STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF PUBLIC WORKS
FOR THE FISCAL YEARS ENDED JUNE 30, 1997 and 1998

AUDITORS OF PUBLIC ACCOUNTS

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July 26, 2001

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We have examined the financial records of the Department of Public Works for the fiscal years ended June 30, 1997 and 1998. This report on that examination consists of the Comments, Recommendations and Certification which follow.

Financial statements pertaining to the operations and activities of the Department of Public Works are presented on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Public Works operates under provisions of Title 4b, Chapters 59 and 60 of the General Statutes. It is responsible for the purchase, lease and construction of property and space to house State agencies, and the operation and maintenance of State of Connecticut facilities.

Theodore R. Anson served as Commissioner of Public Works during the audited period.

During the period under review, the Department was organized into four divisions, as follows:

- Management and Planning- *Human Resources, Bidding and Contracts, Financial Management, Information Technology*
- Facilities Management - *Property management of State owned and leased properties*
- Leasing and Property Transfer - *Administration of Property Leases, Acquisition, Sale and Transfer of real property*
- Facilities Design and Construction - *Client Plans and Program Teams, Architectural and Engineering Services, Construction Services, Special Projects, Claims Management*

The State Properties Review Board, under the provisions of Sections 4b-3 and 4b-23 of the Connecticut General Statutes, must approve or disapprove any proposed real estate transaction, in addition to most proposed contractual agreements with design professionals to be entered into by the Commissioner of Public Works. The operations of the State Properties Review Board are presented in a separate audit report.

RÉSUMÉ OF OPERATIONS:

Revenues and Receipts:

Total General Fund receipts increased by $463,882 during fiscal year 1996-1997 and decreased by $29,213 during fiscal year 1997-1998. General Fund receipts for the audited period, together with those of the preceding fiscal year, are summarized below:

	Fiscal Year Ended June 30,		
	1996	1997	1998
Revenues	$ 1,515,490	$ 2,008,881	$ 1,488,590
Nonrevenue receipts - sale of property	685,324	47,213	49,267
Refunds of expenditures - current year	390,759	456,459	443,766
Restricted contributions	652,800	1,195,702	1,697,419
Total General Fund Receipts	**$ 3,244,373**	**$ 3,708,255**	**$ 3,679,042**

The increase of $463,882 in revenues during the 1996-1997 fiscal year was mostly attributable to an increase of $555,655 in rents received. Revenues remained fairly consistent for the 1997-1998 year. Restricted contributions principally represent grants received by other agencies and transferred to the Department for projects administered by the Department.

In addition to the General Fund receipts presented in the schedule and discussed above, the Department had other receipts, as summarized below:

	Fiscal Year Ended June 30,		
	1996	1997	1998
Agency Funds	$ 268,987	$ 505,165	$ 257,216
Capital Project Funds credited to agency accounts	453,564	127,246	631,140
Special Revenue Fund	562,532	1,035,464	1,380,457
Total Other Receipts	**$ 1,285,083**	**$ 1,667,875**	**$ 2,268,813**

Special Revenue Fund receipts represent transfers from other agencies into the "Inter Agency/Intra-Agency Grants - Tax Exempt Proceeds" fund. Receipts to the fund increased during the 1996-1997 and 1997-1998 fiscal years. Agency Funds represent amounts deposited to a Pending Receipt Fund. Amounts are held until the proper disposition of funds is determined.

General Fund Expenditures:

General Fund appropriations and expenditures totaled $30,319,457 and $38,680,371 for the fiscal years ended June 30, 1997 and 1998 respectively, as compared to $32,953,562 for the fiscal year ended June 30, 1996. A categorical comparison is presented below:

	Fiscal Year Ended June 30,		
	1996	1997	1998
Budgeted Appropriations:			
Personal Services	$ 5,414,457	$ 6,316,205	$ 7,134,257
Contractual services	24,684,166	21,579,021	24,565,510
Commodities	1,056,899	1,561,804	1,087,042
Sundry charges	269,338	83,155	1,070,849
Capital outlay – equipment	22,059	233,633	40,212
Capital outlay - capital projects	80,144	327,532	972,674
Total Budgeted Appropriations	31,527,063	30,101,350	34,870,544
Restricted Appropriations:			
Federal Contribution Accounts	502,195	454,477	443,864
Other than Federal Accounts	924,304	763,630	3,365,963
Total Restricted Appropriations	1,426,499	1,218,107	3,809,827
Total Expenditures	**$ 32,953,562**	**$ 31,319,457**	**$ 38,680,371**

Total expenditures charged to General Fund appropriations decreased by $1,634,105 in the 1996-1997 fiscal year. General Fund expenditures then increased by $7,360,914 in the 1997-1998 fiscal year. The increased expenditures in the fiscal year ended June 30, 1998, were due in part to increased personal services costs of $818,052 and an increase of $2,768,028 for management fees and utility costs which resulted from the continued effort to move State agencies into State owned facilities. This was offset by a decrease in rents and storage of $430,360.

Expenditures from Federal accounts were principally for a project performed for the Air National Guard. More specifically, design costs for a military aviation facility were funded and expended. The increase in “Other than Federal” restricted appropriation expenditures during the 1997-1998 fiscal year was due to construction expenses of $2,602,333.

Organizational Units and Functions:

Facilities Management Division:

The Facilities Management Division administers the operation, maintenance and security of most State facilities owned or leased in the Hartford area under the provisions of Section 4b-1, subsection (7), and Section 4b-12 of the Connecticut General Statutes.

Leasing and Property Transfer Division:

Under the provisions of Section 4b-1 of the General Statutes, the Commissioner is responsible for the purchase and acquisition of property and space to house State agencies, and, subject to certain restrictions in Section 4b-21, the sale or exchange of any land or interest in land belonging to the State.

Property Acquisitions:

Our review of the records of the Department of Public Works indicated that land and building acquisitions including design-build projects approved by the State Properties Review Board totalled $21,537,276 and $20,615,000 for the fiscal years ended June 30, 1997 and 1998. A summary of some of the larger property acquisitions and the State agencies principally benefiting from such acquisitions is presented below:

Agency	Location	Costs
Eastern Connecticut State University	Windham Campus	$ 19,618,650
Department of Public Works	Waterbury	12,000,000
Judicial Department	Killingly	8,184,000

Leases:

Under the provisions of Sections 4b-23 and 4b-30 of the General Statutes, the Department of Public Works is responsible for the assignment of office space and for providing necessary accommodations for executive agencies, other than institutions. Additionally, the Public Works Commissioner, with the approvals of the State Properties Review Board, the Office of Policy and Management and the Attorney General, is empowered to execute all leases for offices or any other type of space or facility necessary to meet the needs of all State agencies and institutions.

The Division had entered into approximately 233 leases, procuring accommodations for various State agencies, as of June 30, 1998. Rental costs for 19 of these facilities, located in the Hartford area, were directly paid for by Public Works General Fund appropriations.

Lease-outs of State property:

Under Section 4b-38 of the General Statutes, the Commissioner of Public Works may lease State-owned land or buildings for private use when not needed for State use and when such action appears desirable to produce income or is otherwise in the public interest. During the fiscal years ended June 30, 1997 and 1998, the Department of Public Works collected rental fees totalling $1,270,476 and $1,281,812 respectively.

Facilities Design and Construction Division:

Facilities Design and Construction manages the planning and construction of most capital improvements. Under the provisions of Section 4b-1 and Section 4b-51 of the Connecticut General Statutes, the Commissioner of Public Works is responsible for most capital projects involving expenditures in excess of $250,000 and for those projects for the State system of higher education in excess of $2,000,000. Public Act 99-75, effective October 1, 1999, increased the threshold for Public Works responsibility to expenditures in excess of $500,000, projects for the State system of higher education remained unchanged at $2,000,000. The University of Connecticut, Connecticut Marketing Authority, the Joint Committee on Legislative Management, the Department of Transportation and the Judicial Department are granted authority by Statute to self-administer certain construction projects.

Capital Projects:

Amounts allotted for land acquisition, construction and equipping of new facilities, and alterations to existing facilities, during the fiscal year ended June 30, 1997 and 1998, totalled $235,072,612 and $214,584,538 respectively as compared to $173,832,660 for the fiscal year ended June 30, 1996. An analysis by fund follows:

	Fiscal Year Ended June 30,		
	1996	**1997**	**1998**
General Fund (net)	$ 997,123	$ 1,489,175	$ 2,169,807
Capital Projects Funds	172,273,005	232,547,973	211,034,274
Special Revenue Fund	562,532	1,035,464	1,380,457
Totals	**$173,832,660**	**$235,072,612**	**$214,584,538**

A major number of the capital projects were administered by Facilities Design and Construction. Projects not administered by Facilities Design and Construction were those specifically designated by statute to be administered by other than the Department of Public Works, or those projects which, as permitted by Section 4b-52 of the General Statutes, were administered by the agencies themselves. During the audited period Section 4b-52 authorized the Commissioner to permit agencies to administer projects costing $250,000 or less. Public Act 99-75, effective October 1, 1999, increased the threshold for Public Works responsibility to expenditures in excess of $500,000. For constituent units of the State system of higher education, with the exception of the University of Connecticut, the limit remained unchanged at $2,000,000. The University of Connecticut is not subject to the limit, although the Department of Public Works must be notified of its intentions to administer such projects.

Net expenditures from available funds allotted for capital projects, administered by the Department of Public Works, for the fiscal year ended June 30, 1997 and 1998, totalled $186,067,699 and $202,082,408 respectively, as compared to $208,204,716 for the fiscal year ended June 30, 1996. Based on Agency accounting records, the following is an analysis of expenditures from construction allotment accounts.

Fiscal Year Ended June 30,

	1996	1997	1998
Payments to or for:			
Contractors	$ 137,367,963	$ 146,687,690	$ 171,996,748
Architects and Engineers	20,028,791	12,972,363	14,168,435
Equipment	9,292,358	8,429,267	8,967,575
Real estate acquisitions	25,457,823	1,918,626	1,816,304
Public Works fees	10,918,049	9,837,179	4,237,905
Other costs	5,139,732	6,222,574	895,441
Totals	**$ 208,204,716**	**$ 186,067,699**	**$ 202,082,408**

Note:
The above amounts were derived from capital projects data recorded in Agency payment log books maintained in the Department's Project Accounting Unit and are not reconciled to the capital project accounting records.

Major capital projects expenditures during the audited period were for the State system of higher education, Judicial Department, Military Department, and the Departments of Public Safety, Environmental Protection, Labor, Children and Families, Mental Retardation, Public Works and Corrections.

Set-Aside Program:

The Set-Aside Program for small contractors and minority business enterprises was authorized by Sections 32-9e through 32-9h of the General Statutes. These sections provide, in part, that the Commissioner of Economic and Community Development shall be responsible for the administration of the program and shall promulgate such regulations as are necessary to carry out its purpose. A further provision relative to this program is that the head of each State agency shall set aside, in each fiscal year, for awards to small contractors, at least 25 percent of the average of the total value of all contracts for each of the previous three fiscal years consisting of State-awarded contracts or portions of State-awarded contracts for the construction, reconstruction or rehabilitation of public buildings. In addition, at least 25 percent of all contracts to be set-aside under the above 25 percent program requirement shall be reserved for award to minority business enterprises.

We reviewed the Department's compliance in this area and found that the small business and minority business set-aside goals had been met for the fiscal year under review. The calculation of the set-aside requirements and the actual awarded contracts for the 1997-1998 and 1996-1997 fiscal years is presented below. Requirements and activity for the 1995-1996 fiscal year are also presented for comparison.

For Fiscal Year Ended June 30,

	1996	1997	1998
Years Used for Calculation of Average:			
1992-1993	$ 52,534,273		
1993-1994	95,112,412	$ 95,112,412	
1994-1995	66,417,489	66,417,489	$ 66,417,489
1995-1996		76,536,587	76,536,587
1996-1997			74,777,548
Total Contracts Awarded for the Three Years	214,064,174	238,066,488	217,731,624
Average for Three Years	71,354,725	79,355,496	72,577,208
Set-Aside Goal - 25 percent of Three-Year Average	17,838,681	19,838,874	18,144,302
Set-Aside Contracts Awarded	30,422,324	26,757,368	46,772,451
Percentage of Set-Aside Goal Achieved	170.54%	134.88%	257.78%
Minority/Women Contract Goal - 25 percent of Set-Aside Goal	4,459,670	4,959,718	4,536,076
Minority/Women Contracts Awarded	8,167,435	11,282,181	10,938,976
Percentage of Minority/Women Set-Aside Goal Achieved	183.1%	227.48%	241.16%

Pending Receipts:

The Public Works pending receipts account was used primarily as a repository for rent, security deposits and cash bid bonds. Activity in the Department's pending receipts account for the fiscal years ended June 30, 1997 and 1998 is summarized in the following schedule:

	Fiscal Year Ended June 30, 1997
Beginning Balance	$ 3,076
Deposits	505,165
Total Beginning Balance and Deposits	508,241
Disbursements	295,626
Ending Balance June 30, 1997	$ 212,615

	Fiscal Year Ended June 30, 1998
Beginning Balance	$ 212,615
Deposits	257,216
Total Beginning Balance and Deposits	469,831
Disbursements	259,505
Ending Balance June 30, 1998	$ 210,326

Public Works Service Fund:

The Public Works Service Fund was established in the 1983-1984 fiscal year to accumulate salary charges and other expenses of Facilities Design and Construction personnel assigned to construction projects. The purpose of the fund was to accumulate and pay costs of the Department associated with administering capital projects, and subsequently to bill the costs to the specific Capital Projects Funds involved. The fund also received reimbursements of expenditures for General Fund construction projects.

The allocation of Service Fund costs, to individual construction projects, never operated as intended. This situation resulted in an overdrawn position in the Fund of $10,200,000 by fiscal year 1990-1991. In February 1991, the Comptroller informed the Department that no further charges would be allowed against the Service Fund and ordered the salaries and other expenditures incurred by the Service Fund, to be paid from the General Fund until a new revolving fund with stricter controls could be established. The Department was able to research the unapplied costs from this period and, eventually, was able to allocate a significant portion of the deficit to the appropriate construction projects. As a result of this, and an additional fee which was applied to current capital projects for a period, the deficit was reduced to $3,123,072 at June 30, 1996. At June 30, 1997, the deficit was reduced to $2,459,071 due to the identification of an additional $664,001 in project funds. During the 1997-1998 fiscal year $18,749 was credited to the fund as charges to the Public Works Capital Projects Revolving Fund. The remaining deficit of $2,440,322 was retired by means of Special Act 98-7, an act making deficiency appropriations for the year ended June 30, 1998.

Public Works Capital Projects Revolving Fund:

Section 24 of Public Act 91-4, June 1991 Special Session, since codified as Section 4b-1a of the General Statutes, established the Public Works Capital Projects Revolving Fund. This fund was to be used for financing costs associated with capital projects authorized to be funded with the proceeds of State bond issues. On January 28, 1991, the State Bond Commission authorized the financing of the Revolving Fund with $1,000,000 in State bond issues. The allotment of those funds was approved on March 4, 1992.

The financial position of the Revolving Fund at June 30, 1997 and 1998, as compared to the previous fiscal year end, is presented below:

	For Fiscal Year Ended June 30,		
	1996	**1997**	**1998**
Cash	$ (2,915,763)	$ (7,723,990)	$ (10,089,488)
Receivables	5,774,433	11,161,052	14,072,880
Total Assets	**$ 2,858,670**	**$ 3,437,062**	**$ 3,983,392**
Due to Other Fund	$ 117,729	$ 117,729	$ 117,729
Contributed Capital	1,000,000	1,000,000	1,000,000
Fund Balance	1,740,941	2,319,333	2,865,663
Total Liabilities and Fund Balance	**$ 2,858,670**	**$ 3,437,062**	**$ 3,983,392**

Agency records indicate that the Fund incurred total expenditures of $9,837,179 and $8,366,835 for the fiscal year ended June 30, 1997 and 1998 respectively, as compared to $10,918,049 for the fiscal year ended June 30, 1996. Sources of funding and expenditures are summarized below:

	For Fiscal Year Ended June 30,		
	1996	**1997**	**1998**
Sources of Funding:			
Billings to Capital Projects	$ 10,866,314	$ 10,329,382	$ 8,906,556
General Fund Appropriations			
Plans and Specification Fees		80,685	5,133
Other	4,956	5,504	1,476
Total Funding	10,871,270	10,415,571	8,913,165
Expenditures:			
Payroll	7,251,275	7,345,455	6,657,652
Outside Professional Services		28	
Fringe Benefits	2,891,647	2,406,684	1,687,315
Other Expenses	127,083	85,012	3,119
Transfers - Public Works Service Fund	648,044		18,749
Total Expenditures	10,918,049	9,837,179	8,366,835
Funding in excess of (or less than) expenditures	$ (46,779)	$ 578,392	$ 546,330

In prior years, billings and other receipts exceeded the expenditures of the fund, including the transfers to the Service Fund. This had the effect of building up a surplus in the Fund. However, as indicated by the declining "cash position", the ability to collect such "Receivables" was/is uncertain. Certain charges, added as receivables, were to projects which lacked available funding to satisfy recovery. We comment further on the operations of this fund in the "Condition of Records" section of this report.

CONDITION OF RECORDS

Our examination of the records of the Department of Public Works disclosed matters of concern requiring disclosure and Agency attention.

EQUIPMENT INVENTORY:

Background: We reviewed the Department's equipment inventory records for accuracy and compliance with the Comptroller's Property Control Manual. The following presents the results of our review:

Criteria: Standards and procedures for recording and maintaining inventory records are set forth in the Property Control Manual, issued by the State Comptroller. The Property Control Manual requires that a property control record for each item of equipment contain specific data including the location of the equipment, the cost of the equipment and an identification number. Section 4-36 of the General Statutes requires that the inventory report as of June 30, be submitted by August first of each year.

Condition: Our review of property control records and procedures noted the following weaknesses:

- Prior physical reviews of equipment items have disclosed that the locations for specific items are often inaccurate. We noted that no significant action has been taken to address the condition.
- Detailed Agency equipment listings did not include several equipment items purchased.
- Donated property and deletions from equipment inventory were not entered in detailed Agency equipment listings.
- In our physical check of equipment inventory, we were unable to find two out of twelve items selected. In addition, we noted several items without State tags affixed to them.
- Of five items of equipment inventory that we identified by random inspection of the Agency’s premises, two of the five items were not listed on the inventory.
- The extensive inventory of the Governor’s Mansion was not kept in the format required per the Property Control Manual.

Effect: The failure to maintain proper inventory control records and procedures reduces the assurance that inventory is properly valued for financial reporting and insurance purposes. Inaccurate location records sacrifice the safeguarding of items against loss or misappropriation.

Cause: The Department of Public Works did not follow the procedures mandated by the State Comptroller.

Recommendation: The Department of Public Works should take appropriate steps to bring the equipment inventory records up-to-date and maintain them in an accurate manner. (See Recommendation 1.)

Agency Response: "DPW acknowledges the weaknesses cited in this finding. To address the recommendation, DPW will reinforce adherence to already promulgated internal procedures regarding equipment inventory control and endeavor to perform a physical inventory in the summer of 2001. As a long-term solution to full compliance with relevant requirements, DPW intends to access any technology and/or systems made available for equipment inventory control purposes resulting from the Statewide Core Systems Project."

SUPPLIES INVENTORY:

Our prior review noted a number of deficiencies concerning internal control over supplies. We noted no significant improvements in this area, and are repeating our recommendation as follows:

Criteria: A supplies inventory system is supposed to be maintained by the Agency for accountability of supplies inventory. Good internal controls over supplies should include, but not be limited to, sufficient physical security to control loss or theft of items, periodic physical inventories, back up documentation for all system entries and accurate perpetual records.

Condition: There is no written or computerized supplies inventory system. Our review disclosed that supplies inventory had been disposed of without adequate documentation indicating the chain of responsibility and custody.

The Agency does not maintain a perpetual supplies inventory system or perform periodic physical inventories of supply items.

Effect: With the noted breakdown of internal controls, the Agency cannot guarantee protection against losses or misappropriation of State supply items. There is no accountability for supplies.

Cause: Although the Agency contends that a shortage of personnel is the principal cause of the condition, the lack of an adequate inventory system and ineffective security measures were the prime factors in the breakdown of internal controls over supplies.

Recommendation: The Department should establish and maintain a system of accountability for supplies as well as develop, implement and maintain adequate internal controls over a centralized supply stockroom. (See Recommendation 2.)

Agency Response: "The Department acknowledges the supplies inventory weakness and has assigned an employee to manage the distribution of materials to trade staff. In conjunction with the development of a "work order management system", internal control systems will be developed and implemented (Business Plan Item#1.5.b)."

GOVERNOR'S RESIDENCE CONSERVANCY, INC. – LACK OF FORMAL AGREEMENT:

Criteria: Section 4-37f, subsection (9) of the General Statutes requires that the Governor's Residence Conservancy, Inc. and the Department of Public Works enter into a formal written agreement. The purpose of the agreement is to address use of the facility by the foundation and require the foundation to reimburse the State Agency for expenses the Agency incurs as a result of foundation operations. The agreement is also to provide for the removal of any State liability for the obligations, acts or omissions of the foundation as well as the procedures to be followed in the event the foundation ceases to exist.

Condition: A written agreement between the Department and the Governor's Residence Conservancy, Inc. has been developed but only exists in draft form and has not been formalized.

Effect: Without a formal written agreement the State is not protected from potential legal exposure and liability for the operations of the foundation.

Cause: We were not able to determine what has delayed the formalization of the draft agreement.

Recommendation: The Department should take the necessary steps to formalize its agreement with the Governor's Residence Conservancy, Inc. (See Recommendation 3.)

Agency Response: "The Department will pursue the formal agreement with the Governor's Residence Conservancy."

CAPITAL PROJECTS - CLAIMS MANAGEMENT

Policies and Procedures:

Background: Our prior review disclosed that formal policies and procedures over the administration of contractor claims *against* the Department and error and omission claims *due* the Department did not exist. In its response to the finding, the Department described it's plan to develop formal Claims Management Unit processes. At the conclusion of our current review, this goal had not been accomplished.

CLAIMS AGAINST THE STATE

Criteria: The Department has recognized that post project claims are commonly pursued by project contractors. At times, the cause of these change orders may be due to errors and/or omissions by the outside architects and/or engineers responsible for planning the project. To provide control of financial exposure and control over project costs, the Agency established a Claims Management Unit.

Condition: The Claims Management Unit operates without formal policies and procedures. The Agency has drafted procedures, but these were never finalized. The architect who administers some of the claims uses a business process mapping system, but it is not written as procedures and the system is not uniformly used for all claims. A lapse in management's control over the claims management function exists.

Effect: Without a formal policy or authority for Agency staff and/or management to determine and settle contractor claims, a risk exists that claim payments could be made which are not in the best interests of the State.

Cause: In the prior audit DPW management had agreed to complete a "Claim Management Policy and Procedures Manual." We were not able to determine why the manual was not completed.

Recommendation: Policies and procedures for the Claims Management Unit, and the process to manage claims, need to be formally established. (See Recommendation 4.)

Agency Response: "The Department is in agreement that procedures need to be formalized. Procedures will be formalized in conjunction with the steps outlined in the DPW response to Recommendation #5."

CLAIMS DUE TO THE STATE

Criteria: Claims monies due the State from design firms should be pursued and the progress detailed in summary records. An accounts receivable record should be entered when a settlement has been negotiated.

Condition: There are no procedures in place which detail the assessment and accountability process for review of project files for design error damages and the resulting monies due. The Agency was unable to provide a listing of assessment of potential settlements. There is no accounts receivable associated with claims due the State.

Effect: The DPW may not be pursuing settlements that would legitimately be due to the State. There is no accountability regarding claims due the State.

Cause: It appears the Agency lacks procedures that detail the assessment and collection of settlement monies.

Recommendation: Procedures should be developed and implemented which detail the assessment and accountability process for review of project files for design error damages and the timely collection of monies due the State. (See Recommendation 5.)

Agency Response: "The Department is in agreement with the recommendation. The Department has established a four point plan to address better claims management. The plan includes staff training, establishing a formal process for identification of "issues", procurement of a document management system and establishing a process for management of documents. Through early identification of issues and collection of the documents that relate to each issue, the Department will be in a better position to defend and pursue claims (Business Plan Item 4.1.e)."

CAPITAL PROJECTS - ADEQUACY OF INSURANCE COVERAGE

Recovery of Damages from Liable Architects and Engineers:

Background: Our prior examination disclosed that the Department had not been successful in recovering amounts due from project architects and engineers responsible for damages caused by errors and/or omissions. Our current review disclosed that few improvements have been made.

Criteria: The Department of Public Works' contractual agreements with design consultants, construction management firms, and environmental firms contain specific wording that set out insurance requirements for professional services liability insurance. Change orders and contractor claim payments incurred by the Department are often due to design professional errors and/or omissions.

Condition: The minimum coverage for professional services liability insurance for negligence and errors and omissions required per contract is set at $350,000 for design firms and $1,000,000 for environmental firms.

Effect: Insufficient or lapsing insurance coverage may put the State at risk of not collecting adequate compensation for damages sustained.

Cause: Required levels and type of liability insurance are outdated and not sufficient. The Department does not have well defined liability insurance monitoring procedures.

Recommendation: To enhance the Department's ability to collect determined damages, the minimum coverage for professional services liability insurance for negligence and errors and omissions required per contract should be set at a level adequate to protect the State of Connecticut. (See Recommendation 6.)

Agency Response: "The Department has revised the liability insurance coverage requirements to better reflect the State's risk and the consultants share of that risk on DPW projects. The following general criteria is currently applied to consultant contracts: Individual design firms, $350,000 min. liability coverage; Partnerships and Corporations, $500,000 minimum coverage; Firms undertaking projects > $10 million in construction, determined on an individual basis according to the complexity and risk of the project."

Auditors' Concluding Comment: We note that the individual design firms, $350,000 liability coverage remains unchanged. The increase of coverage required of partnership and corporate design firms has recently been changed to $500,000. However this may not be adequate to cover significant errors or omissions on projects with construction costs up to ten million dollars.

CAPITAL PROJECTS - INSURANCE CERTIFICATES

Background: We reviewed selected projects as part of our examination of expenditures and inspected required insurance certificates for contractors and design firms involved with those same projects.

Criteria: In order to indemnify the State properly, the Department requires its construction contractors to provide proof of liability insurance and its design professional services contractors to provide proof of errors and omissions insurance.

Documents should be retained by the Agency for a reasonable period of time after the project has been closed. There should be a system in place to locate documents that have been archived.

Condition: Our review in this area disclosed that the Agency was not able to provide twenty of the twenty-one construction contractor insurance certificates requested. We were unable to verify that the State was protected during the construction of the projects.

The Agency does not maintain a file to monitor capital project insurance coverage.

Regarding coverage, a "practice policy" is only in force for a specific policy year. Coverage will lapse immediately if a firm does not renew its policy. It is not uncommon for the process of determining damages caused by a design firm to take many years. Therefore, there would be no available coverage under such circumstances. Also, if a design firm cancels a liability policy, there is no process for the Department to be notified.

Effect: Failure to require proof of insurance over the life of the contract could subject the State to liability during the construction phase of the projects. Without a system for recording and locating archived documents the Agency is unable to provide documentation of insurance coverage for closed projects.

Cause: The failure of Agency personnel to comply with the established control procedures for monitoring the expiration and renewal of insurance certificates resulted in the weakness noted. The Agency did not establish a manual follow up file to indicate insurance coverage status. The Agency does not maintain a listing of archived materials which makes it impossible to verify the existence of the documents.

Recommendation: Management must ensure that procedures requiring supervisors to maintain continuous proof of applicable insurance on the part of the contractors over the life of the projects are performed. In addition, a system which monitors the insurance requirements of projects and provides the location of archived insurance documentation should be developed and maintained. (See Recommendation 7.)

Agency Response: "The Department, following the audit of FY 1996, developed written procedures for monitoring proof on insurance by consultants for the life of the project. Those procedures have been followed and the Auditors concluded that, for the design professionals tested for this audit period, the required certificates are on file. With respect to construction contractor insurance, the Department has, in FY 2000, implemented a process to review proof of insurance for projects active in construction. Automated systems that include monitoring of insurance and archiving of insurance documentation are under development by the Department."

CAPITAL PROJECTS - CHANGE ORDERS:

Background: We reviewed the expenditures for capital projects and noted that, while expenditures were usually substantiated by invoices and other memoranda, control over certain aspects of the management of these projects should be improved. We present the following findings in this area:

VOUCHING OF EXPENDITURES:

Vouching for such payments resulting from change orders is the responsibility of individual project teams. Our review of payments disclosed the following:

Criteria: Project payments should be reviewed and approved by employees that are well trained and aware of specific cost criteria that may affect such payments.

Records and documents supporting project payments must be accessible to confirm the review and approval process. The Agency should maintain an efficient retrieval system for archived capital project documents.

Condition: We selected for review ten projects each for the 1996-1997 and 1997-1998 fiscal years. The Agency was not able to locate 14 of the 20 project files requested. We expanded our test to include nine projects from the fiscal year ended June 30, 1999. The Agency was able to locate eight of the nine project files.

1996-1997 - The three files provided for our review contained a total of 80 change orders. We examined 28 change orders and found 16 change orders that did not have the documentation required to substantiate the amount of the change order.

1997-1998 - The three files provided for our review contained a total of 102 change orders. We reviewed 11 of the change orders and found that in 3 cases the contractor used the wrong overhead or mark up rate. The incorrect rate resulted in an inflated charge for work performed.

1998-1999 - The eight files provided for our review contained a total of 213 change orders. We reviewed 19 change orders. The contractor used the wrong overhead or mark up rate in four of the change orders examined.

Effect: Inadequate review of change orders submitted for payment may result in erroneous payments to contractors. An inefficient system of retrieving capital project documents that are archived can lead to an inability to locate documents or records pertaining to construction projects.

Cause: It appeared that in the review of change orders submitted for payment DPW employees either lacked the proper training or were inattentive to their duties. With respect to the archiving of capital project documents, it appeared that the lack of an efficient retrieval system was the cause.

Recommendation: Employees responsible for reviewing and approving change order payments should receive proper training and take greater care to ensure that payments made are accurate and proper. The Agency should implement a system that would enable them to locate archived capital project documents in a timely manner. (See Recommendation 8.)

Agency Response: "The Department acknowledges the weakness identified in the finding. The Department has included change order work in its ongoing training program for internal project management staff. Additionally, the Department has taken action to hire experienced construction management firms for larger projects. These firms are knowledgeable in DPW process, procedures and requirements and are contractually required to provide change order review, price negotiation and change order recommendations to DPW.

Procurement of a Document Management system and development of record filing procedures that will provide for better archiving and retrieval of project documents is planned by DPW."

DESIGN FIRM DEFICIENCIES:

Projects are awarded to contractors at specific amounts, based on the competitive bid process. Extra costs incurred as a result of requested changes, errors and omissions, or field conditions are recovered by contractors in the form of "change orders." Our review of change order rates disclosed the following:

Criteria: Proper planning and supervision of capital projects are good business practices which serve to minimize the need for project change orders. Close communication with user agencies in the design phase, as to their needs and desires, reduces the possibility of change orders once a project commences. Effective monitoring of architects and engineers serves as a deterrent to errors and/or omissions and resulting change orders.

The Department of Public Works reports annually to the State Properties Review Board on the status of completed projects for each fiscal year. Analysis of this report yields change order rate information.

Condition: For the 1996-1997 fiscal year the Agency reported a total of 95 completed projects. The total original contract amount was reported as $150,911,894, with the completed value reported to be $180,827,725. The difference of $29,915,831 is attributable to change orders, which is a 19.82 percent increase over the original contract cost.

For the 1997-1998 fiscal year the Agency reported a total of 53 completed projects. The original value of the projects was reported at $41,441,675 with a total completion cost of $46,691,454. The amount attributable to change orders is $5,249,779 which is a 12.67 percent increase over the original cost.

The most recent information available was for the fiscal year ended June 30, 1999. The information presented indicated that DPW completed 50 projects. The original contract value of these projects was $61,828,284 with $2,294,007 attributed to change orders which brings the completed total value to $64,122,291. The increase over original contract cost was reported to the SPRB as 3.71 percent. Based on our examination of final costs reported by the DPW project accounting and construction divisions we determined the increase over original contract cost was in fact 6.63 percent for the fiscal year ended June 30, 1999. The Department of Public Works supplied inaccurate information in its annual report to the State Properties Review Board.

Effect: Change orders, in general, increase the cost of completed projects. Of more concern is the fact that additional project work is no longer subject to competitive bid and that the cost of such change orders can be compounded by delay claims from the contractors involved.

Informed decisions are made based on the printed material contained in various reports. If the information contained in the reports is not accurate the decisions made may be flawed.

Cause: Poor planning with respect to communication with user agencies, contributed to the conditions noted. An ineffective effort to monitor design firms increased the likelihood of change orders due to errors and omissions.

Inconsistent collection of data among the DPW divisions led to the reporting of inaccurate information.

Recommendation: The Agency should continue to monitor change orders and hold design firms more accountable for the increased cost due to errors and omissions on the part of the design professionals. In addition, the Agency should develop data collection procedures to ensure that accurate information is reported. (See Recommendation 9.)

Agency Response: "The Department, through the implementation of an Architect/Engineer Report Card, review of Consultant insurance claim history prior to selection and more aggressive monitoring of a consultant to the project schedule, has directed accountability to consultants. The Department monitors change orders and their cause to minimize the number of projects which exceed the funds authorized by the Bond Commission.

The Department continues to pursue data collection systems that properly classify expenses, minimize duplicate data entry and minimized the potential for error."

ANNUAL REPORT TO THE STATE PROPERTIES REVIEW BOARD

Criteria: Section 4b-2 of the General Statutes requires the Department of Public Works to transmit an annual report to the State Properties Review Board (SPRB). The number of closed contractor claims reported to the SPRB should agree with the number of closed contractor claims compiled by the DPW Claims Management Unit, whose responsibility it is to maintain a complete record of closed contractor claims each fiscal year.

Condition: The DPW provided the SPRB with a Summary of Closed Construction Claims in each of its annual reports for the 1997-1998 and 1998-1999 fiscal years. Based on an analysis of closed claims provided by DPW Claims Management Unit we noted reporting inaccuracies. Specifically, closed claims reported by the Claims Management Unit did not appear in the Summary of Closed Construction Claims section of the annual report to the SPRB in each of the fiscal years examined.

Effect: The DPW annual report to the State Properties Review Board was inaccurate and may compromise the Board's ability to analyze the true standing of the State in issues involving contractor claims and total project cost.

Cause: There appears to have been a breakdown in controls and communication internally at the Department of Public Works between the Claims Management Unit which summarizes claim activity and the Planning Unit which prepares the Summary of Closed Construction Claims.

Recommendation: A more efficient system should be developed that would ensure that all closed contractor claims and settlement amounts be disclosed between units of the Department of Public Works and in statutorily required reports to the State Properties Review Board. (See Recommendation 10.)

Agency Response: "The Department continues to pursue data collection systems that provide collection from a single source of data entry, minimize duplicate data entry and minimized the potential for error or omission."

LEASE-OUT OF STATE FACILITIES

Background: Under Section 4b-38 of the General Statutes, the Commissioner of Public Works may lease State-owned land or buildings for private use when not needed for State use and when such action appears desirable to produce income or is otherwise in the public interest. Our current review disclosed the following:

Criteria: Maintaining orderly records of lease revenues due and received as well as enforcing the terms of active lease agreements are good business practices.

Condition: There is no accounts receivable system to monitor whether each monthly payment of rent is made by the lessee. Payments are recorded each month in the SAAAS and printed onto ledger sheets, which are updated each month. The prior month's sheet is thrown away.

Some leases also contain clauses which detail specific requirements. We noted one lease that required the tenant occupying space at a facility agreed to pay for four new boilers to be installed at the facility. The lease agreement allowed a deduction for the cost of the boilers from the lease payments. The tenant sent DPW copies of the invoices for the installed boilers, but did not send a bill of sale for the boiler as required by the lease agreement.

Effect: Lack of control over lease revenue could cause loss of revenue.

The Department received the boiler documentation from the tenant, subsequent to the time we requested such.

Cause: The lack of an accounts receivable system causes the uncertainty of whether all lease revenue due was collected.

Recommendation: The Department of Public Works should design and put into operation an accounts receivable system for lease revenues and a better method of monitoring lease provisions. (See Recommendation 11.)

Agency Response: "The Department acknowledges the deficiencies of its manual lease out monitoring system, however, there are currently no plans to automate this process. Individual ledgers are reviewed on at-least an annual basis to minimize the potential that a lease revenue would remain uncollected. In the future, DPW anticipates that systems made available for lease-out/receivable management from the Statewide Core Systems Replacement Project will address this recommendation."

PREPARATION OF LEASE AGREEMENTS

Criteria: Section 4b-3, subsection (f) of the General Statutes requires the State Properties Review Board (SPRB) to review and approve the lease of any property proposed by the Commissioner of Public Works. The Lease Proposal Outline (LPO) is submitted by the DPW to the SPRB for review and approval. The SPRB process may include changes to the LPO. The formal lease document is developed from this review and approval process.

Condition: It appears that Lease procedures as set out in the DPW Leasing Policies and Procedures manual issued in 1987 are not being comprehensively performed. We noted three instances where the LPO approved by the SPRB was materially changed and resulted in the execution of a Lease that contained terms that conflicted with the terms approved by the SPRB.

Additional comments on this matter are included in the Auditors of Public Accounts' *2000 Annual Report to the Connecticut General Assembly.* Also in that report, we recommend that the State Properties Review Board be empowered to sign all leases prior to their final execution.

Effect: In all three instances changes were made to the proposed leases concerning dates in the lease real estate tax provisions. The result of the change on two of the fully executed leases are additional charges of approximately $35,000 annually. This will occur every year of the original five year term and the five year renewal term. The potential total dollar impact is approximately $350,000. The effect on the third lease is approximately $100,000 annually. This would have occured every year of the original five year term and the five year renewal term, with a potential total dollar impact of approximately $1,000,000. However, we noted that the third lease was corrected subsequent to its execution by means of a Lease Modification Agreement. We reported this matter to the Governor and other State officials on January 18, 2001, as required by Section 2-90 of the General Statutes.

Cause: The Lease procedures as set out in the DPW Leasing Policies and Procedures manual have not been updated to reflect the loss of the Director and the Quality Control Officer. Instead, the control functions of the Director and Quality Control Officer are not performed. An individual leasing agent has sole control and responsibility over a major part of the leasing process.

Recommendation: Leasing procedures should be updated to detail adequate separation of duties and ensure that controls over the lease process are in operation. In addition, a review step should be formally incorporated into the "Lease Procedures" requiring examination of all leases by the SPRB prior to final execution. (See Recommendation 12.)

Agency Response: "The Department acknowledges the deficiency noted by the Auditors. As a result of the condition noted by the Auditors, a review of the current Lease Proposal Outline approval and lease development process is underway. The anticipated result is a revised process that includes Properties Review Board approval of the final lease contract prior to execution by the lessor and the State."

Auditors' Concluding Comment: The DPW review of the current Lease Proposal Outline approval and lease development process is ongoing. The leasing procedures in place at June 18, 2001 remain unchanged. A procedure requiring State Properties Review Board approval of the final lease contract prior to execution by the lessor and the State has not been adopted and is not currently being performed.

CAPITAL PROJECTS REVOLVING FUND:

Background: We reviewed expenditures incurred in support of various capital projects managed or administered by the Department. Expenditures are initially charged to the Capital Projects Revolving Fund and then allocated to the various Capital Projects. The following are findings related to the Capital Projects Revolving Fund.

PROPER MATCHING OF COSTS TO BENEFITING CAPITAL PROJECTS:

Criteria: Charges made to the capital projects bond funds from the Capital Projects Revolving Fund should accurately reflect all costs and only those costs, incurred by the Department, which benefit the projects charged.

Condition: We noted the following weaknesses concerning the system used to charge projects:

System operating controls used to restrict charges to only those projects with available funding, were disabled during the fiscal years under review.

The procedure required to complete the billing cycle requires the use of incompatible computer systems. When the various reports are merged or transferred to another system, manual intervention is required. The resulting reports have to be reviewed and corrections made. The review and correction process is time consuming and labor intensive.

Effect: Charging projects which have no available funding has the effect of creating a deficit in the Revolving Fund if subsequent additional funding is not secured.

STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF PUBLIC WORKS
FOR THE FISCAL YEARS ENDED JUNE 30, 1997 and 1998

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

The system requires oversight and corrections by Agency personnel at many stages in the billing process. The reliance on manual intervention to verify and correct entries prior to transmittal from one system to another creates an administrative burden as well as an increased risk of error.

Cause: There are different systems in use to process information at various stages in the billing process. Due to the fact that the systems are different, they do not process information in the same manner and can not be relied on to transfer information correctly. The systems in use are not capable of interfacing with each other.

Recommendation: Charges made to the Capital Projects Revolving Fund should only be made to projects with available funding. Additionally, the Department should review the different computer systems in use, and reduce the level of manual operations required to process billing transactions. (See Recommendation 13.)

Agency Response: "The Department acknowledges the opinion of the Auditors regarding charging only projects that have funds available. The Department, however, views the chargeback system as an Accounts Receivable system that allows for the accumulation of amounts due from a project activity. At the time that funds are bonded by the Bond Commission or otherwise transferred from the client agency, the recovery can occur. In FY 2000, funds were added to the General Fund Appropriation of the Department to cover the "un-recovered" DPW Fee billings during the course of the Fiscal Year. These added funds resulted in an overall reduction of $390,000 in the DPW Revolving Fund deficit for the Fiscal Year Ended 6/30/2000.

The Department acknowledges the inadequacies of the legacy information systems in use to accumulate and recover DPW Fee charges. Improvements are planned as budgeted funds become available to finance the replacement of these legacy systems."

Auditors' Concluding Comment: Due to the inadequacies of the information systems in use to accumulate and recover DPW fee charges, there is little assurance that all fees will be recovered. The failure to recover all fees can result in the need for another "one time" appropriation to write down the "un-recovered" fees.

PROMPT BILLING OF NON-DEPARTMENT CONTROLLED FINANCING SOURCES:

Criteria: Section 4b-1a of the General Statutes authorized the Commissioner of Public Works to administer the Public Works Capital Projects Revolving Fund to fund the costs of capital projects which are authorized to be financed with the proceeds of State bond issues. Since its inception, the Revolving Fund has been authorized and has used $1,000,000 in bond proceeds for the temporary financing of the Facilities Design and Construction Division's operating expenses. Expenditure transfers are used to charge those costs to the construction project or activity which benefited from the incurred cost.

Condition: The Department, through the Facilities Design and Construction Division, incurs costs for projects which are financed with funds controlled by other agencies. These costs are to be recovered from such agencies on a periodic basis. The debtor remits payment based on a periodic billing by DPW.

Due to incomplete records we were not able to determine an amount due that we could deem collectible. The billing procedure involves many different computer systems that do not have the capacity to interface. The procedure requires extensive manual intervention.

The current billing and collection system is based on many reports that have to be manually generated and calculated. The system is cumbersome and time consuming to use. The high level of manual intervention required increases the risk of error and incorrect billing.

The system of collection also requires a high level of manual intervention. The receivable must be monitored and periodically verified. There is no system that automatically updates the receivable when the funds are collected. The lack of an automated system increases the risk that payment will not be recorded as received and that the receivable total will not be accurate.

Effect: It is difficult for DPW to recover costs that were incurred for projects that never received funding or required expenditures over the original budget. By not billing promptly, a risk exists that specific bond funds will be depleted and the associated costs will not be recovered. The problems associated with the collections of amounts billed can lead to a receivable that is overstated.

Cause: A billing system has been established to process these charges. The system in place involves the manual merging and processing of various reports that have been generated by different computer systems. The systems used to generate the required reports are not capable of interfacing with each other. The result is a complicated, labor intensive process which by its nature, leads to increased risk of error.

Recommendation: The Department should make system improvements to ensure prompt billing of charges incurred by the Facilities Design and Construction Division for projects financed by funds controlled by other State agencies. (See Recommendation 14.)

Agency Response: "The Department has established a methodology for accumulating DPW Fee charges due from funds controlled by other agencies. The Department has established a billing routine to ensure quarterly billing of those agency funds. The Department is in the process of redefining the types of agency funded projects which require a DPW Fee charge.

System improvements, as identified previously, are planned as budgeted funds become available."

BREAKDOWN IN CONTROLS OVER PAYROLL PROCESSING:

Criteria: Adequate internal controls over payroll dictate that hours worked should be evidenced by positive type time reports covering the payroll period. The reports should be approved by the appropriate supervisor.

Condition: Our review found that fraudulent timesheets were being prepared and that overpayments had occurred.

Effect: The Department had conducted an investigation and noted overpayments of $1,155 for 44.75 hours for the period between January 1 and May 20, 1999.

Cause: There appears to have been a breakdown in the controls over the payroll processing.

Conclusion: The Department took action to address the breakdown. In addition, disciplinary action against two individuals in this matter was taken. The person who misused the time and falsified the records was terminated on August 3, 1999. A second individual was given a two-week, unpaid suspension for failing to insure the integrity of the time and attendance sheets.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **When decisions are made concerning the feasibility of "rent aversion" projects, all costs should be considered. Bond interest costs are material to these projects and should not be discounted.** The Department did not enter into any rent aversion projects during the audited period. We are not repeating this recommendation in this report.

- **Policies and procedures for the Claims Management Unit and the process to manage claims need to be formally established.** The Department has drafted procedures, but these were never finalized; we are repeating our recommendation pending the completion of this effort. (See Recommendation 4.)

- **To enhance the Department's ability to collect determined damages, more specific requirements concerning the type and amount of professional liability coverage are necessary.** We did note some improvements in this area. However, necessary changes concerning the type and amount of professional liability coverage, were not made. (See Recommendation 6.)

- **While significant improvements over property control have been made, certain issues remain which need to be addressed. Most importantly, Agency staff should be reminded to report the physical transfer of items in their possession.** Although we did observe continued improvement in this area, certain deficiencies do remain. We are repeating the recommendation in modified form. (See Recommendation 1.)

- **Agency management should develop and implement adequate internal controls over the Supply Stockroom.** We are repeating this recommendation, as we observed that conditions remained generally unchanged. (See Recommendation 2.)

- **Employees responsible for reviewing and approving change order payments should receive proper training, and take greater care to ensure that payments made are accurate and proper.** We are repeating this recommendation. (See Recommendation 8.)

- **With respect to the administration of capital projects, improved planning and a more concerted effort to hold design firms accountable, are necessary to reduce the number, and associated costs, of change orders.** We noted that although the number of change orders appeared to decrease, our review of supporting documents identified weaknesses and inaccuracies in summarizing final project costs and preparation of related annual reports. (See Recommendation 9.)

- **We recommend that management emphasize to supervisors the need to maintain continuous proof of applicable insurance on the part of the contractors over the life of projects.** We are repeating this recommendation, as we observed that conditions remained generally unchanged. (See Recommendation 7.)

- **Management should ensure that timely reconciliations are performed for all Agency accounts.** This recommendation is satisfied.

- **The Agency should implement the necessary measures to inspect leased premises, as required by Section 4b-30, subsection (b), of the General Statutes.** This recommendation is satisfied.

- **The Department should maintain orderly lease-out records, and enforce provisions of leases entered into.** This recommendation has been restated to reflect current conditions. (See Recommendation 11.)

- **The Agency needs to address weaknesses of the Work Order Tracking System. Completed work orders should be identified as such on the System, and should be supported with work order slips. A review of specific work orders should be made to identify unbilled orders that were supposed to be charged to tenant agencies.** This recommendation appears to have been resolved.

- **The Department should re-examine its methodology for determining the appropriate distribution of expenses to the Public Works Capital Projects Revolving Fund.** This recommendation appears to have been resolved.

- **The Department needs to take the necessary steps to ensure that a proper matching of costs to benefiting capital projects exists, that only those projects with available funds are charged, and that all projects not controlled by the Department are billed in a timely manner.** We are repeating this recommendation, as we observed that conditions remained generally unchanged. (See Recommendation 13 and 14.)

Current Audit Recommendations:

1. **The Department of Public Works should take appropriate steps to bring the equipment inventory records up-to-date and maintain them in an accurate manner.**

Comment:

Prior physical reviews of equipment items have disclosed that the locations for specific items are often inaccurate. Our current review disclosed that no significant action has been taken to address the condition.

It was also noted that detailed Agency equipment listings did not include several equipment items purchased. The extensive inventory of the Governor's Mansion was not kept in the format required per the Property Control Manual.

2. **The Department should establish and maintain a system of accountability for supplies as well as develop, implement and maintain adequate internal controls over a centralized supply stockroom.**

   Comment:

   Our review revealed that there is no written or computerized supplies inventory system. Supplies inventory had been disposed of without adequate documentation indicating the chain of responsibility and custody.

3. **The Department should take the necessary steps to formalize its agreement with the Governor's Residence Conservancy, Inc.**

   Comment:

   A written agreement between the Department and the Governor's Residence Conservancy, Inc. has been developed but only exists in draft form and has not been formalized.

4. **Policies and procedures for the Claims Management Unit, and the process to manage claims, need to be formally established.**

   Comment:

   Our review of the Claims Management Unit revealed that the Unit continues to operate without formal policies and procedures. The Agency has drafted procedures, but these were never finalized.

5. **Procedures should be developed and implemented which detail the assessment and accountability process for review of project files for design error damages and the timely collection of monies due the State.**

   Comment:

   Our review revealed that there are no procedures in place which detail the assessment and accountability process for review of project files for design error damages and the resulting monies due. The Agency was unable to provide a listing of assessment of potential settlements. There is no accounts receivable associated with claims due the State.

6. **To enhance the Department's ability to collect determined damages, the minimum coverage for professional services liability insurance for negligence and errors and omissions required per contract should be set at a level adequate to protect the State of Connecticut.**

   Comment:

For cases in which damages will be determined, there is a concern that professional liability insurance might not be available.

7. **Management must ensure that procedures requiring supervisors to maintain continuous proof of applicable insurance on the part of the contractors over the life of the projects are performed. In addition, a system which monitors the insurance requirements of projects and provides the location of archived insurance documentation should be developed and maintained.**

Comment:

Our review in this area disclosed that the Agency was not able to provide twenty of the twenty-one insurance certificates requested. We were unable to verify that the State was protected during the construction of the projects.

8. **Employees responsible for reviewing and approving change order payments should receive proper training and take greater care to ensure that payments made are accurate and proper. The Agency should implement a system that would enable them to locate archived capital project documents in a timely manner.**

Comment:

Our review of change order payments disclosed that a number of change orders did not have the documentation required to substantiate the amount of the change order.

9. **The Agency should continue to monitor change orders and hold design firms more accountable for the increased cost due to errors and omissions on the part of the design professionals. In addition, the Agency should develop data collection procedures to ensure that accurate information is reported.**

Comment:

Our review of change orders revealed that although the number of change orders and associated costs appeared to decrease, certain weaknesses resulted in inaccurate reporting.

10. **A more efficient system should be developed that would ensure that all closed contractor claims and settlement amounts be disclosed between units of the Department of Public Works and in statutorily required reports to the State Properties Review Board.**

Comment:

The DPW provided the SPRB with a Summary of Closed Construction Claims in each of its annual reports for the 1997-1998 and 1998-1999 fiscal years. We noted that closed claims reported by the Claims Management Unit did not appear in the Summary of Closed Construction Claims section of the annual report to the SPRB in each of the fiscal years examined.

11. The Department of Public Works should design and put into operation an accounts receivable system for lease revenues and a better method of monitoring lease provisions.

Comment:

Our review of lease-out revenue records disclosed that there is no accounts receivable system to monitor whether each monthly payment of rent is made by the lessee. In addition, we noted that in some instances, specific lease clauses were not monitored for compliance.

12. Leasing procedures should be updated to detail adequate separation of duties and ensure that controls over the lease process are in operation. In addition, a review step should be formally incorporated into the "Lease Procedures" requiring examination of all leases by the State Properties Review Board prior to final execution.

Comment:

We noted that lease procedures as set out in the DPW Leasing Policies and Procedures manual issued in 1987 are not being comprehensively performed. We noted three instances where the Lease Proposal Outline approved by the SPRB was materially changed and resulted in the execution of a lease that contained terms that conflicted with the terms approved by the SPRB.

Additional comments on this matter are included in the Auditors of Public Accounts' *2000 Annual Report to the Connecticut General Assembly,* also in that report, we recommend that the State Properties Review Board be empowered to sign all leases prior to their final execution.

13. Charges made to the Capital Projects Revolving Fund should only be made to projects with available funding. Additionally, the Department should review the different computer systems in use, and reduce the level of manual operations required to process billing transactions.

Comment:

We noted that operating controls used to restrict charges to only those projects with available funding, were disabled during the fiscal years under review. We also noted that complicated manual operations are required to produce reports. When the various reports are merged or transferred to another system, manual intervention is required. The resulting reports have to be reviewed and corrections made. The review and correction process is time consuming and labor intensive.

14. The Department should make system improvements to ensure prompt billing of charges incurred by the Facilities Design and Construction Division for projects financed by funds controlled by other State agencies.

Comment:

We noted that the DPW Facilities Design and Construction Division, incurs costs for projects which are financed with funds controlled by other agencies. These costs are to be recovered from such agencies on a periodic basis. The debtor agency remits payment based on a periodic billing by DPW. The DPW billing and collection system is based on many reports that have to be manually generated and calculated. The high level of manual intervention required increases the risk of error and incorrect billing. There is no system that automatically updates the receivable when the funds are collected. The lack of an automated system increases the risk that payments will not be recorded as received and that the receivable total will not be accurate.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Public Works for the fiscal years ended June 30, 1997 and 1998. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Public Works for the fiscal years ended June 30, 1997 and 1998, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Public Works complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

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

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1997 and 1998, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the Department of Public Works is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Public Works' financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions:

- inadequate control over capital project change orders;
- failure to establish adequate procedures to charge all costs of Facilities Design and Construction Division promptly to the appropriate Capital Project funds;
- lack of control over stockroom items;
- poor control over the claims management process;
- failure to correctly report closed claims and settlements; and
- lack of comprehensive leasing procedures.

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

- inadequate control over capital project change orders;
- poor control over the claims management process; and
- lack of comprehensive leasing procedures.

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

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

CONCLUSION

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

Josepha M. Brusznicki
Principal Auditor

Approved:

Robert G. Jaekle Auditor of Public Accounts	Kevin P. Johnston Auditor of Public Accounts

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