PRO-67 Notice of Equipment Transfer to Asset Management. Asset Management has transfer procedures listed on the department's intranet and on the annual physical inventory procedure memorandum."

Expenditure Coding

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

- Condition:* During the audit of asset purchases, we found that four of 25 transactions tested (16%) totaling \$11,338, were coded to incorrect asset accounts. These expenditures were for a state match to a federal grant, purchase of a tractor warranty, rental of tree crew services, and a lamp that should have been expensed.
- Subsequent audits of the state’s Comprehensive Annual Financial Report (CAFR) have revealed numerous errors in expenditure coding.
- Effect:* The accounting system does not accurately present the actual expenditures for these accounts. Capital assets are overvalued.
- Cause:* The errors were caused by incorrect information entered into Core-CT by DOT employees when purchase orders were entered. We could not determine whether the employees were knowledgeable of proper coding requirements.
- Recommendation:* The Department of Transportation should code expenditures in accordance with the State Comptroller’s Accounting Manual. (See Recommendation 4).
- Agency Response:* “The department agrees with this finding. To assist department buyers in making proper account code choices for transactions, the Office of Finance will be sending all buyers’ links to the State Accounting Manual found on the Office of the Comptroller’s website, and additional coding information found on the department’s Intranet Core-CT support page. Buyers will be reminded to utilize these areas when determining the coding for transactions and encouraged to contact their financial budget staff for direction if they are unsure of the proper coding to use.”

Fuel Inventory Variances

- Background:* DOT operates 68 fuel stations for use by state vehicles throughout the state. When fuel is delivered to one of the fuel stations, the station attendant phones the Fuel Control Unit to inform it of the delivery and the amount of gallons delivered. The Fuel Control Unit then enters this information into the Fuelmaster® system. The station attendant will then record the delivery on the weekly GAS-19 report on the day of the delivery.

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.

Section 4-33a of the General Statutes requires state agencies to promptly report unauthorized, illegal, irregular or unsafe handling of state funds or the breakdown in the safekeeping or any other resources of the state.

Condition: The DOT fuel inventory is maintained on a perpetual basis using the automated Fuelmaster® system. Periodic manual fuel readings are performed by 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 station attendants. This report also summarizes any variances. The comparison report includes all of the department's fuel stations. 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. We found the inventory comparison report has not been completed since February 2011 and for the remainder of the audit period.

Our review of selected inventory comparison reports disclosed two instances of fuel purchases of 4,300 and 1,235 gallons that were not entered into the Fuelmaster® system. Both deliveries of fuel were reported on the weekly GAS-19 report.

Effect: Errors, losses, or misuse of fuel supplies could go undetected. The Fuelmaster® system did not accurately reflect the inventory of fuel.

Cause: DOT informed us that inventory comparison reports are no longer being completed due to lack of staff.

The department informed us that the 4,300-gallon delivery was not entered due to operator error. We were informed that the fuel station that received the 1,235 gallons received it from a vendor who does not normally deliver to that gas station. The order was not called in from the station so it was not posted in Fuelmaster®. We were informed that this delivery was received in error, but the department did issue a purchase order after delivery of the fuel in order to pay for it.

Recommendation: The Department of Transportation should prepare inventory comparison reports and investigate all large variances as well as a sample of smaller variances to ascertain whether the differences between the inventory comparison report and the Fuelmaster® system are only errors. If differences cannot be explained, then the department should report the difference as a loss in accordance with Section 4-33a of the General Statutes. (See Recommendation 5).

Agency Response: “The department agrees with the finding. There was a period of time that Fuel Control was awaiting a response from the department’s Internal Audits on the percentage of allowable variance that would require justification. The Finance & Administration Bureau Chief approved a six percent variance on November 15, 2012, and the Fuel Inventory and Usage Comparison Reports was revised and prepared for implementation. Staffing issues had initially delayed the re-implementation of this report; however, this process will be implemented this fiscal year.”

Gasoline Dispensed in Vehicles by Using the Manual Fuel Key

Background: A fuel key (Prokee) is assigned to each state vehicle and is used to activate the gas pumps. There are instances in which a state vehicle operator does not have the fuel key on hand when fueling the vehicle. The department has a supervisor key that can be used to fuel that vehicle. The Fuelmaster® system identifies transactions using the supervisor key as manual transactions.

Criteria: Fuel keys are assigned to each state vehicle and should be located in the vehicle so that any operator may obtain gasoline for that vehicle. DOT policy states that when a supervisor key is used, a maximum of five gallons of fuel may be pumped. In some cases, the Fuel Control Unit may approve a higher quantity based on the size of the vehicle and the operator’s length of travel.

A Manual Fuel Transaction Slip is required to be completed by the station attendant for each manual fuel key transaction noting the vehicle’s license plate number, agency number, and number of gallons dispensed.

Condition: We obtained a Fuelmaster® transaction listing of all transactions in which a supervisor key was used to dispense fuel for the period of July 1, 2010 to April 25, 2013. There were 482 transactions the Fuelmaster® system identified as manual transactions with a corresponding 6,869 gallons of gasoline dispensed. These

transactions included DOT and other state agency gasoline stations. Our review disclosed the following:

For the audit period of July 1, 2010 to June 30, 2012:

- 229 out of 304 transactions were over the five-gallon limit, totaling 4,207 gallons of fuel.
- Out of the 229 transactions, 112 were not identified by a license plate number. The total amount of fuel dispensed over the five-gallon limit to these vehicles was 2,645 gallons. In addition, 127 total gallons of 5 gallons or less were dispensed to these vehicles.

For July 1, 2012 through April 25, 2013:

- 119 out of 178 transactions were over the five-gallon limit, totaling 2,352 gallons of fuel.
- Out of the 119 transactions, 51 were not identified by a license plate number. The total amount of fuel dispensed over the five-gallon limit to these vehicles was 1,287 gallons. In addition, 54 total gallons of 5 gallons or less were dispensed to these vehicles.

We noted on the Fuelmaster® transaction listing that 118 of the unidentified vehicles had odometer readings of 5,000 miles, which is highly unusual. We also noted other transactions with no odometer readings or with readings of 500 miles or 50,000 miles that do not appear to be accurate.

Effect: There is heavy usage of the supervisor's key despite the guideline that all state vehicles should have a Prokee assigned to them. If a vehicle is not identified in the transaction, it cannot be determined whether a state vehicle received the fuel. Additionally, if the fuel was received by another state agency, the department cannot properly bill the other agency for fuel usage.

Cause: Internal controls for manual fuel key transactions appear to be flawed. It appears that fuel keys are not maintained in state vehicles. Procedures requiring the station attendant to fill out a Manual Fuel Transaction Slip are not being enforced.

Recommendation: The Department of Transportation should inform all state agencies that use its fuel stations that, before an employee uses a state vehicle, they must confirm that a fuel key is in the vehicle so fuel

can be obtained according to standard procedure. The department should enforce its procedures regarding Manual Fuel Transaction Slips, specifically that the forms be completed in full and signed by the attendant as well as the employee receiving the fuel to ensure that these transactions are for official state business. (See Recommendation 6).

Agency Response: “The department agrees with the finding. Unidentified transactions occurring during the period from 8/29/11 to 9/2/11 (Hurricane Irene- Executive Order No. 6 dated 8/27/11) and 10/29/11 to 11/5/11 (Storm Alfred-Declaration of Civil Preparedness Emergency dated 10/29/11) were the Agency’s response to emergency operations and DOT allowed the fueling of municipal emergency vehicles to meet safety demands. The department will issue a Fuel Control Memorandum to all state agencies requiring employees that use DOT owned and operated fueling facilities to confirm that the fuel key is in the vehicle if fuel is necessary. The department will revise the Manual Fuel Transaction Form to include a signature line and re-issue Fuel Control Memorandum #081 (Item #2) directing station attendants to obtain the customer’s signature on the Manual Fuel Transaction Form and reiterate the importance of immediately forwarding the slips to Fuel Control. The department is planning a FuelMaster® upgrade which will replace the current satellite units with an alpha-numeric keyboard, allowing the station attendant to enter the vehicle-id into the unit for upgrading directly into the FuelMaster® database.

Auditors’ Concluding Comments:

The transactions during Hurricane Irene only occurred at one fuel station. During such emergencies, the department should document which municipality received the fuel due to the high quantity for each fill up.

Gasoline Dispensed for Equipment Using the Miscellaneous Fuel Key

Background: DOT has miscellaneous fuel keys, which are only used to fuel small equipment. Miscellaneous fuel keys are assigned to a unit or crew, rather than a piece of equipment. The department’s memorandum dated April 15, 2009, called for the recall of all miscellaneous fuel keys so that they could be reprogrammed to only dispense five gallons of gasoline at a time for small equipment.

- Criteria:* DOT policy for miscellaneous fuel key usage requires that each transaction be reported to the Fuel Key Log each time the key is used. Monthly Fuelmaster® reports of the miscellaneous fuel keys are to be reviewed by the Fuel Control Unit to ensure that miscellaneous fuel keys are being properly used. Questionable quantities are to be reviewed by the Fuel Control Unit.
- Condition:* During our review of miscellaneous fuel transactions for the months of October 2010, April 2011, and January 2012, we found 583 transactions that the Fuelmaster® system identified as miscellaneous fuel transactions, dispensing a total of approximately 2,000 gallons of gasoline. We noted that 136 of those transactions (23 percent) exceeded the 5-gallon maximum. Furthermore, we noted that those 136 transactions totaled approximately 715 of the 2,000 gallons dispensed as miscellaneous transactions. We also noted 7 instances of what appear to be excessive use of the miscellaneous fuel key. We consider excessive use to be five or more transactions in a row. The department could not locate documentation of their review of the miscellaneous fuel key usage for the three months selected for testing. We were unable to confirm whether the department is reviewing monthly Fuelmaster® reports of questionable quantities.
- Effect:* The department is not complying with its own policy of dispensing five gallons of fuel at a time. It appears that employees may be circumventing the five-gallon rule by dispensing multiple five-gallon transactions in a row.
- Cause:* It appears that the miscellaneous fuel keys may not have been reprogrammed to only allow 5 gallons to be dispensed at a time. It appears that the department may not have been reviewing monthly Fuelmaster® reports.
- Recommendation:* The Department of Transportation should ensure that all of the miscellaneous fuel keys are reprogrammed to only dispense five gallons of gasoline per transaction. The department should retain and have available for audit, its review of miscellaneous fuel key transactions. (See Recommendation 7).
- Agency Response:* “The department agrees with the finding. Department assigned Miscellaneous Fuel Keys are limited to only dispense five gallons of gasoline at a time; however, Other State Agency (OSA) assigned Miscellaneous Fuel Keys are not limited to only dispense five gallons of gasoline at a time. The department does not establish OSA business practices and OSA reimburses the department for all of their fuel usage.

From April 20, 2009 to May 4, 2009, all department Miscellaneous Fuel Keys were reprogrammed to a limit of five gallons and, subsequent to that time, all department miscellaneous fuel keys continued to be programmed for a maximum of five gallons. Fuel key usage may show five gallons and a decimal amount (0.14, 0.19, etc.) which occurs when the dispensers close down at five gallons and there may be some fuel in the line, which then goes through the hoses and registers through the pulsars.

On February 25, 2009, the Miscellaneous Fuel Key Usage Log was put into effect, documenting all Miscellaneous Fuel Key transactions. Each month Miscellaneous Fuel Key usage for the department is reviewed by Fuel Control. Each unit maintains the log and any discrepancies on the monthly report require the station to produce the log for review. There will be multiple or consecutive transactions for five gallons or less, which represents the fueling of multiple five gallon gas cans used to fuel small miscellaneous equipment utilized for maintenance operations such as chainsaws, weed whackers, leaf blowers, snow blowers, lawn mowers, generators, etc.

Since June 2013, office procedures have been revised requiring the reports to be completed and checked by the Fuel Control Supervisor to insure they are being retained. Miscellaneous fuel key reports during the audit period were not available for review. This is due to the inappropriate disposal of miscellaneous fuel key reports during the audit period by a former employee who was separated from state service in November 2014.

Effective July 1, 2015, Fuel Control will revise the review period from monthly to bi-weekly. Fuel Control will also revise the Miscellaneous Fuel Key Usage Log to include the printed name of the employee using the miscellaneous key.”

Lost Fuel Keys

Background:

If a fuel key is lost, the individual responsible for the fuel key is required to complete a DOT Fuel Key Request Form for a replacement and return the form to the Fuel Control Unit. The Fuel Control Unit will then cancel the lost fuel key and issue a new one.

Criteria:

A properly designed and implemented internal control system should include policies and procedures for properly securing the

fuel key and requiring the individual possessing the fuel key to be responsible for such key. Fuel Key Request Forms should be signed properly by the person receiving the new fuel key documenting that the fuel key was received.

Condition: DOT does not have a policy in place instructing individuals to keep the fuel key in their vehicles at all times.

In our review of lost fuel keys, we noted that of the 15 lost fuel keys, six (40 percent) of the Fuel Key Request Forms were not signed by the individual receiving the new fuel key.

We were unable to determine whether the lost fuel key was cancelled, as the fuel keys are assigned by vehicle and not by internal serial number. Fuelmaster® does not provide reports by the fuel key serial number as opposed to the vehicle identification number.

Effect: Individual fuel key users are not held accountable for the loss of fuel keys. Internal controls are weakened when it cannot be determined whether fuel keys are cancelled in a timely manner to prevent loss. Internal controls are also weakened when the Fuel Key Request Form is not signed by the individual receiving the new fuel key.

Cause: The department does not have adequate policies in place for lost fuel keys.

Recommendation: The Department of Transportation should establish a policy instructing individuals on how to properly safeguard their fuel key. The department should ensure that the individual picking up a replacement fuel key signs the Fuel Key Request Form. The department should also request that Fuelmaster® develop a report that can be run by fuel key serial number. (See Recommendation 8).

Agency Response: “The department partially agrees with the findings.

The department will release a Fuel Control Memorandum recommending that Fuel Prokees remain with the vehicle ignition key/fob and kept in a secure location.

The department disagrees with requiring a recipient’s signature on the Fuel Key Request Form. Prokee picked up by OSA’s are signed for by the employee picking up the key. Fuel keys that are mailed do not require a signature. Requiring the recipient to sign

the Key Request Form and return it to Fuel Control will only add another administrative function that may outweigh the proposed benefit.

The department disagrees with the finding of requiring Fuelmaster® to develop a report to run by prokee serial number. The department does not see the benefit in requesting this additional expense. When issuing a replacement Prokee, FuelMaster® requires that the original Prokees be de-authorized. FuelMaster® does not allow for duplicate vehicle assignment. Therefore, Fuel Control does not utilize the Prokees serial number for any operational, administrative or tracking purposes. The serial number is an internal programming requirement for the FuelMaster® Automated System to assign Prokees.”

Auditors’ Concluding Comments:

We found insufficient controls in FuelMaster® in our finding on manual fuel transactions for unidentified vehicles. Fuel transactions occurred without showing the vehicle number, and mileage on the vehicle was not always entered or mileage was frequently entered as 5000. The department relies on manual slips for information that cannot be entered in FuelMaster®. The slips have not always been accounted for or completed.

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 projects administered by the department.

Criteria:

Section 13b-77a of the General Statutes requires that the “Commissioner of Transportation shall prepare a report regarding the special tax obligation bonds authorized for purposes of section 2 and 8 of public act 05-4 of the June special session...Such report shall include (1) information on any cost overruns in all transportation projects financed with special tax obligation bonds in the 5 years preceding the date of such report, and (2) an accounting of the unallocated balances remaining on all special tax

obligation bonds authorized for transportation purposes.” This report is required to be submitted annually.

Section 13b-78 of the General Statutes requires an annual report on “(1) the status, including the financial status of the New Haven Line Revitalization program...(2) the capital needs of the passenger rail service in the state, and (3) the status, including the financial status, of the projects specified in section 13b-78l of the General Statutes.”

Section 13b-79 of the General Statutes requires that the Commissioner of Transportation “update the ten-year plan for bridge repair and road surfacing annually.”

Section 13b-79a of the General Statutes requires that the Commissioner of Transportation prepare an annual report on the “current status and progress of the transportation infrastructure program authorized pursuant to” various special acts and general statute sections. “Each report shall include, but not be limited to: Information on the number of lane miles of state and local roadway repaved, the status of the state and local bridge program, the status of intrastate and interstate highway programs and the interstate trade-in program and mass transportation and aeronautics programs.”

Section 13b-79p, subsection (b)(1) of the General Statute required that by no later than September 30, 2008, the “first phase of the 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” be submitted.

Section 13b-276(b) of the General Statutes requires that the Commissioner of Transportation submit a report every three years beginning with a report on October 1, 2009, to include the following: “(1) list all the at-grade rail crossings in the state, (2) identify such crossings that create a hazardous situation, (3) provide a budget and identify funding sources...for upgrading or eliminating such hazardous crossings, (4) prioritize the upgrades or eliminations that are recommended in such report, and (5) for reports submitted pursuant to this subsection after the initial report, describe the progress to date in upgrading or eliminating hazardous at-grade crossings.”

Public Act 06-136, section 24 required a special report on transportation and mobility needs of residents and businesses in eastern Connecticut no later than January 1, 2008.

Public Act 06-136, section 25 required an assessment plan for the implementation of commuter rail service between New London and Worcester, Massachusetts no later than January 1, 2008.

Public Act 07-7, Section 95(g) of the June Special Session required the Noise Reduction Open Graded Friction Course Pilot Program no later than January 1, 2011.

Condition: Although DOT has a centralized monitoring procedure, the following reports were not submitted:

- Section 13b-77a of the General Statutes report;
- Section 13b-78 of the General Statutes report;
- Section 13b-79 of the General Statutes report;
- Section 13b-79a of the General Statutes report;
- Section 13b-79p subsection (b)(1) of the General Statutes report;
- Section 13b-276(b) of the General Statutes report;
- Public Act 06-136, section 24 and 25 reports; and
- Public Act 07-7, Section 95(g) of the June Special session report.

Effect: The lack of these mandated reports diminishes executive and legislative oversight.

Cause: DOT informed us that certain reports were not prepared because the reports were obsolete and duplicative with the department's annual update of the Five-year Capital Plan and Performance Measures. We were also informed that some of the reports were not prepared due to a lack of funding.

Recommendation: The Department of Transportation should submit all reports mandated by the General Statutes or legislative acts as required. If the department believes the reports do not need to be prepared, it should request that the statute or legislative act be repealed. Department staff monitoring report due dates should notify the required recipients, on or before the due dates, of any reports that cannot be completed because of a lack of funding. (See Recommendation 9).

Agency Response: "The Department agrees with the finding and will establish procedures to help ensure the required reports are prepared on or before the required due dates, or pursue legislative changes where required."

Federal Billing Delays for Metro-North Commuter Rail Company

- Background:* Since the Amended and Restated Service Agreement (ARSA) in 1985 between Metro North Commuter Railroad Company (Metro North) and the State of Connecticut, Metro North performs most of the work on the various projects related to the infrastructure of the New Haven Line, New Canaan Branch, Waterbury Branch, and Danbury Branch. To maintain an adequate cash flow for personnel, equipment, materials, and other items, DOT advances funding monthly to Metro North to cover projected expenditures for the coming month, in addition to shortfalls in funding from the current and prior months. Metro North submits monthly invoices to the department as work is completed. These invoices are applied against prior advances. Many of the projects are federally-participating, meaning that the department submits a bill to the Federal Transit Administration for reimbursement of participating project expenditures. This type of billing is based on actual expenditures because the Federal Transit Administration will not reimburse the department for advances of state funds. To request federal reimbursement, DOT prepares a spreadsheet journal adjustment (SSJ) after it reviews and approves Metro North invoices.
- Criteria:* Contractual terms between Metro North and DOT should specify the timeframe for Metro North to submit invoices to the department for capital projects. Good business practice requires the department to review such invoices in a timely manner to minimize the time between when state funds are provided to Metro North and when the state receives federal reimbursement for those expenditures.
- Condition:* We reviewed 17 SSJs, representing seven projects. The total of the adjustments we reviewed was \$27,046,903. Of these 17 adjustments billed to the Federal Transit Administration, 13 were billed five or more months after the Metro North invoice date. Of these 13, one was billed 13 months after the invoice date because of an omission in transmitting data required for the preparation of the SSJ. Another was billed nine to 13 months after the invoice date because of a delay in switching the expenditure from one federal grant to another.
- Effect:* The total for the Metro North invoices included in these 13 project/SSJ combinations was \$24,172,259; the federal share of the expenditures was \$19,337,807. The department delayed its receipt of \$19,337,807 from the federal government for a period of five to 13 months.

Cause: We did not find in the current contract between Metro North and the department any provision regarding the time frame for which Metro North should submit invoices for capital projects.

Various factors also contributed to the billing delays. Metro North does not always forward its invoices to the department promptly. The invoice review by project personnel can be rather time-consuming and complex. As we have observed, clerical error also contributes to delays in billing.

Recommendation: The Department of Transportation should contract with Metro North Commuter Railroad Company on billing requirements for capital projects to facilitate the processing of reimbursements. The department should evaluate its process of reviewing the invoices and attempt to reduce the time between when the department expends state funds and the receipt of federal funds. (See Recommendation 10).

Agency Response: “The department agrees that there were delays in billing Metro North. With respect to the billings which had the longest billing delays, the Federal Billing Unit reviewed their existing SSJ process and has implemented new procedures to ensure that all SSJs having a billing impact are not only posted to the general ledger, but generate a billing line on the accumulating invoice. Subsequent to this finding, Federal Billing has been more diligent in identifying unbilled transactions, which will also improve the timeliness of billing or the prompt correction of coding errors.

Also, part of the delay was caused by processing of SSJs to refinance/bill costs among different SIDs on the project. Going forward, the department has implemented new activities to correspond to the multiple SIDs that are used with FTA in Core-CT which will alleviate the problem as all authorized SIDs will be actively billed rather than just one combination.”

Amendments to Metro-North Railroad Agreement

Background: DOT provides payments from budgeted appropriations within the Special Transportation Fund to Metro-North Railroad for the operation of the New Haven Line. Subsidy payments from the Special Transportation Fund totaled \$91,663,431 and \$85,440,119 for fiscal years 2011 and 2012, respectively.

- Criteria:* An adequate contract management system includes contracts and all the changes made to those contracts.
- The Amended and Restated Agreement (ARSA) between DOT and Metro-North Railroad sets forth the responsibilities regarding the operations of the New Haven Rail Line. Article 13, section 7 of this agreement states that the parties “have the right from time to time to enter into contract amendment letters and contract administration letters by mutual agreement as the need arises to ensure the smooth operation of the service.”
- Condition:* We requested copies of contract amendment and administration letters as defined in Article 13, section 7 of the Metro-North contract. The department was unable to provide us with all amendment letters since the original agreement. It appears that letters may be missing for the following periods: May 2001 to October 2004, December 2004 to March 2005, May 2005 to August 2008, and October 2008 to the present.
- Effect:* The department does not have a complete historical record of all changes made to the original ARSA. The department may fail to comply with the agreement or fail to identify non-compliance by Metro-North Railroad without having full knowledge of the content of the letters. We were unable to determine whether the missing letters could impact current operations or our audit of the contract.
- Cause:* Contract documentation is not retained in a centralized location for the Metro-North Railroad contract. Retirements of employees who retained the documents also played a role in the department’s inability to locate the letters.
- Recommendation:* The Department of Transportation should obtain all contract amendments and administration letters and file them in a centralized location. The department should also consider updating the Amended and Restated Agreement with Metro North Commuter Railroad Company to incorporate all relevant amendments and administrative changes that are still in effect. (See Recommendation 11).
- Agency Response:* “The department agrees with the finding that all contract amendments and administration letters should be located and maintained in a centralized location, although it should be noted that the vast majority of the contract amendment and administration letters are just documentation of past service schedule changes. The Office of Financial Management &

Support has contacted Metro-North Railroad and will work together to attempt to compile a complete record of all contract amendments and administration letters.”

Financial Reviews of Transit Districts

- Criteria:* An adequate system of internal controls requires that grants be closed out on a timely basis.
- Condition:* DOT has a process in place to close out transit grants, which includes the receipt and review of audit reports from grant recipients, a financial review, and the determination and subsequent resolution of monies due to or from the grantees. Grants are left open until all of the outstanding obligations are settled. Our review disclosed that, while audit reports were received from grant recipients, financial reviews were not complete for all the transit districts for the 2009, 2010, and 2011 fiscal years. For the 2009 fiscal year, receivables and payables were calculated for some of the grants, but were not finalized. There were no payables or receivables determined for the 2010 and 2011 years. For the audited period, payments to transit districts for the 2010 and 2011 fiscal years totaled \$63,524,772.
- Effect:* Grants are not closed out on a timely basis, making the resolution of receivables or payables more difficult. Errors may go undetected for years if not identified on a timely basis.
- Cause:* Financial reviews were previously done by the Internal Audit Unit. This function was transferred to the Financial Management & Support Unit in May 2010. It appears there was a slow start in performing the financial reviews, as they were not started until July 2013. DOT decided to perform financial reviews for each transit district over a 5-year period instead of on an annual basis. The Financial Management & Support Unit has had difficulty in resolving differences when reconciling to the audited financial statements and in determining whether unused funds remain with the transit district.
- Recommendations:* The Department of Transportation should perform closeouts of transit grants on a timely basis. (See Recommendation 12).
- Agency Response:* “The department agrees with this finding in regards to the recommendation that audit reviews and financial close-out activities should be completed in a timely manner. The delays referenced in the audit review process were a result of changes to

the audit review process which were developed and implemented by the Office of Financial Management and Support. These changes result in a more robust process that includes detailed reconciliation of the department's payment records, the Office of Transit's payment drawdown worksheets, the Certified Public Accountants (CPA) audit reports submitted by the Transit Districts, the CPA's work papers, the agreement language and maximums, and in some cases, the Transit District's financial records. This robust process took more time to develop and implement than was originally contemplated and also was impacted by the time required to receive documentation and communication from the Transit Districts and their CPAs.

Accountability of Revenue Collection from State Ferries

Background: DOT operates 2 ferries on the Connecticut River. One ferry operates between the towns of Chester and Hadlyme and the other ferry operates between Rocky Hill and Glastonbury. Each ferry provides seasonal vehicle and passenger transportation across the river for business, pleasure, and tourism. Fees are collected for individual passengers or by vehicle. The vehicle rate is charged regardless of the number of passengers with the vehicle.

Criteria: Good business practice dictates that assets of the state are safeguarded and that when cash is collected as a fee, pre-numbered tickets and/or passes should be used to properly account for the revenue collected.

Condition: During our review of revenue collected at the state ferries, we found that the ferry's first mate used pre-numbered cards that are punched to reflect the number of passengers and vehicles that cross the river. The passenger does not receive a receipt. The department then matches up the number of punches on the card to the amount collected at the end of each shift. There are typically two shifts per day. Data from the punched cards is recorded on Collectors Reconciliation Form No. FER6. This method does not provide assurance that all revenues collected are deposited. It only provides assurance that the number of punches on the card equals the cash on hand that is going to be deposited. By not providing pre-numbered receipts to customers, we are unable to reconcile revenue collected to the punched cards used at the state ferries.

In contrast, the department offers commuter coupon books for vehicles that are pre-numbered. The booklets contain 20 tickets that are numbered from one to 20 and are sold at a discounted

commuter rate. The sale of the commuter coupon books and the used tickets from these booklets is recorded on the Collection Reconciliation Form No. FER6.

Effect: Internal controls over the collection of cash are weakened when pre-numbered receipts are not used and provided to passengers.

Cause: While there appears to be adequate controls for commuter coupon booklets, the department's State Maritime Office did not implement adequate internal controls to safeguard revenue collected at the ferries for passengers or vehicles not using these booklets.

Recommendation: The Department of Transportation should use pre-numbered tickets for passengers and vehicles to record ferry passage. Signs should be posted at the ferries reminding passengers to ask for a ticket when payment is tendered. (See Recommendation 13).

Agency Response: "The auditors' reported criteria cites "Good business practice dictates that assets of the state are safeguarded and when cash is collected as a fee, pre-numbered tickets and/or passes should be used to properly account for the revenue collected." The department's present practice for fare collection, as is stated in the auditors' reported condition, matches the requirement in the cited criteria. The tickets punched have a tear-off bottom that displays the same number as the punched ticket. The tear off bottom serves as a receipt and is provided upon request. Some people, request the receipt, most are not interested in a receipt. Each discount coupon book has a unique number. That unique number is also on each coupon contained within that book in addition to the sequential (1-20) number of the coupons. The license plate of the vehicle belonging to the purchaser is recorded on the discount book when sold so a book cannot be used by multiple vehicles simply in order to save money with the volume discount offered. The pre-numbered tickets punched to reflect vehicle and passenger counts as well as funds collected are reconciled after each shift. The reconciliation report is prepared by the Ferry First Mate and reviewed/approved by the Captain of the Watch providing for a separation of powers.

It is the department's position that it is currently utilizing pre-numbered tickets for ferry passage for passengers or vehicles, and the posting of the recommended signs would seem to have little or no effect on the integrity of the fare collection process.

Auditors' Concluding Comment:

Although it is true that the tickets used and punched have a tear-off bottom that displays the same number as the punched ticket, the ticket reflects either the number of vehicles or the number of passengers boarding the ferry. If fares are collected for eight individuals and the number eight is punched, only one person is able to receive the tear off bottom of the receipt. The random pre-numbered receipts we observed at the department's central office all had the tear off bottom still on the ticket. The integrity of the system may be compromised because the employee can punch as many or as few on the receipt with no verification at the time it is punched. Reconciliations are done at the end of the day, not after each crossing.

We did not cite any finding regarding the discount coupon books as the controls for these books appear adequate.

The posting of signs adds to the integrity of the fare collection process.

Investigations Concerning Ferry Operations

Background:

DOT has received multiple internal complaints about interpersonal issues at the Rocky Hill-Glastonbury ferry and an external complaint regarding the handling of cash at the Chester-Hadlyme ferry.

Criteria:

Prudent management practices and policies dictate that all complaints are properly investigated and corrective action is taken, if needed, to prevent further violations.

The DOT Fact-Finding Handbook requires an investigation when the actions of an employee can lead to disciplinary action. During fact-finding, information is gathered to determine whether a "work rule, policy, procedure, regulation or practice has been violated and render a written report to the Director of Human Resource or designee." A few examples cited in the handbook of conduct to be investigated are workplace violence, violations of drug or alcohol policies, employee misconduct, and inappropriate behavior in the workplace. The handbook also states that prior to the start of the fact-finding, the chairperson should notify all parties that notes will be taken and the chairperson should "ask questions, clarifying questions, and follow-up questions."

The Connecticut State Library Office of Public Records Administration provides the time limit that records should be maintained by an agency. The records retention schedule for human resources investigations, including, but not limited to misuse of funds, threat assessment, whistleblower, and workplace violence investigations, requires a minimum retention of five years after resolution if no further action is taken or until the issue is resolved and all litigation is complete. These records can be destroyed after the receipt of a signed Form RC-108.

Condition:

Chester-Hadlyme Ferry:

DOT received a complaint from a concerned citizen that passengers on the Chester-Hadlyme ferry were receiving free fares and the complainant stated that the employees, on one occasion, declined to accept payment from him. The complainant also stated that he collected the tolls from as many of the cars as he could and then gave the money to the employee. The department's Office of Management Services interviewed the complainant, but did not interview any of the Chester-Hadlyme ferry staff. The complainant was told that the corrective action stipulated in the Office of Management Service report was that, for the following ferry season, there would be a "Tail Gate talk stressing the importance of the safeguarding of cash receipts and the overall appearance that should be portrayed by the Office of Waterways personnel on a daily basis. Overall, this will be a reminder that the public's eyes are always on them; and therefore, to act accordingly."

Rocky-Hill Glastonbury Ferry:

A fact-finding was conducted concerning allegations of violence in the workplace, abusive behavior, and violations of state and departmental policies. The department's assistant human resources administrator reviewed the fact-finding and noticed several deficiencies. Of specific concern was that one of the interviewees stated that one of the other employees who was also interviewed for the fact-finding "repeated his statement about keeping a record about abuse of pier day, use of alcohol, and other stuff" yet the chairperson of the fact-finding did not ask any questions of the three employees being interviewed about the use of alcohol on state time. The assistant human resources administrator recommended that the Office of Management Service conduct an investigation into the matter. Our review of their investigation found it to be inadequate because it only consisted of asking the

employee who was said to have made the statement if he made the statement. The employee denied that he made the statement. The other two employees were not interviewed on the matter. We contacted the note taker at the fact-finding and were informed that the notes were given to the chairperson. We asked the chairperson for those notes and were told that the notes were destroyed. We could not conduct a thorough investigation into the matter because documents were destroyed by the chairperson.

Effect:

Chester-Hadlyme Ferry:

If the complainant's allegations were true regarding the non-collection of revenue, the state is not receiving all the revenue for this ferry that it is due.

Rocky Hill-Glastonbury Ferry:

The safety of the public is at risk and potential liability to the state is increased if investigations are not properly investigated for violations of the state's Drug-Free Workplace Policy.

Cause:

Chester-Hadlyme Ferry:

A proper investigation was not conducted to determine whether the complainant's allegations were valid. The Office of Management Service did not retain any notes on its investigation.

Rocky Hill-Glastonbury Ferry:

We could not determine why the chairperson did not pursue any questions related to a possible violation of the Drug-Free Workplace policy. The chairperson refused to comment on the destruction of notes taken at the fact-finding hearing.

Recommendation:

The Department of Transportation should ensure that all employees are properly trained in the fact-finding process and that statements and complaints made by employees and the public are thoroughly investigated. The department should comply with requirements of the State Records Retention Schedules with regard to personnel matters for human resources investigations. (See Recommendation 14).

Agency Response:

"The department partially agrees with the finding. The department provides training on the fact-finding process through Introduction to Supervision, New Supervision Training, twice a year Fact-finding and Labor Relations training and ad hoc training on the

subject to specific units as requested. The department has a complete Fact-finding Manual on the department intranet site as well as information in the Supervisors Handbook regarding Fact-findings. The Department commits to providing the training on a more frequent basis. The Assistant Agency Human Resources Administrator (AAHRA) has conducted the training several times through the Office of Training and Staff Development and has provided the training at management request in supervisory meetings in both the Bureau of Engineering and Construction and the Bureau of Maintenance and Highway Operations. The AAHRA will incorporate a clarification of records retention as part of the curriculum. The department also commits to providing notice to all employees regarding clarification of notes as records.”

Reporting of Supply Inventory on the CO-59 Asset Management/Inventory Report

Criteria: The State Property Control Manual provides instructions to agencies for the completion of the CO-59 Asset Management/Inventory Report. The manual also provides Core-CT queries for agencies to use to retrieve data for inventory reports.

Condition: DOT does not use the Core-CT queries listed in the State Property Control Manual for inventory when preparing its CO-59 report. Instead, it uses queries developed by internal Core-CT staff. We ran both queries when testing the amounts reported on the CO-59 report. We found that the Core-CT query included inter-business unit transfers (transfers from one DOT location to another DOT location). Our review of these transfers revealed a programming error in Core-CT in that inter-business unit transfers do not always transfer at the same price. We found many instances in which the item transfer amount was different than the actual cost. We had discovered this issue during the Comprehensive Annual Financial Report (CAFR) audit for the fiscal year ended June 30, 2013 and notified Core-CT staff of the issue on October 28, 2013. The difference between Core-CT and the department for inter-business unit transfers was \$431,058 and \$77,353 for the fiscal years ended June 30, 2011 and 2012, respectively. We noted that there were over 73,000 and approximately 67,000 inter-business unit transfers during the fiscal years ended June 30, 2011 and 2012, respectively.

Effect: Neither DOT nor Core-CT personnel were aware that the value of supply inventory was incorrect.

Cause: It appears that neither DOT nor Core-CT tested and verified whether inter-business unit transfers were being recorded accurately in Core-CT. Although the department did not use the same queries the Comptroller recommends when preparing the CO-59 report, it should have reconciled its query to the Comptroller's query to determine whether its numbers were correct. If it had done so, it may have noticed that the inter-business units did not agree.

Recommendation: The Department of Transportation should ensure that the data it reports on its CO-59 report is accurate. The department should work with Core-CT staff to ensure that inter-business unit transfers for supply inventory are reported at the correct price in Core-CT. (See Recommendation 15).

Agency Response: "The department agrees with the finding. The department had previously identified and notified Core-CT and the Office of the State Comptroller (OSC) of the concern with the accuracy of Core-CT published reports. Core-CT was unable to correct the existing Core-CT reports, so DOT Core Support created new fiscal year ending inventory reports. The department created reports are now found to also be inaccurate. Asset Management has shared the audit finding with Core-CT and will continue to actively pursue this matter with Core-CT and OSC in an effort to have Core-CT and OSC create and provide accurate financial reports for agency use."

Inventory of Supply

Criteria: The State Property Control Manual requires that physical inventories be conducted on an annual basis. It also requires that inventory items be safeguarded to prevent theft and loss.

Condition: DOT has 14 locations that maintain supply inventories. The value of supply inventory per the CO-59 reports was \$20,785,680 and \$23,371,972 for the fiscal years ended June 30, 2011 and 2012, respectively. The department informed us that it received permission from the State Comptroller to conduct inventories in three locations per year instead of each location on an annual basis. The department utilizes its Internal Audit Unit to conduct those inventories. During the audited period, the physical inventories conducted by Internal Audit reported losses under Section 4-33a of the General Statutes as follows:

<u>Location</u>	<u>Number of missing items</u>	<u>Value of items</u>
Darien	106	\$ 622
Brookfield	557	1,282
East Haven	373	2,420
West Willington	26	362
Winchester	530	4,032
Waterbury	4,196	16,289

While the dollar value of the missing items may be low, the number of missing items, in some cases, appeared excessive. In Waterbury, for instance, it was reported that several items were missing in even quantities of 100, 1000 and 1500. At times, there were several instances in which a high value item was missing, indicating that these items may not have been maintained in a secure location and may have been susceptible to theft. East Haven showed one item with a value of \$1,070 missing. At some of the other locations, cases of one item with a value of over \$100 were also reported.

- Effect:* Weak supply inventory controls can result in the loss of items.
- Cause:* We cannot determine the reason for the missing items. It appears that the department did not investigate these variances, nor did it work with the locations needing improved controls.
- Recommendation:* The Department of Transportation should utilize its Security and Internal Audit divisions to improve internal controls over supply inventories at those locations at risk for missing items. The department should conduct surprise counts of high-risk items at those locations throughout the year. (See Recommendation 16).
- Agency Response:* “The department partially agrees with the findings. During fiscal year 2011 and fiscal year 2012, there were numerous supervisor and stockroom employee vacancies which may have attributed to poor inventory recordkeeping. Employees were shifted around to keep stockroom operations with skeleton crews. On April 2, 2014, Material Management Directive #14-12 implemented a Cycle Count process at each stockroom facility, requiring two percent of the inventory line items to be physically inventoried weekly and reviewed and signed by the Transportation Material Storage Supervisors. Both the Office of Internal Audits and the Division of Security are provided copies of each CO-853 loss report when filed. Materials Management will meet with Internal Audits to obtain their input and suggestions to improve internal controls.”

Compensatory Time

Criteria:

The Department of Administrative Services (DAS) Management Personnel Policy 06-02 sets forth criteria for the granting of compensatory time to managerial and confidential employees. The criteria for granting compensatory time includes: “the extra time worked must be authorized in advance by the agency head or his/her designee, the authorization must include the employee’s name and outline the reason for compensatory time; and proof of advance authorization must be retained in the employee’s personnel file for audit purposes.” The policy also states that the compensatory time “must be significant in terms of total and duration” and “does not include the extra hour or two a manager might work to complete normal work assignments in a normally scheduled workday.” The work must be completed “at an approved work location.” The Department of Transportation issued its own compensatory time policy that reflects the DAS policy.

The contract between the State of Connecticut and the Administrative and Residual (P5) bargaining unit states that “Connecticut General Statute 5-245(b)(1) shall be deemed to exempt from overtime payment all employees paid above salary grade 24.” The employees above this grade are authorized to receive compensatory time instead.

The Department of Transportation’s Employee Handbook states that “all overtime work, except those involving emergencies, must receive prior management approval.”

Condition:

We tested compensatory time earned for nine managerial and six non-managerial employees. Our review revealed the following:

Managerial employees:

- Four of the nine managers did not have supporting documentation on file showing the reason the compensatory time was earned or that prior written authorization was received. We were subsequently provided with documentation supporting the reasons for the compensatory time; however, there was no indication that the compensatory time was approved in advance.
- Two of the nine managers earned compensatory time for two hours or less. This is not considered to be significant in duration.

Non-managerial employees:

- Two of the six employees did not have supporting documentation on hand showing prior management approval for the compensatory time earned.

Our test of compensatory time revealed that DOT does not have a uniform policy for written prior approval. When we found instances of prior approval, we noted that the approval was either in the form of an e-mail or a document that was created by a particular bureau within the department.

Effect: DOT is not in compliance with DAS Policy 06-02 or its own policy related to overtime. Without proper documentation supporting the compensatory time, we were unable to determine whether the compensatory time earned was proper.

Cause: It appears that policies regarding compensatory time are not uniformly enforced within the department.

Recommendation: The Department of Transportation should implement policies for the proper documentation of prior written authorizations of compensatory time for managers and non-managers and should ensure that compensatory time earned by managers is significant in time and duration. (See Recommendation 17).

Agency Response: “The department agrees with the finding. The department policy did not specifically include the term “written” regarding approval requirements. A revision to F&A Policy No. 33 was e-mailed to all department managers on August 29, 2014, which mirrors the state policy and clarifies the requirement for preapproval to be written. The revision to the policy also clarifies eligibility for comp time. The revision to the policy also clarifies eligibility for compensatory time. A specific requesting form has been adopted as part of the revised memorandum.

Of particular note is that several of the cited cases were examples of employees who are consistently required to attend recurring evening meetings as part of their regularly assigned duties. It has been indicated that such situations can be approved via a single preapproval indicating the recurring schedule of meetings.”

Mileage Reimbursement and Insurance Certificates

- Criteria:* The Department of Administrative Services' General Letter No. 115 – *Policy for the Use of State Owned Motor Vehicles*, states that “each driver is responsible for ensuring that his or her motor vehicle license and any required motor vehicle insurance is kept active, unrestricted and up-to-date.”
- The Department of Transportation's Fiscal and Administrative Policy 36, states that “The original Per-72 form, signed in ink by the authorizing supervisor, shall serve as the original source document supporting the timesheet entry requesting mileage reimbursement and vehicle use fee, if applicable. This document, along with the proof of insurance documents, must be retained by the Unit/Division in accordance with the state record retention schedule and applicable federal requirements.”
- Condition:* We reviewed 10 mileage reimbursements. For 3 out of the 10 mileage reimbursements, the auto insurance policy was not on file for the period in which the mileage reimbursement was made.
- Effect:* We were unable to determine whether the employees possessed the proper insurance when they received their mileage reimbursements.
- Cause:* For those employees that did not have an insurance certificate on file, we were informed that only the most current insurance certificate was kept on file.
- Recommendation:* The Department of Transportation should adhere to the procedures and guidelines set forth in the Department of Administrative Services' General Letter No. 115 as well as those stated in its Fiscal and Administrative Policy 36. (See Recommendation 18).
- Agency Response:* “The department agrees with the finding. As of April 1, 2014, the department's procedures were revised to no longer discard employee's existing auto insurance certificates when being replaced with a new certificate; all versions of an employee's insurance certificate will be retained.”

Security Division

- Criteria:* The Department of Administrative Services' General Letter No. 115 – *Policy for the Use of State Owned Motor Vehicles*, states that drivers of state-owned cars should complete and submit mileage

reports. Mileage reports should reflect locations visited by that employee, contain mileage for the day, be accurately calculated, and be signed by a supervisor.

Proper internal controls require accountability of an employee's time and location when not spent at a regular work station.

Condition:

The Department of Transportation's Security Division located in its main office consists of three employees, including the head of the division and two investigators. This division is responsible for monitoring security at all of the department's facilities.

Our review of mileage reports for the employees of the DOT Security Division recorded towns visited, but we were unable to determine the reason for the visit because there were no formal records documenting when an employee was at a location other than the central office. We reviewed the mileage reports of one employee of that division and found several issues. The mileage reports contained the typed name of the supervisor, but had not been signed by that supervisor. The supervisor informed us that she does not sign off on the mileage reports, and she does not maintain formal records of employee locations. She also informed us that the integrity of the reporting by the employee would be the basis for approving the mileage report. We also found that the employee's mileage report showed towns visited, but the mileage did not always add up when we used mileage tools to determine miles. That employee informed us that different routes are sometimes used. When we inquired about the reasons for the visits to different locations, we were informed that it was to check on access codes, speak with personnel, or perform work required for an investigation. There is no record of the time spent by the employee at the location or the number of hours or days worked on an investigation.

Effect:

Internal controls are weakened when supervisors do not approve mileage records or when they do not have formal records of employee locations. We could not substantiate whether mileage reports were correct.

Cause:

The Security Division does not have any formal work records to match locations to the work performed. The division also does not track hours worked by investigation.

Recommendation:

The Department of Transportation should have formal records of the Security Division's work so it can reconcile them with time, location, and mileage records. Supervisors should be aware of

employee time, attendance, and location so they can properly approve mileage reports. (See Recommendation 19).

Agency Response: ‘The department’s Security Division has incorporated a daily log for keeping track of daily activity as a means of reconciling the location and mileage records reported by the Security Division employee. Additionally, the Security Division has an Investigation form to record the work performed during an investigation. This form was modeled after ones used by many police departments in Connecticut. A case number is assigned and the form provides an overview of the investigation. The Investigation form is stored electronically and when required, is forwarded to other units in the department.

The Security Division currently reports employee mileage utilizing the State Tracking Automated Request System (STARS). The employee’s mileage report is forwarded to the supervisor for electronic approval. It is then forwarded to the department’s Motor Pool on a monthly basis. The Motor Pool then reports to the Department of Administrative Services (DAS) electronically by DAS Biz-Net for the agency required reporting process. DAS will notify the department Motor Pool if there are any missing mileage reports.”

Telecommunications

Background: All telecommunication service expenditures, including landline, cell phones, and calling cards, are processed in Core-CT by the Department of Administrative Services Bureau of Enterprise Systems and Technology (BEST), formerly the Department of Information Technology. BEST receives a monthly electronic bill from the phone service provider for the state. BEST uploads the electronic bill into a telephone billing system that sorts the phone numbers from the bill by state agency and creates an electronic summary and the detail to support the charges.

Criteria: According to BEST’s statewide Telecommunication Equipment Policy, “Telecommunication equipment shall be used solely for official state business. Telecommunication equipment shall not be used for personal or private business.” Regarding cell phones, “It shall be the responsibility of the individual and the agency to verify the accuracy of the bill, and confirm appropriate usage.” Also, “state employees may use only directory assistance services for which there is no charge. All calls to directory assistance for

which a charge is generated, will be considered unacceptable personal usage.”

Section 3-117(c) of the General Statutes states that the “Commissioner of Administrative Services shall charge the appropriations of any state agency, without certification by such agency, for expenses incurred by such agency for basic telephone service... Not later than thirty days following notification of such charge, such agency shall certify to the Commissioner of Administrative Service that such services were provided to such agency.” Good internal controls require that invoices be reviewed for accuracy.

Condition:

DOT informed us that it did not return to BEST the first page of the telecommunication bill certifying that all charges on the bill were incurred only for DOT business needs.

The department does not review landline phone activity and usage on the billings provided by BEST. Landline telephone bills ranged from \$126,000 to \$214,000 per month.

The department did not ensure that all cell phone users signed and returned their Monthly Individual Usage Report attesting that the charges were made by them, were necessary in the performance of their duties, and were not personal calls. We found that 14 of 30 cell phone users selected did not sign and return the Monthly Individual Usage Report. As a result, there was no managerial or supervisory review to determine the accuracy of the calls and whether the calls were work-related.

During the audited period, the department paid for 760 directory assistance calls totaling \$683 in the fiscal year ended June 30, 2011 and 702 such calls totaling \$650 in fiscal year ended June 30, 2012. We found that employees did not reimburse the department for these calls.

Effect:

DOT did not comply with the BEST Statewide Telecommunication Equipment Policy.

Cause:

DOT does not have controls in place to review the landline telephone bill. The department informed us that, because of the large volume of activity on the phone bill and how the billings consist of a number of trunk lines (lines that record the activity of a number of landlines), it reviews the summary report of the bill to see whether monthly charges are consistent and reasonable. We were also informed that another reason the department does not

review the bills in detail is because the original phone bills go to BEST Telecommunications, and it was assumed that the review is done at the statewide level by BEST.

The department did not follow up on obtaining the Monthly Usage Reports from employees who did not file them.

Recommendation: The Department of Transportation should develop procedures to review the monthly telephone bill to ensure that only authorized phones and charges are on the bill. The department should certify the accuracy of the telephone bill and ensure employees certify that their cell phone calls are work-related. The department should remind employees of the link to obtain telephone numbers online at no cost to the state. (See Recommendation 20).

Agency Response: “The department agrees with this finding and is in the process of modifying our policies and procedures to ensure proper review, oversight and certification of the department’s phone usage and charges. DAS/BEST has recently implemented a new TANGOE billing system which should provide the department with enhanced capabilities to streamline the review and certification process.”

Rail Car Purchases

Background: DOT entered into an agreement with Metro-North Commuter Railroad Company to purchase M-8 passenger rail cars on August 18, 2006. Since that time, two supplemental agreements were executed for additional rail cars. The first supplemental agreement, executed on November 17, 2010, added 42 option cars and made some amendments to the original agreement. The second supplemental agreement, executed on August 16, 2011, added 25 option cars. For each agreement, Metro-North Commuter Railroad Company entered into a contract with Kawasaki Rail Car Inc. for the purchase of the cars. The cost of the rail cars changed over time due to changes in specifications and increases in labor and material costs. The costs included in the agreements are the basis for payment to Metro-North Commuter Railroad Company.

Criteria: The State Accounting Manual includes policies and procedures that state agencies must follow for processing expenditure transactions. These procedures state that an agency employee must certify the accuracy and completeness of expenditure documents.

Condition: Our review of expenditures revealed that, for one payment of \$19,056,017, DOT did not have documentation to support the amount paid. The department should have on hand the supplements to the contract between Metro-North and Kawasaki Rail Car Inc., which provide the cost information used to bill the department for rail cars.

DOT informed us that a February 18, 2011 letter from Metro-North Commuter Railroad Company to Kawasaki Rail Car Inc. that discussed the pricing for the 42 option cars was never countersigned by Kawasaki Rail Car Inc.

Effect: DOT made a payment on an invoice without contract documentation on hand to support the charges on the invoice. Without the documentation, the department could have paid the incorrect amount.

Cause: The approver of the payment stated that although the project manager did not have the contracts to support the amount of the payment, the project manager was aware of the per car costs in the contract when reviewing and approving the voucher. We found that the project manager had a project spreadsheet that was updated and the costs were routinely discussed in meetings with Kawasaki Rail Car Inc. project managers.

Recommendation: The Department of Transportation should only approve vendor payments with required supporting documentation in accordance with the State Accounting Manual. (See Recommendation 21).

Agency Response: “The department partially agrees with this finding, in regards to the specific agreement documents executed between Metro-North and Kawasaki, that would identify the per car costs for Option A-2 and A-3. Although it is true that the project manager/invoice approver was not in possession of the actual agreement documents executed between Metro-North and Kawasaki, the department’s project manager/invoice approver possessed schedules and other documentation that provided the per car cost information, which provided the basis for their approval of the per car costs for these options, as it related to the calculation of the milestone payments billed on Voucher #465006.”

Rail Car Assets

- Criteria:* The State Property Control Manual requires each state agency to tag personal property that is currently owned by or in the custody of that agency. The primary purpose of tagging state-owned equipment is to maintain a unique identification number for each asset, which provides an accurate method of identifying individual assets, facilitates the inventory process on a periodic basis, controls the location of all physical assets, and assists in maintaining fixed assets. After the item is tagged, it should be entered into the Asset Management module of Core-CT.
- Section 4-36 of the General Statutes requires that each state agency report annually to the State Comptroller all its real and personal property as of June 30. The CO-59 Asset Management/Inventory Report that is prepared by each state agency annually fulfills this statutory requirement.
- Condition:* Our review of expenditures on September 25, 2012, disclosed that DOT did not tag six rail cars purchased from Metro North in 2012. These rail cars were placed in service in December 2011. As a result, the Asset Management Unit did not enter the cost of these rail cars in the Asset Management System. The value of these rail cars was \$14,560,650. Since these rail cars were not in the Asset Management System as of June 30, 2011, they were also not reported on the CO-59 Asset Management/Inventory Report.
- Effect:* Deficiencies in the control over equipment inventory result in a decreased ability to safeguard assets.
- DOT did not comply with the State Property Control Manual and Section 4-36 of the General Statutes.
- Cause:* The Asset Management Unit told us that it was not informed by the Office of Rails that these rail cars were placed in service.
- Recommendation:* The Department of Transportation should improve internal controls over asset accountability to ensure compliance with Section 4-36 of the General Statutes and the requirements of the State Property Control Manual. (See Recommendation 22).
- Agency Response:* “The Department agrees that the six rail cars noted above, out of the 121 M-8 railcars received during the audit period, were not entered into the department’s Asset Management System in a timely manner. The department’s Office of Rail staff is aware of the need to provide timely notification to the Asset Management

Unit when rail cars were put into service, as evidenced by the 115 rail cars that were reported correctly. For purposes of ensuring future compliance, the Office of Financial Management & Support has contacted the Office of Rail and reminded them of the requirement to notify the Asset Management Unit when rail cars are accepted and put into revenue service.”

Software Inventory

Criteria:

The State Property Control Manual requires that all agencies establish a software inventory to “track and control all of their software media, licenses or end user license agreements, certificates of authenticity, documentation and related items.” A physical inventory of the items must be done at the end of each year, and this inventory should be compared to the annual software inventory report. This comparison must be retained for audit purposes.

The agency is also required to “maintain records of all software installations including secondary external installations allowed by certain software license agreements and software licenses.”

The manual also requires for audit purposes that “application programs installed on an individual stand-alone computer or LAN environment be reconciled to the registered license agreements and corresponding purchase documents.”

The manual requires that “agency developed software which the state has ownership to and is capitalized and reportable on the CO-59 report and classified under the software category must be recorded within the Asset Management Module of Core-CT.”

Condition:

DOT informed us that its Office of Information Systems does not maintain a software inventory (software library) and is unable to provide a software report that would comply with the requirements of the State Property Control Manual. The Office of Information Systems maintains a listing of software applications. It also maintains a listing of licensed software that only includes product description, manufacturers’ number and quantity. We were informed that there is no listing of application programs installed on each stand-alone computer at the department.

The Asset Management Unit has a listing of licensed software for the CO-59 report based on purchases from Core-CT that lists the software by purchase order, vendor and amount. The value of

licensed software on the CO-59 report was \$3,303,191 as of June 30, 2012.

It does not appear that a physical inventory of software is compared to the annual software report for accuracy.

DOT has 44 software applications that were developed by its staff. The department has not capitalized any of these applications, since the amount reported for this category on the CO-59 report is zero.

Effect: We were unable to determine whether the department was in compliance with federal copyright laws because it does not have a record of software installed on its computers.

Cause: DOT informed us that it was not aware of the State Property Control Manual's requirements regarding the establishment of a software library and the capitalization of software applications created by DOT staff.

Recommendation: The Department of Transportation should comply with the software inventory requirements of the State Property Control Manual. (See Recommendation 23).

Agency Response: "The department agrees with the finding, and as a result Asset Management worked with the Office of Information Systems (OIS) to define the agency's Internally Generated Computer Software (IGCS). Asset Management has added the IGCS list to the Core-CT Asset Module along with the listing of capitalized licensed software. Asset Management contacted Core-CT and requested a query be developed to capture expenditures of licensed software and to create an asset profile to record non-capitalized licensed software in the Asset Module. Asset Management and OIS are currently developing a plan to create and maintain a software library that will be in accordance with OSC's State Property Control Manual.

Billing Discrepancies and Performance Appraisal Process

Background: As part of our review of the DOT Internal Audit Division's work, we became aware of a request from within the department for that division to review possible double billings and excessive charges by a consultant. The report of the Internal Audit Division is marked draft, but we were informed that it is considered a final report. The report had two findings. The first finding identified numerous adjustments to that company's employee timesheets.

Timesheets of the project manager were reviewed because that manager is responsible for establishing the job and task codes prior to the start of the assignment. The Internal Audit Division found that for 15 of the project manager's timesheets reviewed, all of the timesheets contained labor transfers. Hours were transferred between various job and task codes months after the timesheet date. The second finding identified communication issues between the consultant and the department. DOT, expressed its concern that "timeliness of extra work requests, billing information and related submittals, have been a repeated theme of our concerns" in a letter to the consultant dated June 1, 2011. After our review of the Internal Audit Division's report, we examined how the department negotiated final payment to the consultant and the performance evaluation process for this consultant to determine their impact on prequalification and selection for future contracts.

Criteria:

Consultant agreements include provisions for "extra work" to be performed when project activities exceed amounts originally approved. Extra work is defined as "such additional work as ordered by the state beyond the scope of the agreement." Extra work must be approved in advance through a request by the consultant, as the consultant agreements state that "unless the consulting engineer and the state acknowledge extra work prior to its performance, the state will not be obligated to consider it as extra work after the fact."

Section 13b-20f of the General Statutes states that the "performance of all consultants who have active agreements with the department shall be evaluated by the supervising unit with the bureau utilizing the consultant services, at six-month intervals and upon completion of the consultant services. Each such evaluation shall be kept on file in the supervising unit and a copy filed with the permanent selection panel."

The DOT Consulting Selection Office (CSO) is in charge of administration and execution of all procedures necessary for the selection of the professional consultants utilized by the department. The CSO procedures are documented in its Professional Services Consultant Selection Procedures Manual. The manual states that the CSO shall be responsible for "compilation of consultant past performance evaluations" and the "completed and approved evaluation(s) shall be sent from the supervising unit to the consultant with a copy kept on file in the supervising unit and a copy forwarded to the CSO prior to January 31 and July 31 of each year." The manual also states that the "consultant selection panel shall take into consideration the data from the department's past

performance evaluations when reviewing the consultant submittals for current projects” and the “CSO will forward past performance data to the panel chairperson for distribution.”

Condition:

We reviewed five tasks assigned to the consultant that involved extra work. DOT paid the consultant considerably more than the original limits approved for the tasks. For four of the five tasks, the original upset limit (maximum amount the consultant can be reimbursed without the need for a supplemental agreement) totaled \$165,000. The remaining task did not have an upset limit because the man-hour proposal was submitted by the consultant after work was essentially complete.

The consultant initially billed the department \$1,042,793 plus additional payroll of \$877,412. Billing for all five tasks totaled \$1,920,205. Total payments made were \$674,789.

Tasks one to four included consultant billing of \$865,033 plus additional payroll of \$637,647 for a total of \$ 1,502,680. The department initially paid \$158,045 to the consultant, and after much negotiation; an extra \$425,389 was paid for a total of \$583,434.

For the remaining task, the consultant billed \$177,760 plus additional payroll of \$239,765 for a total of \$417,525. After negotiations, \$91,355 was approved for payment.

We requested performance appraisals for this consultant from the CSO for various projects. There were eight performance evaluations during the audited period; however, we expanded our sample to request all 19 performance appraisals for the project we were reviewing. We were only provided with 13 performance appraisals, as the other six could not be located in the CSO or in the originating unit (Highway Design). Of the 13 performance evaluations, 6 were positive, 4 were negative, and three were a mix of positive and negative ratings. Some of the comments from these appraisals are as follows:

- Unacceptable project administration;
- Not provided with the highest quality product;
- Not following established procedures, including failure to make timely extra work requests, failure to submit man-hour proposals, requesting extra work after project

completed; and exceeding previously established upset limits without prior authorization;

- Lack of technical coordination such as contract item design required redesign after completion and department difficulty in verifying and approving extra work requests in a timely manner;
- Improved communication needed to ensure deadlines are met;
- Significant errors on invoices resulting in duplicate payments; and
- A quote from the January/June 2011 appraisal stated “serious issues with billing practices and extra work requests have surfaced which undermines the faith and confidence this office has with the consultant.”

Several of the more recent performance appraisals did mention improved communication, accuracy of invoices, and improved quality control.

The consultant was prequalified to perform work on department projects even though there were negative performance reviews. We were told that the consultant selection panel was not provided with or notified of the negative performance evaluations for this consultant because the negative performance related to a design project and the two projects for which it was selected was for construction and inspection projects. This consultant was eventually selected for one large construction engineering and inspection project and also selected to perform on-call Task Order Intermodal Planning.

Effect:

DOT expended significant resources by having the Internal Audit Division perform a review of the consultant and negotiate with a consultant that did not follow its agreement with the state.

DOT did not comply with the Professional Services Consultant Selection Procedures Manual regarding performance evaluation of consultants and responsibilities of the consultant selection panel. Without maintaining all the required performance evaluations and providing those evaluations to the consultant selection panel, the selection process can be compromised. The selection panel may not have all the information necessary to make an informed

decision. This can increase the risk of selecting a consultant that may not meet the standards required by the department.

Selecting a consultant with a history of billing issues increases the risk that errors can occur and go undetected. It also increases the level of oversight necessary by DOT and places a potential increased administrative burden on department staff.

Cause: We could not determine why all of the performance evaluations were not on file in the Consultant Selection Office. It appears that there is no formal tracking system to make sure the office has received all performance evaluations. The CSO also did not follow up on missing performance evaluations.

DOT informed us that performance appraisals are not shared with the consultant selection panel if the consultant is being considered for a different category of work.

Recommendation: The Department of Transportation should develop a tracking mechanism to ensure that the Consultant Selection Office receives all performance evaluations of its consultants. All performance evaluations should be provided to consultant selection panels prior to them making recommendations to the Commissioner of the Department of Transportation for consultant selection. Contractual language should be enforced regarding extra work prior to its performance and the resulting penalties for failure to abide by that language so that consultants will not perform work prior to departmental approval of that work. (See Recommendation 24).

Agency Response: “The department agrees with the two recommendations presented in this finding regarding Consultant Performance Evaluations. The department will institute a process for tracking the completion of performance evaluations and will also amend the standard procedures of the Consultant Selection Office to provide all performance evaluations (not category specific) to the selection panels for their consideration in making a selection.

Other areas in this section of the finding require clarification. The finding implied that poor performance evaluations should preclude a firm from being prequalified for work. While undesirable, poor performance evaluations do not automatically preclude a firm from being prequalified to work for the department. As part of the prequalification process, all firms seeking prequalification status are reviewed by the Attorney General’s office for any issues which might preclude them from the list (i.e. Debarment). In regards to the construction engineering and inspection assignment, prior to

their final selection, the department conducted a review meeting with the firm to discuss the past issues, to ensure corrective actions had been taken and to determine whether the firm should remain eligible for selection.

The department agrees with the recommendation presented in this finding regarding enhancing efforts to reduce the instances where consultants are performing work prior to negotiations. The department will include training in this area in its upcoming Lunch & Learn, and District Engineering meetings to reinforce the importance of timely negotiation when extra work is required.”

Non-Collusion Monitoring

Criteria:

Good internal controls require that measures be taken during the bidding process and when awarding bidders (prime contractors) who hire subcontractors to ensure that bid rigging and other forms of collusion do not occur. DOT requires a signed non-collusion statement from every bidder for construction contracts. The department uses the non-collusion statement in Title 23, Part 635.112 of the Code of Federal Regulations. The department’s Policy No. EX.O.-19: Policy on Bid Collusion Detection and Investigation issued March 31, 2004, states that the department’s Office of Management Services has “sole responsibility for monitoring and investigating possible collusive bidding practices.”

Condition:

While a bidder who has been awarded a contract may hire a competitor that had not been selected by DOT to work on that contract, this type of activity is considered a “red flag” for fraud and appropriate measures should be taken to mitigate the risk of fraud. One step the department takes is to require that all bidders sign a non-collusion statement. It does not require the submission of non-collusion statements for subcontractors hired by prime contractors. The department also does not require bidders to identify their subcontractors during the bidding process. In a sample of ten subcontractors, we found that three were competing bidders that had not been originally selected and were then hired by the awarded bidder. We were informed that this occurs frequently in contract work. While this by itself does not indicate collusion, we found that the Office of Management Services does not monitor for collusive bidding practices. Our review also found that the Office of Management Service does not investigate possible collusive bidding practices. We found that the DOT Cost Estimating Unit in the Bureau of Engineering and Construction analyzes bids for various trends, but does not specifically monitor

for collusive activity between bidders that eventually became prime contractors and subcontractors.

Effect: There is no assurance that the relationship between contractor and subcontractor is proper.

Cause: DOT did not establish procedures to address its Policy on Bid Collusion Detection and Investigation.

Recommendation: The Department of Transportation should develop procedures for complying with its Policy on Bid Collusion Detection and Investigation. As an additional step, the department should consider requiring all subcontractors to submit a non-collusion statement, similar to the non-collusion statement required of all bidders. The department may also consider requiring bidders to identify their potential subcontractors during the bid process. (See Recommendation 25).

Agency Response: “With respect to the department requiring all subcontractors to submit a non-collusion statement, it was noted in the auditors’ condition that the department does “require a non-collusion statement be signed by all bidders.” Failure to submit an executed statement as part of the bidding documents does make the corresponding bid nonresponsive and not eligible for award consideration. A losing bidder who is subsequently assigned work on that contract has with their bidding documents already provided the department a non-collusion statement. As a standard practice, the department’s Office of Construction checks every subcontractor approval request (Form CLA-12). If the required documents (including the State Ethics Affirmation) indicated on the CLA-12 Subcontractor Approval Request are not included, they are returned to the prime contractor unprocessed.

The department’s Internal Audit Unit, as part of the Office of Management & Technologies, will develop a standard protocol for testing to ensure the collection of non-collusion statements and establishing a periodic review of data collected by the department’s Cost Estimating Unit to watch for bidding trends and make appropriate referrals to outside offices as needed.

The Policy on Bid Collusion and Detection and Investigation does not need to be revised to reflect the department’s current organizational structure and available resources. For example, at the time the subject policy was established, the department did not have a Legal Services office to assist and advise the Office of Management and Technology Services. The policy can be revised

and reissued to encourage rank and file to report any concerns they encounter with vendors, contractors, and/or consultants with respect to services or materials being received and paid for by the department.”

Auditors’ Concluding Comment:

Our recommendation reflects that subcontractors are not currently required to sign a non-collusion statement. The subcontractor would have a non-collusion statement if a bid was made on the project and the subcontractor was hired by the winning bidder. It should be noted that there are many subcontractors that do not submit bids that are hired by the prime contractor who is awarded the contract.

The Office of Construction’s review of CLA-12 Subcontractor Approval Request, does not require a non-collusion statement from the subcontractor.

State Ethics Law Summary and Affirmation of Receipt

Criteria:

Section 1-101qq of the General Statutes requires state agencies seeking a large state contract (greater than \$500,000), to provide each prospective bidder with a summary of state ethics laws. This bidder must affirm in “writing or electronically, (1) receipt of such summary, and (2) that key employees of such bidder or company have read and understand the summary and agree to comply with the provisions of state ethics law.” The contractor must provide this summary to subcontractors and obtain affirmation from each of its subcontractors that they have received the summary and key subcontractor employees have read and understand the summary and have agreed to comply with its provisions. The contractor is then required to provide the affirmation to the department not later than 15 days after the department’s request. Failure to submit the affirmation in a timely manner shall be cause for termination of the contract.

Condition:

We tested ten subcontractors and found that one subcontractor did not have an affirmation on file at DOT. We found that the department requested the affirmation on November 30, 2011, the date the work began on the project. When we informed the department that the affirmation was not on file, it requested the affirmation again. The department received the affirmation that was dated April 3, 2014; however, the project completion date was February 2, 2014.

Effect: The contractor, subcontractor, and department were not in compliance with Section 1-101qq of the General Statutes concerning ethics requirements for large state construction contracts. Since we only tested ten subcontractors, we do not know whether this is occurring more frequently.

Cause: Administrative oversight appears to be the cause for the condition noted.

Recommendation: The Department of Transportation should ensure that all required documents for large state contracts are on file for its contractors and their subcontractors prior to the commencement of work. (See Recommendation 26).

Agency Response: “The Office of Construction (OCC) reviewed the records and found that staff had requested and received the subcontractor affirmation on November 30, 2011, as required. It appears that the document was misplaced or misfiled, and in April 2014 in response to an inquiry from the auditor, staff requested replacement from the contractor and received one, however, rather than receiving a copy of the 2011 document, a new one was produced.

Current procedures being implemented in the OCC, including electronic scanning and archiving of these documents, should minimize or eliminate any misplaced files in the future.”

Time Extension Approval on Construction Contracts

Criteria: The DOT Construction Manual provides guidance regarding schedules, time extensions, and suspensions. Specifically, the manual states that requests for time extensions may be granted “due to extra or added work or delays resulting from unforeseeable causes beyond the control and without the fault or negligence of the contractor.” The manual requires that the contractor’s request for a time extension contain adequate substantiation and be provided by the contractor “within 60 calendar days of the event.” The manual states that the time extension analysis “is to be forwarded to the assistant district engineer by memorandum for approval/disapproval.”

Condition: When testing eight unapproved outstanding change orders, we identified one time extension approved in March 2014, two and one-half years after the original extension request. The time period

of the approved extension requested by the contractor was for May 2010 to July 2011, approximately two and one-half years after the time of the original extension request dated September 2011.

Effect: The time extension was not approved in a timely manner. We found no evidence to indicate that all appropriate levels of management were aware of the situation.

Cause: DOT informed us that staffing changes at various levels combined with the complicated nature of the request and the department's efforts to obtain additional information contributed to the significant delay in approving the extension.

Recommendation: The Department of Transportation Construction Manual should provide guidance concerning reasonable timeframes for approving construction extension requests. If an approval cannot be made at the time of the request, then the department should document that the appropriate levels of management have been notified of the extension request. (See Recommendation 27).

Agency Response: "The department would like to note that this situation involved a set of uncommon circumstances. In this particular case, the chief inspector had been newly promoted, had a rather complex assignment, and there were administrative reassignments of key support staff as well as managerial oversight changes in the inspectors chain of command which occurred during the life of this project. The Office of Construction believes that the unusual combination of all these circumstances were likely contributing factors causing and requiring re-evaluations, re-drafting and approvals which led to the unusually lengthy processing time. The Office of Construction will further review the circumstances of this case and examine the Construction Manual to see if it is appropriate to revise current language,"

Change Order Approvals

Criteria: The DOT Construction Manual sets forth criteria for review and approval of completed change orders to authorize changes to a construction contract. Chapter 8, section 1-810A through 1-810E, stipulates the required reviews by various levels of management. Section 1-810C states, in part, that the "transportation principal engineer or assistant district engineer must authorize the processing of change orders when the construction order value exceeds \$150,000 or the cumulative value of all related change orders exceeds 5 percent, 10 percent, 15 percent, etc."

Condition: We identified four change orders, out of ten selected for testing, that were not approved in accordance with the Construction Manual. All 4 change orders required transportation principal engineer or assistant district engineer approval because the cumulative value of the change order was greater than \$150,000, and the cumulative value of all change orders was greater than 15 percent of the original contract value.

Effect: Change orders supporting construction costs did not have the necessary approvals as required by the Construction Manual. Failure to manage change orders can result in increased contract costs, unintended changes to the project scope, and overridden management controls.

Cause: Administrative oversight or a lack of full understanding of the requirements of the Construction Manual may have played a role in the condition noted. The manual requires concurrence through phone, fax, or e-mail. The manual also does not specifically state that concurrence be filed with the change order.

Recommendation: The Department of Transportation should take steps to ensure that change orders are documented and approved in accordance with the Construction Manual. (See Recommendation 28).

Agency Response: “Upon request, the Office of Construction received additional information from the Auditors of Public Accounts staff, providing the project and construction orders referenced in the report.

Project No. 301-0078, Construction Order No. 11 was \$47,995.56 and No. 25 was \$62,056.47. Project No. 301-0060, Construction Order No. 44 was \$267,963.39 and Construction Order No. 51 was \$165,251.48.

The Office of Construction acknowledges that both projects were not in full compliance with the Construction Manual with regards to the Construction Order approval process. The Construction Division Chief discussed this non-compliance with the Transportation Supervising Engineer, the Assistant District Engineer and the District Engineer about the necessity to fully conform to the Construction Manual and the district staff agreed. In addition, this issue, Construction Order approval process being in conformance with the Construction Manual, will be reinforced at the next Construction managers meeting.”

Duplicate Reporting of Infrastructure and Recording of Infrastructure in Core-CT

Criteria: The State Property Control Manual provides guidance on the preparation of Asset Management/Inventory Report/GAAP Reporting Form (CO-59). Instructions provide that the line item for Infrastructure is for DOT only.

The Office of the State Comptroller requires that DOT provide on a separate report an Analysis of Changes in Infrastructure Assets (GAAP form 7a) on an annual basis.

Condition: Our office submits an adjusting entry to the Office of the State Comptroller yearly because DOT reports some of its infrastructure twice, once on the CO-59 form and again on GAAP form 7a. For each fiscal year, land with a value of \$897,729,402 was reported twice. Infrastructure that was reported on the CO-59 form twice totaled \$10,789,046,224 and \$10,789,046,366 for the fiscal years ended June 30, 2011 and 2012, respectively. These amounts reported on the CO-59 form are infrastructure that had been recorded in Core-CT. A complete listing of infrastructure is maintained on an Excel spreadsheet, while only a portion of the infrastructure is maintained in Core-CT.

The DOT total infrastructure assets as of June 30, 2012, was reported on GAAP form 7a, including land and infrastructure before depreciation totaling \$14,036,909,107. This listing of infrastructure assets is maintained on an Excel spreadsheet.

Effect: There is duplicate reporting each year requiring an adjustment by our office to ensure that the state is recording the correct amount in its Comprehensive Annual Financial Report.

Cause: A portion of the DOT infrastructure is recorded in Core-CT. The department informed us that it only has a short timeframe for infrastructure assets to be uploaded into Core-CT each year. It has not been uploading infrastructure additions into Core-CT each year because of this short timeframe. Since the Office of the State Comptroller has not cited nor indicated to the department that all its infrastructure should be maintained in Core-CT, the department has not made an effort to maintain its infrastructure in Core-CT.

Recommendation: The Department of Transportation should consult with the Office of the State Comptroller as to the proper reporting of infrastructure so that it does not report the same infrastructure twice. The Department of Transportation should also clarify with that office

whether all of its infrastructure should be included in Core-CT. (See Recommendation 29).

Agency Response: “The department agrees with this finding and will work with the Office of the Comptroller to determine the proper reporting of our infrastructure assets and to remove any duplicate reporting.”

Department of Transportation Family Member Employer Disclosure Form

Criteria: DOT policy number F&A-10A, Code of Ethics Policy Supplement, requires all employees to complete the Department of Transportation Family Member Employer Disclosure form and submit the form to the department’s Human Resources Division and the employee’s supervisor. The form requires employees to inform the department whether the employee has or does not have a family member “employed by a contractor, consultant, or vendor that does business with or is seeking to do business with the department.” The form should be signed by the employee’s supervisor. If any changes occur once a form is filed, then a new form must be completed.

Condition: DOT informed us that once the form is received by the Human Resource Division, it is filed in the employee’s personnel file. If an employee lists that a family member does business with the department, the form is forwarded to the department’s legal office for a review. The legal office provided us with copies of these forms under their review.

Our review revealed that nine out of 36 employees sampled (25 percent) did not have the form in their personnel file. We found that one out of 36 sampled (three percent) did not have the form signed by a supervisor.

We found that the department does not document that all employees completed the form, the employee’s supervisor signed the form, and the form was filed with the Human Resource Division.

Effect: There is no assurance that DOT is aware of all family relationships between its employees and those it does business with.

Cause: DOT did not institute a procedure to ensure that forms were received from all employees.

Recommendation: The Department of Transportation should develop procedures to document that Department of Transportation Family Member Employer Disclosure Forms have been submitted by all of its employees and signed by a supervisor. (See Recommendation 30).

Agency Response: “The department agrees in part with this finding. A notice was issued to employees in June 2008 requiring an annual updated form only when there is a change in status. A revision to the F&A 10A policy has been drafted to represent the clarification. The redraft is under review by Legal Services and will be finalized and reissued by September 1, 2015.”

Auditors’ Concluding Comment:

We confirmed that the redraft was reissued September 1, 2015.

Meal Tickets

Criteria: The DOT meal policy for maintenance facilities during emergency overtime work and other specified situations require that restaurants where employees dine, “submit itemized bills for payment, showing the items purchased and the price of each, and the tip. Employees will be required to sign the itemized bill for the meal in addition to the regular meal charge ticket (Form No. Maintenance 78).”

The DOT Purchasing Card Manual requires that cardholders enclose the original meal charge ticket and their purchasing card receipts in their purchasing card log envelope.

Condition: We reviewed ten purchasing card transactions, of which three were for purchases of meals at restaurants. Our review of one purchasing card transaction for meals purchased during winter storms revealed that itemized bills were not submitted with the original meal charge tickets. DOT could not locate the itemized bills for the meal tickets we reviewed. Instead, a credit card receipt for the total of several meal charge tickets was submitted for payment.

Through our review of meal charge tickets, we found that, at times, the date was changed on the meal ticket. We could not determine if it was due to error because we did not have the itemized bill supporting the meal charge ticket. The date on the meal ticket is important because these tickets can only be used during winter storms and other activities determined permissible by management. We also were unable to identify the signatures on the meal tickets

to verify that it was a department employee who received the meal and whether the employee was at work that day.

We did not request the itemized bills for the other two transactions. DOT informed us that its employees only submit the charge slip to the restaurant and the meal tickets to the Purchasing Card Unit to support their charges. Itemized charges of the employee meals are not submitted but may be retained at each district office

Effect: We were unable to determine whether all meals charged were valid.

Cause: DOT informed us that the itemized bills are retained at the district offices and are not submitted to the Bureau of Finance & Administration for payment. Departmental procedures do not clearly state that itemized bills should be submitted for payment and that employees should clearly write their names on meal charge tickets.

Recommendation: The Department of Transportation should require that itemized bills be submitted for payment and that employees clearly write their names on meal charge tickets. (See Recommendation 31).

Agency Response: “The department agrees with the finding and will take the following actions to improve procedures relating to meal tickets. The Maintenance-78 form will be revised to require the employee to legibly print their name and initial, replacing the current form which only requires a signature. Personnel Memorandum No. 82-5, the Meals Policy for Maintenance Facilities, will also be modified to require a legibly printed name with initials on the vendor’s itemized receipt. The department will have Personnel Memorandum No. 82-5 reviewed and discussed with all Bureau of Highway Operations personnel. It will be incorporated into the annual snow training to ensure all employees and supervisors are compliant. The signed itemized bills or receipts will accompany the meal charge tickets (Form No. Maintenance 78) in the log envelop (for P-Card purchases) and will be sent to the DOT P-Card Coordinator in Budget Development and Control for payment verification and record retention.”

Unspent Federal Funds

Background: A January 2012 newspaper article indicated that DOT received two federal grants in 2005 and 2006 for racial profiling programs and that, as of the date of the article, the funds remained unspent. As a

result, we decided to confirm whether this newspaper article was accurate.

Criteria: Good business practice requires departments that receive federal funds to spend those funds in a timely manner. Departments should also analyze their appropriations for inactivity in a timely manner.

Condition: Through our review of the trial balance of appropriations for the racial profiling program, we found that funds were not expended until several years after they were received. The available balances for spending were as follows:

- June 30, 2007 – \$643,613
- June 30, 2008 through June 30, 2012 – \$1,181,965

We also found that five other federal appropriations totaling \$5,635,287 that were available as of June 30, 2008, were still available as of June 30, 2014.

Effect: Federal funds are not spent in a timely manner.

Cause: DOT informed us that the original grant for the racial profiling program was not spent because the Commission on African American Affairs was supposed to administer the grant but did not have the administrative capability to do so. The funds have been assigned to another organization, and the balance as of June 2, 2015 was \$351,135.

It appears that the department did not take action on these grant funds until we brought it to their attention. We could not determine the reason for this.

Recommendation: The Department of Transportation should spend its federal resources in a timely manner. The department should analyze its appropriations for inactivity and take appropriate action to remove receivables if it is determined that federal grants associated with those receivables are no longer active. (See Recommendation 32).

Agency Response: “The department agrees with this finding. While the department is very aware of lapsing, or termination dates for federal funds and monitors funds to ensure they do not lapse, the department does not have a formal process in place to ensure the timely expenditure of federal funds. The department does make an effort to utilize federal funds on a timely basis; however, there are sometimes legitimate reasons why funds are not used for a period of time.

Federal funds are sometimes provided for a very specific purpose and the funds cannot be utilized until a particular project is ready to advance. Delays in a project can be caused by a variety of reasons, such as dependence on a municipality's resources, the resolution of an environmental issue, or a rights-of-way negotiation. In order to identify federal funds that are not being utilized in a timely manner, the department will review activity on federal SIDs (special identification numbers) annually and take appropriate actions to ensure utilization of the funds or return of funds that are not needed."

RECOMMENDATIONS

We presented 12 recommendations in the prior report on the fiscal years ended June 30, 2009 and 2010. Seven of those recommendations have either been implemented by the department or resolved.

This report contains 32 recommendations, five from the prior report, and 27 from the current review. The following is a summary of the recommendations presented in the prior report and the actions taken by the department.

Status of Prior Audit Recommendations:

- 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. We did not find any cash advance payments during the audited period. This recommendation will not be repeated.
- 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. The department provided us with their planned use of the rail parking revenue. This recommendation will not be repeated.
- The department should not make year-end expenditure transfers for the purpose of using available appropriations before they lapse. We did not find any year-end expenditure transfers to avoid the lapsing of funds. This recommendation will not be repeated.
- 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. As no additional payments were made for this project and the department acknowledged that its Fiscal Office performed a review of all other payments and found that all subcontractor invoices needed to substantiate the payments were on hand, this finding will not be repeated.
- 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. This recommendation has been modified to reflect current and additional conditions. (See Recommendation 1.)
- 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. This recommendation has been modified to reflect current and additional conditions. (See Recommendation 3.)

- The department should improve controls regarding the set-up and approval of purchase orders to ensure that expenditure coding is proper. This recommendation is being repeated, as we are still finding coding errors for expenditures. (See Recommendation 4.)
- The department should develop formal written procedures for tracking motor vehicle accidents that result in damage to state property 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. This finding is not repeated as procedures have been developed. District offices now provide the Revenue Accounting Unit with necessary documents to set up receivables for collection.
- 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 of the purpose of the entries, should be established. As the department has not done a review of fuel inventory variances since February 2011, this finding is repeated as Recommendation 5.
- 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. As we found several reports mandated by statutes or legislative acts that were not submitted, we are repeating this finding as Recommendation 9.
- 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. The department has considered our recommendation and has informed us that the Federal Highway Administration will only approve bridges with a condition rating of six or better for increased inspections. Since the department follows federal regulations for inspections this finding will not be repeated.
- 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. The department has resolved this recommendation so it is not repeated.

Current Audit Recommendations:

- 1. The Department of Transportation should ensure that detailed documentation concerning pricing be incorporated into Department of Administrative Services contracts to ensure the discounts are taken based on the manufacturer's suggested retail price. Vendor invoices and purchase orders should include all necessary information to detail the products purchased along with relevant pricing and discounts applied.**

Comment:

Our review disclosed that some invoices did not have sufficient documentation detailing the manufacturer's suggested retail price and that this information was not incorporated into the Department of Administrative Services contracts. In some instances, we were unable to verify the actual price on the invoice against the contract.

- 2. The Department of Transportation should make adjustments to the Asset Management System to accurately reflect pricing for the dump bodies and related equipment. Purchase orders and invoices should be itemized to indicate items purchased and the actual prices of each item.**

Comment:

We found that the value of 22 dump bodies was not accurately reflected in the Core-CT Asset Management System.

- 3. The Department of Transportation should take measures to ensure that its asset inventory records are accurate. It should reinforce its policies regarding equipment transfers to ensure that all employees are aware they should immediately notify the Asset Management/Inventory Control Unit whenever any equipment is transferred to another location. The department should develop a form to show that a vehicle is at a different location because it is being repaired. The department should ensure that inventory designees are performing physical inventories in accordance with the department's policy and that the supervision of that inventory is validated.**

Comment:

We found that the Asset Management/Inventory Control Unit was not always notified or not timely notified of equipment transfers. We also found that employees taking physical inventories were occasionally checking off that items were inspected during the inventory when the items were physically located at another DOT location.

- 4. The Department of Transportation should code expenditures in accordance with the State Comptroller's Manual.**

Comment:

We found the department is still making coding errors for expenditures.

- 5. The Department of Transportation should prepare the inventory comparison report and investigate all large variances as well as a sample of smaller variances to ascertain whether the differences between the inventory comparison report and the Fuelmaster® system are only errors. If differences cannot be explained, the department should report the differences as a loss in accordance with Section 4-33a of the General Statutes.**

Comment:

The department was not preparing its inventory comparison report for fuel to ensure that those manual fuel readings, taken periodically by its station attendants, agreed with the amount of fuel recorded in its Fuelmaster® system. There has been a history of differences between the two systems.

- 6. The Department of Transportation should inform all state agencies that use its fuel stations that, before an employee uses a state vehicle, they must confirm that a fuel key is in the vehicle so fuel can be obtained according to standard procedure. The department should enforce its procedures regarding Manual Fuel Transaction Slips, specifically that the forms be completed in full and signed by the attendant as well as the employee receiving the fuel to ensure that these transactions are for official state business.**

Comment:

We found numerous fuel transactions in which supervisor keys were used to dispense fuel in vehicles. Many of these transactions exceeded the department's five-gallon maximum. We also found many instances in which the identity of the vehicle receiving the fuel was not provided. There were also instances in which erroneous or no odometer readings were provided on fuel reports.

- 7. The Department of Transportation should ensure that all miscellaneous fuel keys are reprogrammed to only dispense five gallons of gasoline per transaction. The department should retain and have available for audit, its review of miscellaneous fuel key transactions.**

Comment:

DOT could not locate its review of the miscellaneous fuel key usage for the three months selected for testing. We found many instances in which the amount of fuel dispensed

exceeded the department's policy of a five-gallon limit and instances of excessive use of the key.

- 8. The Department of Transportation should establish a policy instructing individuals on how to properly safeguard their fuel key. The department should ensure that the individual picking up a replacement fuel key signs the Fuel Key Request Form. The department should also request that Fuelmaster® develop a report that can be run by fuel key serial number.**

Comment:

We found that Fuel Key Request forms for new fuel keys (Prokees) were not always signed by the individual receiving a replacement key. We were unable to determine whether lost fuel keys were cancelled.

- 9. The Department of Transportation should submit all reports mandated by the General Statutes or legislative acts as required. If the department believes the reports do not need to be prepared, it should request that the statute or legislative act be repealed. Department staff monitoring report due dates should notify the required recipients, on or before the due dates, of any reports that cannot be completed because of a lack of funding.**

Comment:

We found that DOT did not prepare several reports required by the General Statutes and legislative acts.

- 10. The Department of Transportation should contract with Metro North Commuter Railroad Company on billing requirements for capital projects to facilitate the processing of reimbursements. The department should evaluate its process of reviewing the invoices and attempt to reduce the time between when the department expends state funds and the receipt of federal funds.**

Comment:

We found that DOT does not bill and receive reimbursement from the Federal Transit Administration for Metro North Commuter Railroad Company invoices in a timely manner. We found several instances in which reimbursement was requested five or more months after the invoice date.

- 11. The Department of Transportation should obtain all contract amendments and administrative letters and file them in a centralized location. The department should also consider updating the Amended and Restated Agreement with Metro North Commuter Railroad Company to incorporate all relevant amendment and administrative changes that are still in effect.**

Comment:

Through our review, we found that DOT could not locate all contract amendments and administrative letters that updated the Amended and Restated Agreement with Metro North Commuter Railroad Company.

12. The Department of Transportation should perform closeouts of transit grants on a timely basis.

Comment:

We found that financial reviews to closeout transit grants were not complete for several years of grants.

13. The Department of Transportation should use pre-numbered tickets for passengers and vehicles to record ferry passage. Signs should be posted at the ferries reminding passengers to ask for a ticket when payment is tendered.

Comment:

We found the department's current method of accounting for passengers and vehicles that use the ferries to be inadequate. The employee collecting the revenue also controls the amount of punches on the pre-numbered cards used for accountability.

14. The Department of Transportation should ensure that all employees are properly trained in the fact-finding process and that statements and complaints made by employees and the public are thoroughly investigated. The department should comply with requirements of the State Records Retention Schedules with regard to personnel matters for human resources investigations.

Comment:

We found that DOT did not adequately investigate a complaint made by a citizen or comments made by an employee during fact-finding of a personnel matter. Furthermore, notes taken during the fact-finding were destroyed and therefore not available for our review.

15. The Department of Transportation should ensure that the data it reports on its CO-59 report is accurate. The department should work with Core-CT staff to ensure that inter-business unit transfers for supply inventory are reported at the correct price in Core-CT.

Comment:

We found that CO-59 reports filed with the State Comptroller were not accurate because inter-business unit transfers for supply inventory are not being processed correctly in Core-CT.

- 16. The Department of Transportation should utilize its Security and Internal Audit division to improve internal controls over supply inventories at those locations at risk for missing items. The department should conduct surprise counts of high-risk items at those locations throughout the year.**

Comment:

Our review of supply inventories conducted by the Internal Audit Division revealed that many items were missing during inventory counts. The department performs a supply inventory at each of its locations every three years.

- 17. The Department of Transportation should implement policies for the proper documentation of prior written authorizations of compensatory time for managers and non-managers and should ensure that compensatory time earned by managers is significant in time and duration.**

Comment:

We found instances in which there was no supporting documentation or prior written authorization for compensatory time. Compensatory time earned by some managers was considered to be insignificant in duration.

- 18. The Department of Transportation should adhere to the procedures and guidelines set forth in the Department of Administrative Services' General Letter No. 115 as well as those stated in its Fiscal and Administrative Policy 36.**

Comment:

We found that DOT did not retain auto insurance policies of employees who received mileage reimbursements.

- 19. The Department of Transportation should have formal records of the Security Division's work so it can reconcile them to time, location, and mileage records. Supervisors should be aware of employee time, attendance, and location so they can properly approve mileage reports.**

Comment:

We were unable to determine from mileage reports why Security Division personnel were at various locations. We found that some of the mileage reports were also not approved by the supervisor and, if they were approved by the supervisor, did not have records to show that the supervisor was aware that the employee was at that location.

- 20. The Department of Transportation should develop procedures to review the monthly telephone bill to ensure that only authorized phones and charges are on the bill. The department should certify the accuracy of the telephone bill and ensure employees certify that their cell phone calls are work-related. The department should remind employees of the link to obtain telephone numbers online at no cost to the state.**

Comment:

Through our review, we found that DOT did not certify its monthly telephone bills; not all cell phone users signed and returned a Monthly Individual Usage Report; and the department incurred charges for calls that were made to directory assistance when employees could have obtained telephone numbers online at no cost to the state.

- 21. The Department of Transportation should only approve vendor payments with required supporting documentation in accordance with the State Accounting Manual.**

Comment:

Cost information that would be contained in contractual agreements to support an invoice was not on hand when the department approved a vendor payment.

- 22. The Department of Transportation should improve internal controls over asset accountability to ensure compliance with Section 4-36 of the General Statutes and the requirements of the State Property Control Manual.**

Comment:

We found six rail cars were placed in service, but were not entered into the Asset Management System.

- 23. The Department of Transportation should comply with the software inventory requirements of the State Property Control Manual.**

Comment:

We found that DOT does not maintain a software inventory that would comply with requirements of the State Property Control Manual. The value of software inventory on the CO-59 report does not appear to be accurate, as it is not reconciled to any physical inventory of software and department developed software applications are not included in the report.

- 24. The Department of Transportation should develop a tracking mechanism to ensure that the Consultant Selection Office receives all performance evaluations of its consultants. All performance evaluations should be provided to consultant selection panels prior to them making recommendations to the Commissioner of the Department of Transportation for consultant selection. Contractual language should be enforced regarding extra work prior to its performance and the resulting penalties for failure to abide by that language so that consultants will not perform work prior to departmental approval of that work.**

Comment:

We found that DOT had to do a considerable amount of negotiation with a consultant for work performed because the consultant did not follow its agreement with the state. Furthermore, not all performance appraisals for this consultant could be located. Our review of some of the performance appraisals found negative ratings. We were informed that the consultant selection panel was not provided with the negative performance evaluations when it recommended the consultant to the commissioner and was eventually awarded a contract.

- 25. The Department of Transportation should develop procedures for complying with its Policy on Bid Collusion Detection and Investigation. As an additional step, the department should consider requiring all subcontractors to submit a non-collusion statement, similar to the non-collusion statement required of all bidders. The department may also consider requiring bidders to identify their potential subcontractors during the bid process.**

Comment:

Through our review, we found that the DOT Office of Management Service did not monitor and investigate possible collusive bidding practices as required by its policy. We found that losing bidders often become subcontractors.

- 26. The Department of Transportation should ensure that all required documents for large state contracts are on file for its contractors and their subcontractors prior to the commencement of work.**

Comment:

We found that DOT did not have an affirmation statement from a subcontractor on file documenting that it received a summary of state ethics laws and that key employees agreed to comply with these laws.

- 27. The Department of Transportation Construction Manual should provide guidance concerning reasonable timeframes for approving construction extension requests. If an approval cannot be made at the time of the request, then the department should document that the appropriate levels of management have been notified of the extension request.**

Comment:

We found a time extension that was approved approximately two and one-half years after the original extension request.

- 28. The Department of Transportation should take steps to ensure that change orders are documented and approved in accordance with the Construction Manual.**

Comment:

Our review revealed that some change orders were not approved in accordance with the Construction Manual.

- 29. The Department of Transportation should consult with the Office of the State Comptroller as to the proper reporting of infrastructure so that it does not report the same infrastructure twice. The Department of Transportation should also clarify with that office whether all of its infrastructure should be included in Core-CT.**

Comment:

We found that there is duplicate reporting of infrastructure to the State Comptroller each fiscal year. We also found that only a portion of the department's infrastructure assets are recorded in Core-CT.

- 30. The Department of Transportation should develop procedures to document that Department of Transportation Family Member Employer Disclosure Forms have been submitted by all of its employees and signed by a supervisor.**

Comment:

We were unable to locate Family Member Employer Disclosure Forms for several employees, and DOT does not have a mechanism to document that the form was completed.

- 31. The Department of Transportation should require that itemized bills be submitted for payment and that employees clearly write their names on meal charge tickets.**

Comment:

Itemized bills were not submitted with the credit card receipt for meal tickets. Dates on meal tickets were not clear and we were unable to identify some of the names of employees who signed meal tickets certifying that they received a meal.

- 32. The Department of Transportation should spend its federal resources in a timely manner. The department should analyze its appropriations for inactivity and take appropriate action to remove receivables if it is determined that federal grants associated with those receivables are no longer active.**

Comment:

We found several appropriations for federal funds that were not spent over several years.

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, 2011 and 2012. 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, 2011 and 2012, 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 controls 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 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 of Transportation's financial operations will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency, described in detail in the accompanying Condition or Records and Recommendations section of this report, to be a material weakness: Recommendation 6 – Gasoline Dispensed in Vehicles by Using the Manual Fuel Key, Recommendation 21 – Rail Car Purchases, Recommendation 25 – Non-Collusion Monitoring, and Recommendation 28 – Change Order Approvals.

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: Recommendations 1, 2, 3, 5, 7, 9, 10, 11, 13, 14, 15, 16, 19, 20, 23, 24, 26, 27, 30, 31, and 32.

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 of Transportation'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*.

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

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Transportation during the course of our examination.



JoAnne Sibiga
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert J. Kane
Auditor of Public Accounts