STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF PUBLIC WORKS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 and 2000

AUDITORS OF PUBLIC ACCOUNTS
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September 5, 2003

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FOR THE FISCAL YEARS ENDED JUNE 30, 1999 and 2000

We have examined the financial records of the Department of Public Works for the fiscal years ended June 30, 1999 and 2000. This report on that examination consists of the Comments, Recommendations and Certification that follow.

Financial statements presentation and auditing are done 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 (DPW) operates primarily under the provisions of Chapters 59, 60 and 60a - Section 4b-1 et seq. of the General Statutes. Its responsibilities include:

- The design and construction of major State facilities
- Leasing and property acquisitions for most State agencies
- Facilities management, maintenance and security of State buildings in the greater Hartford area in addition to certain properties outside of the Hartford area
- State real property surplus program
- Assisting State agencies and departments with long term facilities planning and the preparation of cost estimates for such plans.

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

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

RÉSUMÉ OF OPERATIONS:

Revenues and Receipts:

	Fiscal Year Ended June 30,	
General Fund	**1998- 1999**	**1999-2000**
Rents	$ 1,273,248	$1,313,580
Refunds and other recoveries of expenditures	439,004	514,875
Receivables collected (non Federal)		1,104,484
Restricted Contributions:		
Grants transferred from another agency or fund	1,969,573	1,140,348
Other Grants	1,171,700	611,073
All others	56,720	43,113
Total General Fund	4,910,245	4,727,473
Other Funds		
Special Revenue Funds		
State grant transfers – tax exempt proceeds	2,508,729	1,100,045
Capital Projects Funds		
Refunds of expenditures	13,523	289,964
Restricted grants (non Federal)	736,371	2,130
Agency funds		
Pending receipts	975,409	3,603,662
Subtotal Accounts charged to DPW	4,234,032	4,995,801
Other Agency accounts administered by DPW	1,879,962	158,871
Total Other Funds	6,113,994	5,154,672
Total Receipts	**$11,024,239**	**$9,882,145**

As noted above, total receipts amounted to $11,024,239 in fiscal year 1998-1999 and $9,882,145 in fiscal year 1999-2000. Receipts consisted primarily of rent revenue and grant transfers from other agencies to fund various capital projects. Also, in fiscal year 1999-2000 there was a $1,104,484 collection of a grant receivable between State agencies. Collections were based on DPW's construction costs to date. The terms of the receivable provide for annual collection of amounts due at fiscal year-end. The bulk of the rent receipts consists of collections from three State agencies housed at a State office building. A bond issued by the Connecticut Development Authority funded construction. Rent collections (amounting to approximately $800,000 in both fiscal years) equal bond payment requirements, which are paid by the State Treasurer's office. Other rents included leases of parts of various closed State hospitals.

Pending Receipts increased from $975,409 in fiscal year 1998-1999 to $3,603,662 in fiscal year 1999-2000. DPW's pending receipts account is used to deposit and distribute security deposits, cash bid bonds, and fee revenue/cost related to the use of State facilities by outside parties. It has also been used to accumulate revenue from real property sales to pay for sale-of-property expenses. The revenue increase to $3,603,662 in fiscal year 1999-2000 from $975,409 in fiscal year 1998-1999 resulted from the depositing of large proceeds from the sales of surplus State property in that year. As a result of these deposits, the Pending Receipts Fund cash balance increased from $210,326 on June 30, 1997 to $3,974,662 on June 30, 2000. Additional comments concerning this use of the Pending Receipts Fund is contained in the "CONDITION OF RECORDS" section of the report.

Expenditures:

DPW maintains two major expenditure-reporting systems. One is for operating accounts, the other for public works projects accounts. The operating accounts consist primarily of certain General Fund accounts used for Agency operating expenditures. These accounts are reported on a character and object basis that show the actual item/service purchased or the transaction's essential nature (e.g., grant or transfer). The public works projects accounts are used for DPW's significant public works projects and are reported on an activity basis (e.g., construction, design cost, acquisition, etc.) and not on a character and object basis.

Expenditures by General Type:

	1998- 1999	1999-2000
General Fund	$ 45,770,289	$ 47,971,460
Less General Fund moneys used for public works projects	6,782,550	11,694,311
Total General Fund Operating Expenditures	38,987,739	36,277,149
Public works projects	194,576,661	218,240,511
Capital Equipment Purchase Fund	70,894	242,386
Agency Fund – Funds Awaiting Distribution	464,823	349,913
Total Expenditures	**$234,100,117**	**$255,109,959**

General Fund Operating Expenditures:

	1998- 1999	1999-2000
Personal Services	$ 7,187,056	$ 9,776,078
Contractual Services:		
Rents and storage	5,820,191	6,133,791
Outside property management	9,395,662	9,675,053
Utility services	7,309,191	6,678,771
All other contractual services	2,604,817	3,037,414
Total contractual services	25,129,861	25,525,029
Commodities	541,668	691,584
Sundry Charges:		
Revolving Fund deficit payment	6,000,000	200,000
Grant transfers to other State agencies		(24,058)
All other sundry charges	195,527	30,870
Total Sundry Charges	6,195,527	206,812
Capital Outlay – equipment		11,273
Capital Outlay – buildings	(66,373)	66,373
TOTALS	**$38,987,739**	**$36,277,149**

Public Works Projects Expenditures:

	1998- 1999	1999-2000
Construction	$147,522,419	$150,464,320
Transfers to other agencies	22,049,834	31,873,732
Design Cost	14,786,912	21,672,698
Personal Services payments	3,817,631	4,316,377
Claims payments	1,668,724	7,619,535
Equipment	1,183,479	1,032,039
Art	1,647,521	171,200
Other cost	1,900,141	1,090,610
Totals	**$194,576,661**	**$218,240,511**

As indicated above, the bulk of DPW's expenditures are for public works projects, which involve the design and construction of State facilities. By far, the largest expenditure in that category is construction cost. Transfers to other State agencies are made primarily for projects administered by other agencies pursuant to subsection (a) of Section 4b-52 of the General Statutes.

Operating expenditures consist primarily of the Agency's personal services cost (payroll) and expenditures involved in leasing property – rental charges, contractual property management, and utility payments. Operating payroll cost amounted to $7,187,056 in fiscal year 1998-1999 and $9,776,078 in fiscal year 1999-2000 compared to $7,134,257 in fiscal year 1997-1998. The large increase is attributable to a General Fund budgetary increase of $2,500,000 for facilities design cost in 1999-2000. The purpose of this increase was to reimburse certain Capital Projects Revolving Fund costs (such as general administrative and State agency technical services provided) for employee time not chargeable to projects paid with bond money. Despite the increase in employee cost, total operating expenditures decreased from $38,987,739 in fiscal year 1998-1999 to $36,277,149 in 1990-2000. This was due to a $6,000,000 General Fund payment in fiscal year 1998-1999 made pursuant to section 43(a) of Special Act 99-10 to reduce the Capital Projects Revolving Fund deficit. Transactions of the Capital Projects Revolving Fund are discussed below.

Public works projects expenditures are charged primarily to Capital Projects Funds of DPW and other State Agencies. Some are also charged to Special Revenue Funds and the General Fund. A summary of public works projects expenditures by funds follow:

	1998- 1999	1999-2000
General Fund	$ 6,782,550	$ 11,694,311
Special Revenue Funds	2,227,402	1,657,189
Capital Projects Funds	185,566,709	204,889,011
Totals	$194,576,661	$218,240,511

Individual Public Works projects are recorded in separate accounts. Project accounts that had significant expenditures are as follows:

	1998-1999	1999-2000
Stamford Court House	$ 14,821,723	$ 15,151,548
Rowland Government Center	8,086,658	1,094,837
Bullard Havens Regional Vocational Technical School	5,921,896	8,307,832

Academic Research Building – University of Connecticut Health Center	7,751,618	868,260
Library – Manchester Community College	6,773,546	13,070,231
Classroom/office building/garage – Central Connecticut State University	3,266,826	17,544,491
Ruth Haas Library – Western Connecticut State University	9,713,949	6,782,306
Connecticut Juvenile Training School	50,000	26,216,891
Connecticut Children's Place	6,358,386	3,206,361
Courthouses in Rocky Hill and New Britain	10,354,606	35,305
Court facility – Danielson/Killingly	6,729,370	1,247,724

Some of the public works projects expenditures noted above were initially recorded in a revolving fund (Capital Projects Revolving Fund). Employees working on public works projects are initially paid out of the revolving fund. Subsequently that cost is allocated (or charged back) to applicable public work project accounts or (for general administrative or general technical support services to State agencies) to a General Fund operation account. The Fund's revolving (or charge back) provision was intended to be the means of financing the future Agency payroll costs of public works project employees. However, the Fund has been operating in a deficit (negative cash balance) position. A summary of the Fund's transactions for fiscal years 1998-1999 and 1999-2000 is presented below:

Capital Projects Revolving Fund:

	1998- 1999	1999-2000
Funding Sources :		
Project costs recovered	$ 3,631,449	$ 4,574,833
Cost not related to specific projects recovered from the General Fund		1,711,296
Recoveries of fringe benefit costs		712,635
Total cost recoveries	3,631,449	6,998,764
Deficit transfer from General Fund	6,000,000	200,000
Total Funding	9,631,449	7,198,764
Less expenditures – project costs	6,222,836	6,807,840
Funding in excess of expenditures	3,408,613	390,924
Cash Balance beginning of fiscal year	(10,089,488)	(6,680,875)
Cash Balance end of fiscal year	$(6,680,875)	$(6,289,951)

The negative cash balances resulted from the failure for various reasons to charge back or allocate payroll cost to funded capital projects. Charges were made, for instance, to projects which lacked available funding. As a result, an unreimbursed charges receivable has existed in this Fund. This receivable amounted to $11,905,244 on June 30, 1998, $9,689,312 on June 30, 1999 and $9,426,958 on June 30, 2000. As discussed above, a $6,000,000 transfer from the General Fund was made in fiscal year 1998-1999 to reduce the deficit balance pursuant to Section 43, subsection (a) of Special Act 99-10.

PERFORMANCE EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected agency operations. We reviewed DPW's compliance with statutory requirements of the Set-Aside Program and its success at achieving its annual set-aside goals.

The Set-Aside Program for small contractors and minority business enterprises is authorized under Sections 4a-60g to 4a-60j of the General Statutes as revised by Public Act 99-233 effective June 29, 1999, and Pubic Act 00-199, effective June 1, 2000.

Public Act 99-233 modified the method for calculating the dollar value of contracts to be awarded to small contractors. Previously, the head of each State agency was required to 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 construction, reconstruction or rehabilitation of public buildings, and the purchases of goods and services. In addition, at least 25 percent of all contracts to be set-aside under the above 25 percent requirement are to be awarded to minority business enterprises. Public Act 99-233 required the 25 percent set-aside goals be based on the total value of all contracts anticipated to be awarded by an agency during that fiscal year.

For each fiscal year beginning July 1 and ending on June 30, State agencies must prepare a report establishing small and minority business set-aside goals. Also, State agencies must issue quarterly reports on the implementation and results of their set-aside program goals. These reports are submitted to the Commissioner of Economic and Community Development, the Commission of Human Rights and Opportunities, and to specific members of the General Assembly. Public Act 00-199, effective June 1, 2000, substituted the Commissioner of Administrative Services for the Commissioner of Economic and Community Development. The Commission on Human Rights and Opportunities is responsible for monitoring whether or not an agency is meeting its annual set-aside goals.

The following schedule reflects, on an annual basis, set-aside data as reported to the Commission on Human Rights and Opportunities and specific members of the General Assembly by DPW.

	For Fiscal Year Ended June 30,	
	1999	2000
Value of contracts	$ 50,149,506	$ 70,238,926
Set-Aside Goal – 25 percent of Contracts	12,537,376	17,559,731
Set-Aside Contracts Awarded	40,507,739	33,957,382
Percentage of Set-aside Goal Achieved	323.1%	193.4%
Minority/Women Contract Goal – 25 percent of Set-Aside Goal	3,134,344	4,389,933
Minority/Women Contracts Awarded	21,159,306	8,564,211

Percentage of Minority/Woman Set-aside Goal Achieved	675.1%	195.1%

It appears that that DPW met its annual set-aside goals during the audited period. However, as indicated below, we noted procedural errors and documentation problems in the Agency's calculation and reporting of set-aside goals.

SET-ASIDE CALCULATION AND REPORTING:

Background: As noted in the "Performance Evaluation" section of this report, the Set-Aside Program for small contractors and minority business enterprises is authorized under Sections 4a-60g to 4a-60j of the General Statutes as revised by Public Act 99-233 effective June 29, 1999 and Pubic Act 00-199, effective June 1, 2000. Those statutes require that State agencies are to set-aside at least:

- Twenty five percent of the value of certain contracts to small contractors
- Twenty five percent of the set aside for small contractors are to be awarded to minority businesses.

Criteria: Prior to its revision by Public Act 99-233, Section 4a-60g of the General Statutes required that an agency's set-aside goals be based on an average of the total value of contracts issued during the three previous fiscal years. After the 1998-1999 fiscal year, set-aside goals are based on the total value of all contracts anticipated to be issued during that fiscal year.

Good business practices require that reports be based on accurate information prepared in a timely manner. In addition, the source or sources of figures used should be documented to allow for verification of the accuracy of the reported goals or the results of operations.

Condition: Our review of fiscal years 1998-1999 and 1999-2000 set-aside goals and quarterly status reports revealed the following situations.

- As noted above, an agency's 1998-1999 fiscal year set-aside goals were to be based on an average of the total value of all contracts issued during the three previous fiscal years. DPW used only two previous fiscal years (1995-1996 and 1996-1997) in calculating its three-year average of $50,149,506. We were unable to calculate the proper three-year average for the 1998-1999 fiscal year because agency personnel were not able to provide the missing contract totals for the 1997-1998 fiscal year.
- Beginning in the 1999-2000 fiscal year, DPW pre-calculated only its annual set-aside goals for General Fund expenditures. They did not pre-calculate set-aside goals for bond fund expenditures as they had been in the past. Public Works personnel indicated that they could not accurately predict the

amount of bond fund monies made available during a given fiscal year, and subsequently, the dollar value of contracts to be issued during the year. However, subsection (m) of Section 4a-60g of the General Statutes, requires, that each State agency shall annually by September first of that year prepare annual goals for that fiscal year. Personnel of DPW informed us that the Department of Administrative Services (DAS) had accepted the post-calculation of set-aside goals for bond fund activities at the end of each quarter based on actual contracts awarded during the quarter. Public Works did not have any correspondence that indicated such an approval had been granted. DAS personnel informed us this exception was most likely granted orally to DPW.

- The Department based its 1999-2000 set-aside goals for General Fund expenditures on a General Fund appropriation of $37,130,320 for the 1999-2000 fiscal year. The appropriated amount was actually $39,365,448, $2,235,128 greater than the amount used by DPW in calculating its General Fund set-aside goals. The employee preparing the annual goals calculation could not explain the variance.
- As part of our review, we sought to determine if information submitted to the Commission on Human Rights and Opportunities and specific members of the General Assembly was accurate. Thus, we reviewed the information submitted on two of DPW's quarterly reports. We found that DPW failed to document how it arrived at various construction projects figures presented on the quarterly reports.

Effect: It appears that reports are not completely accurate and are not in complete compliance with the requirements of General Statutes. Thus, DPW's achievement of goals may be distorted in some instances.

Cause: We were unable to determine the specific reasons for the problems cited above.

Recommendation: The Department of Public Works (DPW) should calculate its annual set-aside goals in accordance with the requirements of the General Statutes. Also, the DPW should prepare accurate and documented set-aside reports. (See Recommendation 23.)

Agency Response: "Public Act 99-233 modified the set-aside participation from a three (3) year average to an amount anticipated for the fiscal year based on funds appropriated. Consequently, errors in goal calculation utilizing less than the three-year average of contract awards will no longer be possible.

As a result of the Auditor's recommendation, the department has increased its attention to maintaining the detail that supports both the calculation of set-aside goals and the quarterly utilization statistics."

CONDITION OF RECORDS

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

EQUIPMENT PURCHASES AND INVENTORY:

Criteria: Section 4-36 of the General Statutes requires State agencies to keep an inventory account in the form prescribed by the State Comptroller. Article Fourth, Section 24 of the State Constitution and Section 3-112 of the General Statutes provide that the State Comptroller shall prescribe the mode of keeping and rendering all public accounts of the State. Section 3-112 further states that the State Comptroller shall issue accounting manuals for use by State agencies. The State of Connecticut's 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. The Manual further requires that an annual complete physical inventory of all property be taken to ensure that property control records accurately reflect the actual inventory on hand. Another provision of the Manual is that software acquisitions over $1,000 must be included on the annual inventory reporting (form CO-59) to the State Comptroller. The State Comptroller also requires that assets having a value of less than $1,000 be deleted from CO-59 reporting.

The State Accounting Manual prescribes procedures State agencies must follow in processing expenditures. These procedures include the requirement that the payment has a receipt document and that the receipt date on the expenditure document is properly recorded. (The receipt date is used by the State Comptroller to calculate vendor accounts payables on the financial statements and the payment due date.) The Manual also sets forth rules on how expenditures are to be classified for reporting purposes. Individual items costing less than $1,000 are not to be coded as equipment according to those rules. Pursuant to Section 4a-2 of the General Statutes, the Department of Administrative Services (DAS) is generally responsible for State purchasing. DAS general letter 71, in effect during the audited period, requires that for direct agency purchases over $1,000 but less than $10,000, at least three written quotations be obtained.

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

- DPW's computerized detailed inventory became inoperative because of computer problems and was discontinued.
- Physical inventory examinations and counts have not been

made since May 1998 to at least August 2002.
- Substantial equipment purchases had not been recorded on the detailed inventory list and were not reported on the CO-59 reporting to the State Comptroller.
- Two software purchases each over $1,000 and totaling over $4,000 were not included on the CO-59 as required.
- Individual items with values less than $1,000 and totaling over $100,000 were not deducted from the inventory as required.

A number of the equipment expenditure documents tested had no receiving signature and had incorrectly recorded receipt dates. A number of items, each costing less than $1,000, were classified as equipment. In three instances DPW used General Letter 71 as the purchasing authorization but provided no evidence of three bids having been obtained.

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.

The failure to follow Comptroller accounting and DAS purchasing requirements weakens internal control and financial reporting.

Cause: The agency had been relying on inventory software to maintain the inventory and do physical inventories. A bar code reader that was part of that software was used to read inventory tags during the physical inventories. However, the inventory software became inoperative and was discontinued because of Y2K problems. Attempts to transfer the data from the existing database to another database were unsuccessful apparently because of problems with the old software.

We did not ascertain the reason for the failure to follow State Comptroller and DAS requirements in processing equipment expenditures.

Recommendation: The Department of Public Works (DPW) should follow State Comptroller and Department of Administrative Services (DAS) requirements in processing equipment purchases and the equipment inventory should be properly maintained. (See Recommendation 1.)

Agency Response: "The agency agrees with the conditions stated in the audit. Until the CORE-CT project affords an inventory control infrastructure (i.e. the database and the interface to procurement), the agency will continue to manually record additions and deletions to the equipment inventory.

CORE-CT inventory control infrastructure should allow the agency to cull out "controllable" items valued at less than $1,000 that are subject to being inventoried and currently tagged (mostly computer items) yet are not subject to CO-59 reporting. Should CORE-CT not deliver the anticipated functionality, the department will need to develop or purchase an appropriate property inventory system to correct the weaknesses inherent in the manual process."

CAPITAL PROJECTS - CLAIMS MANAGEMENT

Background:

Our prior review disclosed that formal policies and procedures over the administration of contractor claims against the Department and errors and omissions claims due the Department did not exist.

CLAIMS AGAINST THE STATE:

Criteria: The establishment of formal policies and procedures by agency management is a good business practice, which helps ensure that all agency personnel are aware of the existence of any official agency policies and procedures.

Condition: DPW does not have a policies and procedures manual covering the processing and avoidance of post-project claims against the State by contractors. During a previous audit examination, management informed us that a draft copy of a document entitled "Claim Management Policy and Procedures Manual" was being circulated to DPW senior management for review. We stated in our succeeding audit examination that we were not able to determine why the manual was not completed. We were also unable during our current audit examination to determine why the manual had not materialized.

As was the situation during our last audit examination, the Claims Management Unit operates without formal policies and procedures. Claims filed by contractors against the Agency are administered under a document entitled "Claims Business Processing Mapping." This document contains a number of handwritten pages, use of abbreviations, unnumbered pages, implementation plans for remaining items, and some matters that need further attention.

The Agency's latest "Strategic Business Plan," effective January 2000 through June 2003, calls for the drafting of a procedures manual related to the processing of contractor's claims.

Effect: Without a formal policy, the risk increases that claims processing and any subsequent payments that are made may not be in the best interest of the State.

Cause: We did not determine the cause.

Recommendation: Policies and procedures for the Claims Management Unit, and the process to manage claims, need to be formally established. (See Recommendation 2.)

Agency Response: "The draft policy and procedures manual does not recognize the diversity of claim activity. The draft presumes that all claims are the same and follow a standard management process, which simply is not the case.

However, the DPW has, since November of 1997, followed a claims process guideline established through a five (5) day Business Process Mapping (BPM) session. During this BPM all facets of construction claims were discussed, diagrammed and integrated into the Draft document noted in the above "Condition". All project managers were instructed, at that time, to follow these process guidelines.

It should be noted that outstanding claims have been reduced from 24 at the end of 1995 to 4 today. Through the department's actions to streamline processes, increase training to project management staff and increase accountability of architectural firms claim activity has been reduced significantly. Only 9 new claims have been filed by contractors since 1998, 51 were filed during the four years 1995 through 1998."

Auditors' Concluding Comments: Although DPW has established a claims process guideline, this guideline, as noted above, contains a number of handwritten pages, use of abbreviations, unnumbered pages, implementation plans for remaining items, and other matters that need further attention. DPW needs to refine this document.

CLAIMS DUE TO THE STATE:

Criteria: Good business practice requires formal policies and procedures to ensure that project files are reviewed to determine if any possible claims are warranted against design professionals, that these claims are fully documented and that they are properly resolved in the best interest of the State.

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 money due. As was the situation noted in our prior audit report, the Agency had no listing of potential claim settlements against design professionals. Also, we were informed that the Agency had no accounts receivable associated with design errors.

During the current audit examination, we were informed that most claims would be minimal and too costly to pursue through the legal process. Thus, management felt that it was more cost effective to request in-kind services from the design profession.

Effect: We could not ascertain to what extent design errors and/or omissions may be occurring and if and how the Agency decided to resolve the possible claims.

Cause: We did not determine the cause.

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 or the rendering of additional services to the State. (See Recommendation 3.)

Agency Response: "DPW maintains a full accounting of all changes and eventual claims that would result from unsatisfactory resolution by the party making a request for change order. Upon notification that a claim will be made, a separate file is set-up to collect all pertinent documentation concerning that claim for tracking by the claim unit.

Training for project managers has been conducted annually on the procedures used upon notice of a claim. Performance of design firms is evaluated, poor performance is documented and performance evaluations are used during the process for selection of design firms for new projects."

Auditors' Concluding Comments: The development of formal written policies and procedures for claims against design professionals will help strengthen and document controls.

CAPITAL PROJECTS - INSURANCE CERTIFICATES

Background:

We reviewed selected construction projects and inspected required insurance certificates for project consultants (such as design professionals, construction managers and construction administrators) and construction contractors.

INSURANCE FOR PROJECT CONSULTANTS:

Criteria: DPW makes significant payments to capital projects consultants. In order to indemnify the State properly, the Department requires these consultants to provide proof of certain types of liability insurance.

The existence of adequate insurance coverage should be documented in DPW records. Good business practice requires that important project documents such as insurance certificates be readily retrievable.

If consultant contracts require professional services liability insurance at a specified minimum coverage for errors and omissions, the insurance coverage should be for the required amount on a per claim basis (i.e., not on an aggregate basis).

Condition: We noted problems in this area, for instance:

- The standard insurance certificate form has space to indicate if required workers' compensation coverage was at statutory limits. In a number of instances, the certificates of insurance did not indicate if the coverage was at those limits.
- In two cases, we found that minimum coverage for professional services liability had not been provided on a per claim basis resulting in inadequate coverage.
- DPW has a contracts unit that processes consultant contracts. That unit also monitors contract requirements including insurance compliance. However, for at least four large unique special projects, contract processing and monitoring were done outside of the contract unit in the construction unit. For these projects, we noted numerous instances where insurance certificates were not provided, certificates were provided but had expired, or the reported coverage did not meet contract requirements. Also, in one instance, the State Insurance and Risk Management Board informed us that the coverage required by contract was inappropriately excessive.

Effect: Inadequate insurance and failure to require proof of insurance over the life of a contract could subject the State to liability.

Cause: These problems appear to be the result of inadequate procedures, especially in regards to the processing and monitoring of the consultant contracts of large special projects. Consideration might be given to using the assistance of the State Insurance and Risk Management Board for such projects.

Recommendation: The Department of Public Works should improve its monitoring of insurance requirements compliance by its capital project consultants and construction contractors. (See Recommendation 4.)

Agency Response: "The department does not believe there is significant exposure to liability as a result of this condition. However, the department will review and monitor with greater scrutiny, the insurance requirements of agreements that result from special legislation or other non-standard processes.

The report indicates that in certain instances the certificates of insurance did not provide clear evidence that workers' compensation coverage was provided at the statutory limits. Although the insurance certificates the Contracts Administration Unit receives from insurance brokers and insurance companies includes a reference to this type of coverage, we do not review for this particular item. The reason is two-fold: First, workers compensation coverage is prescribed by statute, not by DPW policy; second, if a consulting firm failed to comply with the statutory requirement, it is difficult to imagine how the state or its employees could be damaged.

While we agree that it is good business practice and are developing tools and processes to monitor compliance with the insurance provisions of the contract, we note that liability is established through the language of the contract. In the event of a loss, the department would pursue any and all legal remedies to recover damages."

Auditors' Concluding Comments: An official of the State Insurance and Risk Management Board (SIRMB) told us that the State could be liable for insured workers working for uninsured contractors hired by the State. Also, pursuant to Section 31-354 of the General Statutes, the State is required to pay from its Second Injury Fund the workers' compensation benefits of injured workers of uninsured employers. Accordingly, DPW should monitor that its contractors document that they have appropriate workers' compensation insurance for their employees. That SIRMB official also told us that minimum professional liability coverage for errors and omission should be on a per claim basis.

INSURANCE FOR CONSTRUCTION CONTRACTORS:

Criteria: DPW makes significant payments to construction contractors. To indemnify the State properly, the Department requires its construction contractors to provide proof of certain types of liability insurance prior to the awarding of a construction contract and until the Department accepts the project as completed.

The existence of adequate insurance coverage should be documented in DPW records. Good business practice requires that important project documents such as insurance certificates be readily retrievable.

Certificate of Insurance guidelines issued by the State Insurance

Risk Management Board state that certificates should contain an actual policy number(s) and that State agencies should not accept the use of the phrase "To Be Determined (T.B.D.)" for the policy number.

Condition: During the current audit examination, the Department's files contained only 21 of the 33 Certificates of Insurance selected for review.

Our current review revealed that four out of seven contractors required to carry Builders Risk Insurance on five projects failed to file proof of said coverage or let this type of coverage lapse. The five projects involved ranged in cost from $9,337,000 to $28,600,000 in contracted cost.

In another case, a project was subdivided into two phases. The same contractor was hired for both phases and he maintained builders risk coverage of $9,000,000. However, the two phases totaled $15,577,649 and that is the amount that should have been insured. Pursuant to the construction contract for phase I, builders risk coverage for that phase terminated in August 1999, when that phase amounting to $9,740,695 was substantially completed. However, coverage should have continued until the State occupied the building in the fall of 2000.

We noted instances in which construction contractors failed to meet the aggregate insurance amounts in the construction contract. We also noted that four Certificates of Insurance submitted to the Department indicated that the insurance policy number of a particular type of coverage had yet to be determined (TBD). As a result if the State has a claim, then it would not be able to document a policy number.

Effect: Failure to require proof of proper insurance coverage or allowing the discontinuance of builders risk coverage during the construction of a project leaves the State at risk should someone become injured at the construction site, a fire should occur or the structure should collapse.

Cause: These problems appear to be the result of the lack of written procedures, a system that can effectively monitor the adequacy of a contractor's insurance coverage over the life of a project, and an effective filing system for storing and retrieving Certificates of Insurance.

Recommendation: The Department of Public Works needs to improve its monitoring of insurance requirements compliance by its capital project consultants and construction contractors. (See Recommendation 4.)

Agency Response: "While we agree that it is good business practice and are developing tools and processes to monitor compliance with the insurance provisions of the contract, we note that liability is established through the language of the contract. In the event of a loss, the department would pursue any and all legal remedies to recover damages.

The department continues to identify the issues around establishing proper insurance coverage commensurate with the contract requirements and to develop systematic methods to ensure that insurance coverage is current and in force. Existing data processing systems do not capture this data for construction contracts. The existing follow-up is dependent on inconsistent tickler systems. Post audit with insurance agents at final payment of construction contracts completed over the last year has not disclosed any instance of insurance lapse.

We continue to undertake a yearly training program for all of our Client Agency Team staff. This training includes what items must be included within our documentation and the rationale for each.

Lastly on this subject, we are working with DAS to undertake an owner provided insurance program that is an interesting opportunity for the State to provide umbrella insurance, and a better and comprehensive safety program under one program. We see it as an appropriate program to address the issues of continual and consistent coverage throughout the project life."

Auditors' Concluding Comments: Guidelines of the State Insurance & Risk Management Board require that "All contractors should be required to maintain reasonable insurance coverage and provide written proof of this protection. This insurance becomes especially important when the contractor has agreed to defend and indemnify the State." DPW's contracts with construction contractors provide that the contractor is to maintain insurance over the life of the construction period. The contracts also provide that the contractor "shall at all times indemnify and save harmless" the State on account of any and all claims and legal fees. Insurance certificates provide the documentation that the contractor has maintained insurance coverage during the life of a construction project.

The State is developing an "Owner Controlled Insurance Program" ("OCIP".) OCIP would be a centralized insurance program in which the State manages insurance coverage for certain construction projects. A single insurer would generally be used for all covered contractors. It is anticipated that this would significantly reduce construction insurance cost. However, OCIP is still in the development stage. Moreover, the program will not cover the bulk of DPW's construction projects. It will be limited to very large programs – OCIP will cover only very large (aggregate value of at least $100 million) projects or group of similar projects.

CAPITAL PROJECTS - CHANGE ORDERS:

Background:

Projects are competitively awarded to contractors at specific amounts. Additional construction costs can occur from DPW requested changes in the form of "change orders". The need for change orders can result from architect/engineer errors and omissions, unexpected field conditions or by a client agency's request. Our review of change orders disclosed the following:

PROCESSING CHANGE ORDERS:

Criteria: Section 3-117, subsection (a) of the General Statutes provides, in part, that "Each claim against the state shall be supported by vouchers or receipts for the payment of any money exceeding twenty five dollars at any one time, and an accurate account, showing the items of such claim, and a detailed account of expenses, when expenses constitute a portion of it, specifying the day when and purpose for which they were incurred."

Article Fourth, Section 24 of the State Constitution and Section 3-112 of the General Statutes provide that the State Comptroller shall prescribe the mode of keeping and rendering all public accounts of the State. The State Comptroller through her State Accounting Manual ("SAM") requires that State agencies are responsible to implement uniform procedures that contain proper internal control policies over expenditures. SAM further requires that an agency employee must certify the accuracy and completeness of agency expenditure documents.

Good business practice dictates that expenditures be accurately calculated and have documentation that adequately explains and support them without the need of further research.

Condition: We noted procedural problems in the processing of change orders, for instance:

- We found mathematical errors on change order payment forms.
- We noted instances in which such payments were made without the documentation required to substantiate the amount of the charge.
- Some of the manual forms used were difficult to read and follow.
- The change order form has a provision for contractors and subcontractors to indicate their fringe benefit rates that can vary from company to company. We noted instances in which the rates were not recorded on the form.
- We noted instances in which DPW processed change orders in which the contractor used incorrect profits and overhead

markup rates. (DPW has standardized profit and overhead rates.)

Effect: The lack of documentation seems to be a violation of Section 3-117 of the General Statutes, which as noted above, requires payments to be supported by adequate itemization and documentation. Also inadequate review of change order payments may result in erroneous payments to contractors.

Cause: This finding has essentially been repeated from prior audits. Prior to 1995, DPW had a cost review unit that examined proposed change order payments to ensure that such payments were accurate and supported. That unit was disbanded. We were told that one reason for the disbanding was that delays caused by that unit's reviews could later result in contractor's delay claims against the State for additional payment. DPW transferred the change order substantiation process to the restructured project teams. However, it appears that sufficient procedures over the processing of change orders were not established within the project teams.

Agency staff informed us that subsequent to the audited period DPW has established a new computerized change order form. Hopefully, that form will reduce some procedural problems such as mathematical errors. However, procedures will still have to be developed to ensure that the change orders are supported with adequate documentation.

Recommendation: The Department of Public Works (DPW) needs to improve its procedures over the processing of change orders. (See Recommendation 5.)

Agency Response: "The department does not agree that change orders lack documentation necessary to support the resulting payment to the contractor. Change orders are produced only after a due-diligent review, evaluation and approval process involving the department, the design team and the contractor. All documents created in this process become part of the change order package and should be available from file upon demand for review purposes. Each change order results in a lump sum amendment to the construction contract. Payment to the contractor is based on the lump sum amendment and the certification by the contractor, architect and department as to the complete status of the work required under the amendment. Payment to a contractor without the preexisting approved change order, cannot normally occur.

In January of 2002 a computerized version of the change order form was introduced to project managers, assistant project managers and others. On going instruction is given to general contractor representatives as contracts are signed. Use of this automated form eliminates math errors and incorrect overhead &

profit calculations as long as the protections are maintained on the work sheets."

Auditors' Concluding Comments: Staff indicated that they provided us with all the documentation for the change orders we reviewed. We noted numerous examples of submitted documentation being insufficient.

Despite the introduction of automated forms, DPW still needs to verify calculations and the rates used. Built-in computer protections can be accidentally or otherwise deleted.

CHANGE ORDERS REPORTING:

Criteria: In the Governor's Midterm Budget Adjustment document for fiscal year 2002-2003, one of DPW's listed initiatives is to "Expand the program monitoring and accountability function."

Section 4-67m of the General Statutes requires that State agencies develop for budgetary purposes quantifiable outcome measures. DPW's Strategic Business Plan for Fiscal year 2000-2003 lists proposed performance measures related to change orders that quantifies change orders by causal type as follows:

1. Architect/engineer (A/E) errors
2. Field conditions
3. Agency Request

DPW has not, as of the 2001 to 2003 budget biennium, included these performance measures in its budgetary request.

Change orders can result in cost overruns on construction projects. Agency administrators are responsible for monitoring construction projects. Accordingly, it would be good business practice for DPW to develop up-to-date measures that routinely monitor change order totals by type and by the fiscal period during which they actually occur. These measures should be routinely and periodically distributed to Agency administrators.

Condition: As noted above, DPW has not included change order amounts and rates as part of its budgetary performance measures. It does list change order totals and rates as part of a statutorily required annual report. Subsection (a) of Section 4b-2 of the General Statutes requires that DPW submit an Annual Report that includes all pertinent data on realty acquisitions to the State Properties Review Board (Board). (The Board is required to submit that report along with any additional information it deems appropriate to the Governor and various members of the State Legislature.) That report includes the dollar amount and average rate for total change orders. There is no rate breakdown by the three types of change orders (A/E errors, field conditions, agency request.) Moreover, the Annual Report figure is based on cumulative change orders on projects completed in that year and not on the change orders by the fiscal year during which they actually occur. Projects may be active for a number of years before they are completed. Therefore the published data may include change orders processed some years earlier. Change orders processed in the current year for ongoing projects will not be reported until those projects are completed in a succeeding year. In addition to this closed project reporting, a compilation of change order amounts and rates by processed year and category type would provide useful up-to-date information. In addition, annual summations of such figures could be used as a performance measure for budgetary reporting purposes and for dissemination to the Governor and the State Legislature.

Effect: DPW's lack of data by the fiscal year in which change orders were actually processed weakens accountability and program monitoring. Important and useful up-to-date information concerning the status of change orders is not being routinely disseminated to Agency administrators and other interested parties, such as the State Legislature.

Cause: The report to the Board is required to contain data on real estate acquisitions. As such, change order reporting by closed projects is appropriate for that report. However, change order data on the basis of closed project reporting does not isolate the fiscal years when change orders were actually processed. This weakens the ability to evaluate performance from year to year and make other analyses. As a result, performance measuring and accountability is weakened.

DPW has not implemented a reporting system that would compile change orders by category type for the fiscal years during which the construction change orders were processed.

Recommendation: In addition to its total change order reporting by closed projects, the Department of Public Works (DPW) should routinely compile and report change order totals and rates by category type and by the fiscal year in which they occur. Also, that information should be included as part of its budgetary reporting request pursuant to Section 4-67m of the General Statutes. (See Recommendation 6.)

Agency Response: "In the department's view, change order activity reported on a fiscal year basis carries little value in measuring performance or other statistical measurement. Performance measurement is more meaningful at the close of construction when all factors of performance by the department, client agency, architect and contractor are clear and can be assessed.

Change order tabulation is done as each project progresses. A full accounting of change orders by type (i.e. A/E error, field condition, agency request) is maintained on an ongoing basis for each project.

The department has indicated to OPM that total change orders by category for completed projects will be included in future performance measures as an indicator of quality. However, no timeframe has been established to modify the quantity measures currently provided as part of the department's biennial budget submission."

Auditors' Concluding Comments: Change order reporting only by completed projects results in a failure to measure change orders by their associated time period. Current change order totals include prior year amounts and lack current year change orders on uncompleted projects. Comparative reporting of current change order by time periods is needed to monitor the management of change orders and to communicate their present status to the General Assembly and other policy makers.

MONITORING CHANGE ORDERS – DESIGN FIRM DEFICIENCIES:

Criteria: Proper planning and supervision of capital projects are good business practices that serve to minimize the need for 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.

Good business practice dictates that change order forms be properly documented and contain sufficient explanation to support them without the need for further research or questions to the staff.

Condition: Our analysis of DPW's change orders (COs) by category based on DPW's change order data follows:

	Fiscal Year Ended June 30		
	1999	2000	2001
A/E (see below)	$1,077,182	$947,018	$3,216,659
Percentage of total	27%	21%	19%
Field conditions	$1,677,083	$2,080,688	$9,206,303
Percentage of total	42%	45%	54%
Agency request	$1,230,142	$1,583,301	$4,594,466
Percentage of total	31%	34%	27%
Total CO	$3,984,407	$4,611,007	$17,017,428

("A/E" above refers to architect/engineer errors and omissions.)

Fiscal year 2000-2001 figures are included above for comparison purposes even though that fiscal year is not included in our review and are unaudited. The large increase in change orders in fiscal year 2000-2001 was due in part to the fact that completed projects were larger in that year. Completed projects amounted to approximately $64 million in fiscal year 1998-1999, $103 million in fiscal year 1999-2000 and $147 million in fiscal year 2000-2001. Also, one project completed in fiscal year 2000-2001 had change orders in excess of $5 million dollars. The bulk of that project's change orders occurred in fiscal years 1995-1996, 1996-1997 and 1997-1998. As noted earlier, DPW data on change orders is based on cumulative change orders for projects completed in a given fiscal year and not on change orders processed during that year. Accordingly, DPW's change order data are less than ideal for analytical and performance reporting purposes. Accordingly, a high priority should be given by DPW to compiling change order data by the year they occur as discussed earlier. Nevertheless these figures along with a review, noted below, of change order data on active projects indicate that DPW needs to continue to closely monitor change orders. Our review of DPW's active project database showed that seven large ongoing projects, as of June 30, 2001, with a total original contract amount of $97,951,909 had 855 change orders totaling $17,622,775. Thus, these seven projects already had a change order rate of 18 percent of the original contract amount despite the fact that they appear to be still ongoing and thus subject to additional change orders.

We noted that change order approval forms often contained scant details on how the change order resulted from architect/engineer errors or field conditions. A brief statement on the form to support the architect/engineer error or field condition classification would improve documentation. Also, we noted "agency request" change orders approval forms that did not have an attached letter from the agency making the request.

Effect: Change orders, in general, increase the cost of completed projects and delay the completion of 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. Therefore, the premise that the Department is controlling construction cost by using the "lowest qualified bidder" through the completive bid process could be questioned.

The lack of explanatory detail on change order approval forms for architect/engineer errors and omissions and for field conditions weakens the documentation of problems in those areas. Agency requests were not always documented on the change order approval form.

Cause: Ineffective effort to monitor design firms could result in change orders due to errors and omissions. Also poor planning with respect with user agencies could result in change orders due to agency request. We are not sure why change order approval forms often contained insufficient explanatory detail or lacked a formal agency request letter.

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 their part. In addition, the change order approval form should contain adequate documentation and explanation for the reason for the change order. (See Recommendation 7.)

Agency Response: "The department believes that the condition results more from a lack of ability to retrieve documents than from the lack of detailed documentation.

Taking into account industry standards and practices and the record keeping the DPW has in place, due diligence is being provided in the monitoring of design consultants and probably leading the industry in CT.

The fact is that the actual change order package not only goes into great detail for the change, but also requires a supporting letter from the design professional. The actual form, which represents the conclusion of the report, is in fact a one page summary report and does not detail at length the change order. Further in this section, it is noted that Agency request lacks any supportive information, this too is supported by an extensive package of attached information.

We have an effective tracking system of all change orders including errors and omissions issues. Where it is determined that a reasonable level of design errors, based on industry and internal criteria for the type of work, has been exceeded, the condition is referred to our claims unit to investigate the opportunity to seek financial help from the consultant. Additionally, the consultant is graded very low on their report card for an offending project. Design consultant performance, as noted on the A/E Report Card is reported at ensuing DPW short-listing sessions for the selection of consultants for new work.

Training is provided to DPW project management staff on the maintenance of the CO Logs, use of A/E Report Card and the DPW Selection Process."

Auditors' Concluding Comments: DPW has been processing significant and increasing amounts of change orders. For instance, change orders for fiscal year 2000-2001 were in excess of $17 million representing 13 percent of completed projects. In comparison, fiscal year 1998-1999 change orders amounted to approximately two million dollars representing approximately four percent of completed projects.

Because of the scant information on the change order forms, we could not readily determine why particular change orders were classified as field condition or architect/engineer errors and omissions. A brief statement on the form to support the classification (with reference to any supporting backup) would improve documentation.

ANNUAL REPORT TO THE STATE PROPERTIES REVIEW BOARD

Criteria: Subsection (a) of Section 4b-2 of the General Statutes requires that DPW submit an annual report that includes all pertinent data on realty acquisitions to the State Properties Review Board (Board). (The Board is required to submit that report along with any additional information it deems appropriate to the Governor and various members of the State Legislature.) That report should contain complete and accurate data on realty acquisitions.

Subsection (c) of Section 4b-2 of the General Statutes requires DPW to keep and maintain proper financial records with respect to real estate acquisitions activities for use in calculating the costs of its operation.

Pursuant to generally accepted accounting principles, real property should be reported at the total cost necessary to place the asset in its intended location and in condition ready for use. Accordingly, in addition to construction costs, certain ancillary costs such as design costs, direct DPW personnel costs, legal fees, environmental studies, hazardous material removal, etc, should also be reported as part of the cost of any constructed real property.

Condition: In its annual reporting to the Board, DPW has understated the cost of completed projects. The totals shown only included the amounts paid to construction contractors. Ancillary costs, which can be significant, have not been included. For the fiscal year 1998-1999, the failure to include ancillary costs resulted in understating completed construction projects cost by at least nine million dollars. For the fiscal year 1999-2000, the understatement was at least $21,700,000 million and for the fiscal year 2000-2001, it was at least $12,500,000 million.

In addition, for the 2000-2001 fiscal year certain projects amounting to approximately $8,000,000 for which DPW issued a certificate of completion were not included as closed projects in the report. As noted below, this was caused, in part, by data processing problems.

Effect: DPW's annual reports have been inaccurate. This could weaken the ability of interested parties such as the Board and State legislators to analyze the true standing of DPW's real estate acquisitions.

Cause: Data reporting of closed projects is based on DPW's project tracking database. It is the responsibility of the Client Services Team to transfer closed projects from the active to the closed category within that database. It appears that there might have been some failures to record some completed projects as closed. In addition, there were data processing problems. In fiscal year 2000-2001, DPW changed computer programs for its active project database. A number of problems were associated with the conversion. For instance, to save time, projects that were close to being closed out were not entered into the new database. This seems to have resulted in a number of projects not being transferred to the new database and not reported as closed out.

Moreover, the project tracking database that is used for data reporting of closed projects is limited as far as cost reporting. Its cost reporting is basically limited to construction cost. Cost data on ancillary outlays, which as noted above can be significant, is not captured on that database. Separate computerized systems (e.g., active project database, SAAAS, Revolving Fund system, consultant database) are used to account for different aspects of a construction project. There is a need for a global reporting system for construction projects.

Recommendation: The Department of Public Works (DPW) should improve its reporting of closed projects in the statutorily required report to the State Properties Review Board (Board). (See Recommendation 8.)

Agency Response: "The department is in general agreement with the condition noted by the Auditors. The department currently maintains multiple databases for various cost accumulation and reporting purposes. Since the Auditors found a deficiency in this area, department accounting personnel have taken extra steps to reconcile the information reported and improve the accuracy of the product. The department relies on the advice and direction from the central agencies, primarily the Office of the State Comptroller to ensure the proper components of project cost are reported for inclusion in the state's financial and asset management systems. Further, the department will meet with the Property Review Board to ensure the annual report contains pertinent data according to the mandate of Section 4b-2 of the CGS.

A central database of information is necessary to produce accurate and comprehensive reporting of closed projects. The department is working to that end through participation in the CORE-CT core business systems replacement project of OPM/DAS/Comptroller to define the data and the interfaces to the existing department Project Tracking System."

Auditors' Concluding Comments: In its response the Department of Public Works noted that it "relies on the advice and direction from the central agencies, primarily the Office of the State Comptroller to ensure the proper components of project cost are reported for inclusion in the state's financial and asset management systems." It should be noted that the State Comptroller through her "Property Control Manual" has already advised State agencies on the reportable components of project cost. For instance, that Manual provides that the reportable cost for a building includes "the purchase or construction cost, professional fees for architects, attorneys, appraisers, or financial advisers, and any other expenditures necessary to put a building or structure into its intended state of operation."

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.

Criteria: It would be a good business practice to monitor all lease receivables due and collected in one central record that would serve as a control record.

Condition: DPW does not have a centralized accounts receivable system to monitor monthly lease revenue due from non-State agencies. Instead, monthly rental receipts are printed onto individual sheets for each lease. A centralized receivable system would give greater assurance that all rents due are recorded and would indicate what rents are in arrears at a particular time.

Effect: Lack of centralized lease receivable records could cause loss of revenue and under-reporting of receivables for financial reporting purposes.

Cause: The Agency has computerized billing and accounts receivable systems. However these systems are limited to the processing and recording of Agency billings. Monthly rentals due from tenants are not billed and those transactions are not included in this system. We did not determine why DPW has not developed a centralized lease receivable record.

Recommendation: The Department of Public Works should design and put into operation a centralized lease receivable system. (See Recommendation 9.)

Agency Response: "The department is in general agreement with the condition and recommendation of the Auditors. This Accounts Receivable System functionality has been identified by the DPW through our participation since 2000 in the CORE-CT core State business systems replacement project and appears to be a product that will be delivered under Phase II of the project (Phase I includes an inter-agency receivable system). Until such time as Phase II is implemented, the department will continue to manage lease-out receivables utilizing worksheets and manual tickler systems."

CAPITAL PROJECTS REVOLVING FUND:

Background:

Section 4b-1a of the General Statutes established the Capital Projects Revolving Fund for financing costs associated with capital projects. DPW employees working on public works projects are initially paid out of that Fund. Subsequently that cost is allocated to applicable project accounts maintained primarily in Capital Project Funds. Charges may accumulate in the Revolving Fund prior to the time money is available in the project account. For instance, preliminary reviews are typically needed before cost estimates can be presented to the Bond Commission. As a result when the Bond Commission approves projects funding, costs for those projects have already been charged to the Revolving Fund. Because of this and various other reasons, unreimbursed charges receivable have accumulated within that Fund. The following are findings related to the Capital Projects Revolving Fund:

PROPER MATCHING OF COSTS TO BENEFITING CAPITAL PROJECTS:

Criteria: Charges made to capital projects bond funds from the Capital Projects Revolving Fund should accurately reflect costs incurred by DPW for the benefit of the projects charged. The Agency's accounting/processing system should facilitate that process. That system should provide useful operational information on the status of the Capital Projects Revolving Fund.

Condition: The procedures required to complete the billing cycle currently require the use of different computer systems that do not fully interact with each other. Separate Agency systems track the same information resulting in dual data entry and the need to reconcile data between different computer systems. As a result, when the various reports are merged or transferred to another system, manual intervention is required. The resulting reports must then be reviewed and corrections made. The review and correction process is time consuming and labor intensive.

The Agency's existing system does not facilitate the "aging" of unreimbursed charges receivable nor does DPW prepare an aging schedule, which would classify receivables by how long they have existed. Such a schedule is a vital tool in analyzing the status of the receivables.

Another vital tool would be the periodic (at least annually) preparation of a schedule classifying receivables by type (e.g., projects in design not yet bonded, technical services provided to other State agencies, completed projects with no funding available, etc.). DPW did some such classifications as part of an analysis to determine what unreimbursed charges would be reduced as part of the $6,000,000 deficit General Fund payment made pursuant to Section 43 of Special Act 99-10. Such an analysis should be routinely performed, at least once a year because of the vital information it provides.

Effect: The existing 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.

Because of this unwieldy system, important information is not provided to management and oversight bodies on the status and operations of the Capital Projects Revolving Fund.

Cause: Different computer systems that do not fully interact weaken control and do not produce the data to prepare an aging schedule of receivables. In addition, DPW appears to prepare a classification of receivables by type only on an as-needed basis.

Recommendation: The Department of Public Works (DPW) should review its processing system for the Capital Projects Revolving Fund in order to reduce the level of manual operations required to process billing transactions and to increase the usefulness of information provided by its system. (See Recommendation 10.)

Agency Response: "The department is in general agreement with the condition and recommendation of the Auditors.

The department is currently seeking replacement of the legacy financial systems as part of the CORE-CT core business systems replacement project. Until such time as the project yields a solution or determines that CORE-CT will not provide a solution, the department will continue, by necessity, to operate with the given restrictions and manual interventions of the existing systems. Although these systems are in need of replacement, they remain, with manual reconciliation, reliable to perform the functions intended.

The department remains reluctant to write-off un-collectable accounts until each project has been reconciled and any remaining project resources applied against the receivable. Although this creates an imbalance between the records of the State Comptroller and the records of the DPW, it does not affect the departments ability to report net activity to department management or oversight bodies."

Auditors' Concluding Comments: We did not recommend that DPW write-off un-collectable accounts prior to possible recoveries. Our concerns related to system improvements for processing and reporting data.

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 that are financed from State bond proceeds. The Department incurs costs for public works projects that are financed with funds of other agencies. These costs are to be recovered from such agencies on a periodic basis. The debtor remits payment based on periodic billings by DPW. Such billings should be timely and the accounting/processing system should automatically update the receivable balances and provide an accounting/audit trail. It should also facilitate a reporting of the collectability of receivables.

Condition: The use of different non-interacting computer systems for the Capital Projects Fund, as discussed above, likewise weakens the collection process. A high degree of manual intervention is required. There is no system that automatically updates the receivable when funds are collected. The lack of an automated system increases the risk that the receivable total may not be accurate.

Effect: The high level of manual intervention required slows the process and increases the risk of error and incorrect billing. It is difficult for DPW to recover costs that required expenditures over the original project budget. By not billing promptly, a risk exists that specific bond funds will be depleted and the costs will not be recovered. The problems associated with the collections of amounts billed can lead to a receivable that is overstated.

Cause: As noted above, DPW relies on different computer systems that do not fully interact with each other to process Capital Projects Fund's transactions. The process is time consuming and prone to errors.

Recommendation: The Department of Public Works (DPW) should make system improvements to ensure prompt billing of charges incurred for public works projects financed by funds controlled by other State agencies. (See Recommendation 11.)

Agency Response: "The department is in general agreement with the condition and recommendation of the Auditors. As a result of the recommendation, the department will initiate billings to other agency funds on a monthly basis on or before January 1, 2003."

DUPLICATE BILLING AND COLLECTION:

Criteria: Significant costs and reimbursements are processed through the Capital Projects Revolving Fund. DPW is responsible for ensuring that the billings processed through the system and the resulting receivable amounts are accurate

Condition: As noted above, the Capital Projects Revolving Fund's process/accounting system, although automated, is a cumbersome system that requires a great deal of manual intervention and provides an inadequate accounting trail. As a result, we attempted to reconcile the changes in the Fund's receivable total to its project billings and collections. Our analysis indicated that there was a discrepancy between the anticipated and actual unreimbursed charges receivable. We brought this to the attention of the Agency. As a result of our follow-up in conjunction with the Agency, it was discovered that $106,071 in Revolving Fund billings had been collected twice. This resulted in excess capital project charges and excess Revolving Fund receipts.

In the 1998-1999 and the 1999-2000 fiscal years, DPW, in error, charged public works project costs, including fees reimbursed to the Capital Projects Revolving Fund, to a Capital Project Fund account of another agency. In October 1999, DPW corrected the error in its records by transferring those expenditures to the proper account. In doing this, it reimbursed the Capital Projects Revolving Fund for expenditures that were already reimbursed. DPW also in October 2000, in attempting to record the correction on the State Comptroller's records duplicated the transaction posting to the State Comptroller's record, resulting in a discrepancy between the Comptroller's centralized accounting records and DPW's own records.

Effect: DPW corrected these errors. However, their existence and the failure to discover these errors until our reconciliation process brought them to light are symptomatic of weaknesses in the Fund's accounting/processing system. That weakness reduces the reliance that can be placed on that processing system and the accounting data generated from that system.

Cause: Despite the weaknesses in the Fund's accounting/processing system, DPW might have discovered this problem in a timely manner if it had routinely (at least once a year) reconciled its Capital Projects Revolving Fund unreimbursed charges receivable to project billings and collections.

Recommendation: The Department of Public Works (DPW) should routinely reconcile its Capital Projects Revolving Fund unreimbursed receivables to project billings and collections. (See Recommendation 12.)

Agency Response: "The department is in agreement with the condition and recommendation of the Auditors. The condition noted by the Auditors would, in our opinion, have been discovered during the course of normal reconciliation of the Capital Project Bond Fund account effected.

The department will establish a systematic reconciliation process that will comply with the recommendation of the Auditors."

RECONCILIATION TO STATE COMPTROLLER'S RECORDS:

Criteria: Section 3-112 of the General Statutes provides, in part, that the State Comptroller shall maintain the accounts of the State government. As such, the financial activities of all State agencies are recorded centrally in the records of the State Comptroller. The Comptroller's centralized accounting records are used to produce the State's financial statements. It is important that these records are accurate. It is also important that DPW's own records are accurate. For instance, these records indicate balances available to fund various public works projects. DPW and other State agencies use a separate accounting system (State Agency Appropriation Accounting System – "SAAAS") to input and retrieve their accounting data. It is the responsibility of each agency to reconcile its SAAAS records to the records of the State Comptroller. DPW should compare its records to the State Comptroller's centralized records, identify the differences and correct any errors.

Condition: As noted above, DPW in error collected Capital Projects Revolving Fund billings of $106,071 twice. DPW had charged that cost, in error, to an account of another agency. It corrected that error in its books but in the process it reimbursed the Capital Projects Revolving Fund twice. Also, in attempting to record the correction on the State Comptroller's records, it duplicated the transaction posting to the State Comptroller's records. This resulted in a discrepancy between the Comptroller's centralized records and DPW's own records. DPW does compare its SAAAS total to the Comptroller's total and had identified the $106,071 variance but had not identified and corrected the error until we raised concerns about the discrepancies in Capital Projects Revolving Fund billings and collections. Had DPW timely reconciled the account it might have discovered the problem of duplicate collections in the Capital Projects Revolving Fund.

We also noted large variances in two public works projects accounts between the Comptroller's records and DPW's SAAAS records. We brought this to DPW's attention. DPW subsequently indicated that a $183,063 correction had to be made to both accounts. This is because in October 1999 an expenditure for one of the accounts had been erroneously posted to the other account on the State's centralized records. DPW made the correction in July 2001.

Effect: Failures to timely reconcile and correct account balances weakens the assurance that public works project account balances and the State's centralized records are correctly stated. Also, delays in reconciling such balances could result in the correct balance of a project's available funds not being determined until after a public works project has ended.

Cause: DPW does compare its SAAAS totals to the State Comptroller's totals and had identified the above noted variances. However, because of staff time limitations had not yet reconciled and corrected these errors.

Recommendation: The Department of Public Works (DPW) should reconcile its account records to the centralized records of the State Comptroller's Office in a timely manner and correct any errors. (See Recommendation 13.)

Agency Response: "In that the department maintains several thousand Capital Project Accounts and monthly reconciliation of these records is virtually impossible, the department will, beginning in November, systematically reconcile a group of funds each month, all funds at least once annually. The department will maintain a record of the accounts that have been reconciled, highlight accounts that are out of balance and concentrate on resolving discrepancies."

COMPREHENSIVE ANNUAL FINANCIAL REPORT – REPORTING CONSTRUCTION-IN-PROGRESS

Background: The State Comptroller is responsible for the preparation of the Comprehensive Annual Financial Report (CAFR) consistent with Generally Accepted Accounting Principles (GAAP). GAAP reporting supplements the regular financial reporting based on the State's centralized records. State Agencies are required to timely provide the State Comptroller with required financial information not contained in the centralized records.

Criteria: In submitting CAFR financial data, adherence by State agencies to the State Comptroller's time limits is crucial to the timely preparation of the CAFR. Once CAFR financial information is received, substantial effort by the State Comptroller is needed for review and report preparation. Likewise substantial audit effort is needed to verify the accuracy of the report figures.

Condition: DPW's fiscal year 1999-2000 reported construction-in-progress figure of $410,995,249 as of June 30, 2000, was overstated in excess of $130,000,000. The largest overstatement of over $105,000,000 resulted from DPW's failure to exclude the cost of certain occupied facilities. These were new facilities or facilities enhancements for which DPW issued a letter of substantial or partial completion but had not yet made the final payment. DPW's letter instructed the client agency to include the property in the State's inventory. However, DPW did not deduct these properties from its construction-in-progress total until the certificate of completion was prepared or other notification of final payment was made. Consequently, these properties were double counted as State facilities and construction-in-progress. DPW appropriately changed its procedures effective for the fiscal year 2000-2001 and it appears that no recommendation is needed on this matter.

However, DPW failed to submit its construction-in-progress figure to the State Comptroller within the latter's time requirements. The construction-in-progress figure as of June 30, 2000, for the 1999-2000 fiscal year was due September 1, 2000. DPW submitted it on December 21, 2000. The 1999-2000 CAFR was dated January 23, 2001.

The construction-in-progress figure as of June 30, 2001, for the 2000-2001 fiscal year was due on September 4, 2001. It was originally submitted on December 18, 2001 and then revised on December 20, 2001. The 2000-2001 CAFR statement was dated December 31, 2001.

Cause: The errors in the construction-in-progress total for the 1999-2000 fiscal year were the result of various financial reporting policy weaknesses. We did not determine the cause for the late submission.

Effect: Financial reporting was weakened by the construction-in-progress inaccuracies. The late submission of the construction-in-progress totals could also weaken financial reporting by resulting in CAFR reports not being timely prepared and/or by reducing the time devoted to the review and analyzing of reported figures.

Recommendation: The Department of Public Works (DPW) needs to submit its Comprehensive Annual Financial Report (CAFR) financial figures within the State Comptroller's time requirements.. (See Recommendation 14.)

Agency Response: "The department strives to meet all of the financial reporting timeframes established by the State Comptroller. Department staff has worked closely with Comptroller staff to gain a more thorough understanding of the components of the required reporting. The lack of integrated statewide systems to collect and properly categorize expenditures impacts on the department's ability to quickly produce an accurate construction-in-progress report."

REAL PROPERTY REPORTING TO CLIENT AGENCIES:

DELAYS IN REPORTING FINAL CONSTRUCTION COST:

Criteria: DPW's responsibilities include timely reporting to its State client agencies on the construction/renovation and property sales transactions it conducts for their benefit.

Condition: DPW's process of reporting the finalized cost of facilities to client State agencies results in delays of significant costs being reported. When a facility or facility renovation is completed enough so that the client State agency can take possession, DPW issues that agency a letter of substantial completion. That letter contains an estimate of the construction cost for the general contractor only. Other costs, such as design cost, hazardous material removal, and construction not performed under the contract with the major contractor are not then reported. These costs could be significant. A full accounting of cost is not submitted to a client agency until DPW submits a certificate of completion. This is submitted when a building is entirely completed and the final payment is made. We were informed that projects and thus the certificates of completion may not be finalized until a number of years (or at least in a subsequent fiscal year) after the letter of substantial completion was prepared. We found examples of this occurring. In some cases there could be litigation involved with a project that would increase the delay. Thus significant project costs related to the property may remain unreported and not capitalized during this time.

Cause: As indicated in the "*Condition*" section above, DPW does not provide a complete accounting of cost to client agencies when they turn over property to that agency.

Effect: There could be a delay in significant cost being reported to client agency. This would result in inaccurate cost being presented in State financial statements and records. Also, inaccurate property values could be reported for insurance purposes.

Recommendation: The Department of Public Works (DPW) should review its procedures related to real property reporting to client agencies. (See Recommendation 15.)

Agency Response: "The department is in general agreement with the condition and recommendation of the Auditors. The lack of an integrated accounting and asset management system results in a manual process for reporting the value of a completed project.

The department currently reports project costs at three (3) times in a project's life, substantial completion and occupancy by the client agency, completion and final payment of the contractor, and accounting closeout.

The department is working closely with OPM and the State Comptroller to identify the proper components of real property reporting and develop procedures to strengthen the reporting and asset inventory processes."

REPORTING PROBLEMS:

Criteria: DPW's responsibilities include the construction/renovation of State facilities and the sale of State property. Part of that responsibility involves the reporting of those transactions to client agencies.

Condition: When we tried to trace DPW's completed construction project and property sale paperwork to property inventory reporting of five of DPW's client agencies for the fiscal year ending June 30, 2000, we noted procedural problems and/or reporting inaccuracies in all five cases. For instance, we noted communication problems where fiscal employees responsible for preparing the inventory listing did not receive the completed paperwork in time to include them in the June 30, 2000, inventory. For two of the five agencies, agency personnel informed us that the value of some property was based on the percentage of completion as reported by DPW instead of the reporting from DPW that those projects were completed. In essence, this resulted in those uncompleted properties being double counted as construction in progress and as State real property.

Cause: There appears to be some misunderstanding on the part of client agency personnel regarding inventory-reporting requirements. Also, DPW's construction project and sale of property paperwork apparently are not always timely forwarded within client agencies to the personnel responsible for inventory reporting. DPW might work with the State Comptroller's Office, which has central reporting responsibilities (Section 4-36 of the General Statutes) for property inventory to correct these problems.

Effect: These problems resulted in inaccurate real property reporting for financial statement and insurance purposes.

Recommendation: The Department of Public Works (DPW) should review its procedures related to real property reporting to client agencies. (See Recommendation 15.)

Agency Response: "The department is working closely with OPM and the State Comptroller to identify the proper components of real property reporting and develop procedures to strengthen the reporting and asset inventory processes."

DOCUMENTATION OF PROPERTY COSTS TO BE CAPITALIZED:

Criteria: According to generally accepted accounting principles (GAAP), expenditures for new facilities and building additions should be capitalized (added to the value of the State's inventory.) Building improvements, however, may or may not be capitalized. As set forth in the State Comptroller's Property Manual, the main criteria for capitalizing building improvements is that they extend the useful life or enhance the value of the facility. That manual further states that "Routine repair, and maintenance: including replacement and renovation costs that are incurred to maintain the asset in its operating condition and that do <u>not</u> increase the asset's economic benefits over those originally intended are not to be included and are expensed." In some cases, a capital project may consist of some expenditures (like additions) that require capitalization and some (like a roof replacement) that do not. A detailed accounting/audit trail is needed for fiscal/audit determination of what should be capitalized

Condition: DPW's project closeout documents (letters of substantial completion and Certificates of Completion) provided to State agencies do not contain a clearly detailed accounting/audit trail needed for determination of what should be capitalized. Closeout paperwork might, for instance, describe a project as "renovation", which under the State Comptroller's guidelines might or might not be capitalized.

In one case, we noted that DPW administered a project for lead paint removal, various repairs and repainting in a State building. This seems to be a project to maintain the facility in operating condition and should not have been capitalized. However, the letter of substantial completion's "boilerplate" language provided that "The total cost of this project has increased the value of the property by Seven Hundred Thousand Dollars". (That figure was the cost of the project.) The applicable State agency inappropriately added $700,000 to the cost of the building.

Cause: DPW's completed project paperwork does not provide an adequate accounting/audit trail to facilitate and verify the calculation of changes in values of State facilities. An appropriate data sheet for attachment to DPW's closeout paperwork could mitigate inadequate accounting/audit trail problems.

Effect: In some cases changes to real property cost for construction activity cannot be readily determined or verified. This weakens financial reporting and could result in inaccurate property values being reported for insurance purposes.

Recommendation: The Department of Public Works (DPW) should review its procedures related to real property reporting to client agencies. (See Recommendation 15.)

Agency Response: "The department is working closely with OPM and the State Comptroller to identify the proper components of real property reporting and develop procedures to strengthen the reporting and asset inventory processes."

DOCUMENTATION OF PROPERTY LOCATION:

Criteria: Good business practice and adequate internal control requires proper identification of properties being built/improved or sold.

Condition: On DPW closeout and property disposition paperwork there has been a lack of detailed information such as street addresses or a standardized property identification number to identify properties being built/improved or sold. This is important because some State agencies consist of a complex of spread-out property. Real property inventory reporting and verification is further complicated by the fact that property listings by some agencies likewise do not contain identifying details such as street addresses. For example:

- A 1999-2000 fiscal year certificate of completion indicated that approximately $5,000,000 was spent in improvements to a building located at a facility that consisted of 52 buildings. The Certificate did not indicate the name of the building or its address. Most of the 52 buildings on the State's inventory for that agency did not show an address.
- In July 1999, surplus property that included six houses and approximately 13 acres was sold. Although sale records indicated the address of the sold houses, the State property inventory listing of the Agency that contained the 35 houses did not. It was not possible to isolate on the inventory which houses had, in fact been sold. The six sold houses were not deducted from the State's inventory. (It is anticipated that the remaining property will be eventually sold or transferred to the town. At that date, all of the property will be removed from the State's inventory.)

Cause: As discussed above under "*Condition*" DPW closeout and property disposition paperwork has had a lack of detailed information such as street addresses or a standardized ID to identify property being built/improved or sold. In addition, State real property records do not always show adequate detailed information.

Effect: Given the size of the State real property inventory, a lack of detail information on the identity of property being improved or sold weakened the verification and reporting of real property on an individual item basis.

Conclusion: After we expressed this concern, DPW established a new property closeout form that includes the reporting of the standardized property identification number. Accordingly a recommendation does not appear necessary at this time.

STATE PROPERTIES REVIEW BOARD APPROVALS:

Background:

Pursuant to Sections 4b-3 and 4b-23 of the Connecticut General Statutes DPW must obtain the pre-approval of the State Properties Review Board for DPW's proposed real estate transactions. Our review of various real estate transactions by the Department revealed some matters of concern related to this requirement.

FAILURE TO MEET CONDITIONAL REQUIREMENT OF STATE PROPERTIES REVIEW BOARD

Criteria: Pursuant to subsection (5) of Section 4b-1 of the General Statutes, the Department of Public Works (DPW) is responsible for the purchase of property and space to house State agencies. Pursuant to Section 4b-3 of the General Statutes, the State Properties Review Board (Board) must pre-approve such transactions.

Condition: We noted an instance in which the Board conditionally approved a proposed $3,000,000 property acquisition by DPW. The conditional requirement was that DPW's site inspection, including environmental testing and the total cost bids for environmental remediation be completed and presented to the Board for approval before the expiration date of the State's right to terminate the purchase. Under the purchase agreement the State had 60 days to conduct the site inspection with an option to extend it another 30 business days. Within 30 days after the inspection, the State had the right to refuse to buy the property.

DPW purchased the property for $3,000,000. However, it failed to present the site inspection data and cost bids to the State Properties Review Board for its required approval.

DPW received a draft of a preliminary cost estimate for environmental remediation amounting to approximately $900,000 shortly after the purchase. However, this was only an estimate and actual bids to do the work had not been received as of the purchase date. The appropriate project management employee informed me that this cost was not prohibitive and the purchase remained an acceptable option for the project. (It had been anticipated that the cost would have been higher.)

Cause: The Sale and Purchase Agreement was primarily negotiated by DPW's property acquisition unit. The Client Team within DPW's Facilities Design and Construction unit obtained the cost figures for the hazardous waste remediation. Cost figures were obtained from the required Transfer Act Site Assessment (TASA) process. A client team manager indicated that it was impractical to obtain precise cost figures for hazardous waste remediation within the time requirements of the sales and purchase agreement used by the Board as a basis for its contingent approval. One reason for this is TASA time requirements. TASA involves an investigation of up to three phases. Each phase requires that a environmental study be done. (The State Properties Review Board reviews DPW's request for such studies and pre-approved all three applicable TASA reviews.) In that case we believe that there should have been greater coordination between the acquisition unit and the client team in developing the Sales and Purchase Agreement to take into consideration the time needed to obtain waste remediation cost figures. In any case there should have been appropriate follow-up with the State Properties Review Board.

Effect: The statutory requirement discussed above requiring the Board's pre-approval of DPW's property purchases was not met in this case. As a result of our inquiries to the Board, the Board sent a memo to DPW stating, in part, "We have been told by the State Auditors of Public Accounts that the acquisition took place early this month. We have yet to receive the required report. The legality of the closing is now in question due to the failure of Public Works to comply with this condition." Board management indicated that they would probably not pursue a cancellation of the transaction because the cost of environmental remediation seems to be within acceptable limits and not as high as anticipated. Board management also informed us that they have developed a tickler file procedure to follow-up that its conditional requirements are met.

Recommendation: The Department of Public Works (DPW) should meet any conditional requirements of the State Properties Review Board (Board) before finalizing any applicable property transaction. (See Recommendation 16.)

Agency Response: "The department strives to meet all of the requirements and conditions imposed by the Properties Review Board in each property transaction. Department management has reinforced this need to all staff involved in property purchase, sale or lease transactions."

FAILURE TO OBTAIN PRE-APPROVAL FOR LEASE OF WAREHOUSE SPACE

Criteria: Section 4b-1, subsection (a), part (5) of the General Statutes provides that the Department of Public Works (DPW) is responsible for the purchase, lease, and acquisition of property and space to house State agencies. Section 4b-3, subsection (f) of the General Statutes provides that the State Properties Review Board (Board) shall review real estate transactions proposed by DPW. It further provides that the review "shall consider all aspects of the proposed action, including feasibility and method of acquisition and the prudence of the business method proposed." Section 4b-23, subsection (e) provides that the approval or disapproval of the Board shall be binding on requesting State agencies with regard to the acquisition of any real estate by lease or otherwise.

Condition: Because of an emergency situation, DPW made arrangements to relocate a State agency. A lease agreement was signed in June 2000 to house the agency. The lease agreement proposal had been pre-approved by the Board. DPW also entered into a lease arrangement effective November 2000 for additional warehouse space for the agency through a license agreement. A license agreement with respect to real estate is a privilege to go on or use the property for a particular (usually limited) purpose. The substance of this license agreement was the subleasing of the warehouse space. In this case the lessee granted DPW a license consisting of the lessee's "right to the use and possession of the premises." DPW has not submitted the license agreement to the Board for pre-approval. The license agreement arrangement has continued until at least September 2002. In May 2001, DPW prepared a lease agreement proposal for the additional warehouse space and submitted it to the Board for approval. The Board rejected it. In its rejection the Board indicated, "Deferred maintenance at the proposed lease property is material and could affect structural building elements. The integrity of the building's north wall is questionable and appears to constitute a personal safety hazard and/or a potential loss of security for the property stored." The Board also indicated "The *license agreement* contains an annual rental rate commitment of $3.27 per square foot for space that is '*approximately 15,000 rental square feet'*. A floor plan of the licensed premises provided by the Proponent scales 11,101± net usable square feet. Therefore any rent paid or payable should be adjusted accordingly."

Cause: We did not determine why DPW did not submit the license agreement to the Board for approval.

Effect: The statutory requirement discussed above requiring the Board's pre-approval of DPW's property acquisitions including leases was not met in this case. In addition, it appears to have resulted in a lease overpayment of approximately $2,000 based on the Board's square footage finding. (Only one lease payment for two months had been paid as of the Board's finding on this matter.)

Recommendation: The Department of Public Works (DPW) should seek the State Properties Review Board's (Board) approval of all leases including any effected by a license agreement. (See Recommendation 17.)

Agency Response: "The department generally agrees with the condition and recommendation of the Auditors. We will seek Property Review Board approval of all leases including license agreements."

The agreement noted in the audit terminated in February 2003."

PROCESSING OF OPERATIONS THROUGH THE PENDING RECEIPTS FUND

Criteria: Article Fourth, Section 24 of the State Constitution and Section 3-112 of the General Statutes provide that the State Comptroller shall prescribe the mode of keeping and rendering all public accounts of the State. The State Comptroller through her State Accounting Manual ("SAM") requires that the Pending Receipts Fund be used by State agencies for money received to be held in suspense until the final disposition is determined. Examples of pending receipts are collections of fees where immediate distribution is uncertain and surety deposits temporarily held until returned upon contractual fulfillment or collected by the State for contractual failure. There is no provision in SAM for agencies to use the Pending Receipts Fund to hold monies properly deposited to State funds as revenue or to make "off budget" operational expenditures.

Condition: Since December 1996 DPW has been depositing real property sales receipts to its Pending Receipts Fund instead of the General Fund. It also has been paying expenses-of-property sales out of the Pending Receipts Fund. Real property receipts are properly recorded as General Fund revenue when received. Property sales expenses should be paid out of monies budgeted or bonded for that purpose. As of January 15, 2002, approximately $4 million of property sales and approximately $700,000 of sales expenses have been processed through Pending Receipts. There has been no transfer of real property sales receipts to the General Fund from the Pending Receipts Fund. Agency records show a balance due to the General Fund of approximately $3,300,000. Any balance due at the end of a fiscal year understates General Fund revenue and fund balance.

This situation was reported to the Governor and other State Officials pursuant to Section 2-90 of the General Statutes on April 12, 2002.

Cause: This policy started when it was anticipated that there would be major sales and expenses related to the sale of surplus State property such as the closed State Hospitals. DPW would have to pay expenses related to these property sales and it was felt that there was no other way of paying for these expenses. DPW is working with the Office of Policy and Management (OPM) on the property sales process and OPM will make the decision regarding when the process will be considered completed. Once this process is completed it is anticipated that the net balance will be transferred to the General Fund and DPW will go back to depositing property sales revenue directly to the General Fund.

An official of the Office of the State Comptroller, whom DPW consulted in this matter, said he thought that the receipts of a sale would be offset by its expenses with the balance of the receipts from each sale being transferred to the General Fund. This would result in receipts being held in Pending Receipts only on a temporary basis. However, DPW has been using proceeds from the sale of some properties to pay for the expenses of others and has transferred moneys to OPM for consulting services related to the sale of State property.

Effect: General Fund revenue has been understated. Making operational expenditures from the Pending Receipts Fund has weakened budgetary control. Moreover, DPW failed to follow State Comptroller guidelines. These guidelines do not provide for conducting operations through the Pending Receipts Fund but the transfer of net receipts to the General Fund on a sale-by-sale basis would have been a reasonable way to proceed under the circumstances and apparently had the informal approval of the State Comptroller's Office.

Recommendation: The Department of Public Works (DPW) should not use the Pending Receipts Fund for transacting State property operations. (See Recommendation 18.)

Agency Response: "The department disagrees with the recommendation of the Auditor. Meetings were held between OPM, DPW and the Comptroller prior to the inception of the program. The issue of financing the ongoing expenses associated with the sale of property was discussed and agreement reached on a process where cash receipts from sales would be used to fund the cost associated with other sales.

The Pending Receipt Account procedure was implemented by the DPW Financial Management Division in consultation with the Office of Policy and Management and the Office of the Comptroller following consideration of the fact that: a FY 1997 General Fund surplus of DPW in the amount of $599,000 was used to finance property disposal costs: unexpended funds at 6/30/1997 were carried forward to FY 1998 to finance property disposal expenses; no General Fund Appropriation was provided in excess of the carry forward amount in FY 1998 nor has an appropriation for this purpose been provided since; without a method of financing the various costs associated with the sale of a property, the sale could not occur; it was anticipated that the sale of surplus property would occur over a short period of time.

Should OPM, the State Comptroller or the State Treasurer find fault with this approach, we will work with them to develop an appropriate mechanism to achieve the goals of the program.

Auditors' Concluding Comments: DPW did not have a written agreement among itself, OPM and the State Comptroller authorizing this process, which is contrary to State Comptroller's requirements stated in her State Accounting Manual. Also DPW did not show us anything that authorized the making of "off budget" operational expenditures from receipts, which should have been deposited to the General Fund as revenue. That action circumvents State budgetary policies and procedures.

STATUTORY REQUIREMENTS – LEASING OF SPACE FOR STATE USE:

Background:

Section 4b-1, subsection (a), part (5) of the General Statutes provides that the Department of Public Works (DPW) is responsible for the purchase, lease, and acquisition of property and space to house State agencies. We reviewed various statutory requirements related to leasing of property for State use.

LEASING REGULATIONS:

Criteria: Subsection (o) of Section 4b-23 of the General Statutes requires that not later than January 1988, DPW, in consultation with the Secretary of the Office of Policy and Management (OPM) and the State Properties Review Board (Board), was to adopt regulations regarding State leasing of offices, space or other facilities. The regulations are to set forth the procedures that DPW, OPM and the Board are to follow in carrying out their leasing responsibility. Also, they are required to specify, for each step in the leasing process at which an approval is needed, what information is required, who shall provide the information and the criteria for granting the approval.

Condition: Regulations have not been prepared.

Cause: We did not determine the reason for the delay in adopting regulations. However, Agency management informed us that they have been working on a process of updating an analysis of the leasing process with the goal of streamlining that process. DPW will then prepare a new leasing policy and procedure manual to replace the existing one dated 1986. Regulations will then be prepared in line with the revised leasing policies and procedures.

Effect: DPW failed to comply with a statutory provision.

Recommendation: The Department of Public Works (DPW) should adopt regulations regarding State leasing of space pursuant to subsection (o) of Section 4b-23 of the General Statutes. (See Recommendation 19.)

Agency Response: "Based on Legislative Review and department analysis we are streamlining the leasing process to improve timeliness and quality of the deliverables. Two (2) major initiatives that have been completed to date are the development of a new standard lease agreement and the elimination of the Lease Proposal Outline process as a stand-alone activity.

The department anticipates that re-engineering of the leasing process will continue for a year. Once completed a new leasing policy manual will be written and, shortly after, regulations will be developed."

INSPECTION OF LEASED PROPERTY:

Criteria: Subsection (b) of Section 4b-30 of the General Statutes provides that DPW inspect all its leased property at least once annually to verify that the lessor complies with the lease.

Condition: DPW stopped doing such annual inspections in January 2000.

Cause: Leasing management informed us that the annual inspections were stopped when the leasing unit lost an employee and no longer had available staff time to perform annual inspections.

Effect: DPW failed to comply with a statutory provision.

Conclusion: DPW redeployed an employee for this duty. Effective December 2002, inspections began again. Therefore no recommendation is made at this time.

LAYOFF OF EMPLOYEES – USE OF PAID LEAVE TIME:

Criteria: Section 5-241 of the General Statutes provides that a laid off employee who is not under collective bargaining shall be given up to eight weeks advance notice of the layoff. Section 5-248 of the General Statutes provides that State agencies may with the approval of the Department of Administrative Services (DAS) grant paid leave of absence for educational purposes or for such other purpose as may be specified by DAS to be in the best interest of the State.

Condition: On January 27, 2000, DPW notified two managerial employees that they were laid off. DPW required the two employees to leave the workplace that day and placed them on paid leave until the effective date of their layoffs. One was on paid leave for four weeks and the other was on for eight. The differences in the effective dates of the layoffs resulted from the advance notice requirements of Section 5-241 of the General Statutes. That Section provides for different advance notice periods depending upon an employee's length of State service. DPW could not provide us with documentation that DAS authorized paid leave pursuant to Section 5-248 of the General Statutes.

Cause: DPW made the two employees leave immediately upon giving them notice of layoff because they were concerned about the possibility of disruption.

Effect: DPW granted two separated employees benefits that exceeded those authorized by statute.

It should be noted that the Auditors of Public Accounts 2001 Annual Report to the Connecticut General Assembly contained a recommendation that the General Assembly should enact legislation to address the practice of State agencies providing separation benefits that exceed those currently allowed to employees leaving State service.

Recommendation: The Department of Public Works (DPW) should provide all separated employees with benefits that are in conformance with the Connecticut General Statutes. (See Recommendation 20.)

Agency Response: "This decision to pay the two (2) managerial level employees who were being laid-off and not have them present at the workplace during the statutory notice period was a good business decision made in the best interests of the State. The risk to normal operations was simply too great given the situation.

The department believes it was in compliance with DAS policy and governing statute when the action was taken.

DAS Memorandum #97-02, January 8, 1997, delegated authority to agencies to grant leaves of absence with pay for more than five (5) consecutive days. General Letter #33 abolished 97-02 and authorized agencies to continue to authorize paid leaves of absence, except for educational purposes."

Auditors' Concluding Comments:

Memorandum #97-02 and General Letter #33 do not supersede Section 5-248 of the General Statutes. Moreover, 97-02 and Letter #33 indicated that any paid leave provided must be in accordance with Section 5-248. That Statute provides that agencies may grant leave with the approval of DAS for education or such other purpose as may be specified by the Commissioner of DAS to be in the best interest of the State. DPW did not provide us with DAS correspondence that provided for paid leave for this situation.

AGENCY ADMINISTERED PROJECTS – USE OF UNEXPENDED BALANCES:

Criteria:

With certain exceptions listed in that Statute, Section 4b-1 of the General Statutes provides that DPW is responsible for administering State construction projects. Section 4b-52 of the General Statutes provides that State agencies, with DPW's approval, can administer limited (generally $500,000 or less and $2,000,000 or less for constituent units of higher education) construction projects.

Pursuant to various public and special acts, the Legislature has authorized bonds for a variety of projects. Bond-authorizing acts are generally specific as to projects or other purposes. (Each act may contain several projects or purposes.) Before a project is funded with bond money, the approval of the State Bond Commission is necessary. Subsection (g) of Section 3-20 provides that approval by the State Bond Commission of a project is considered to be an appropriation for that project. Unexpended balances remaining from prior finished projects should not be used to finance unauthorized (e.g., not approved by the State Bond Commission) projects. DPW has a responsibility to ensure that unexpended balances from finished projects administered by other agencies under DPW's authorization are properly accounted for.

Condition:

The Department of Mental Retardation (DMR) had to create a secure facility for one client. In May 2000, DPW gave DMR permission to administer a renovation project to convert a house into a secure setting for that client. DMR never got the required Bond Commission approval to use bonded money for this. Unexpended contingency balances remaining from past bond authorized projects initially financed it. Such contingency funds had been approved and given to cover additional expenses such as change orders for unforeseen circumstances and project scope changes. Project expenditure payments of $164,460 from bonded moneys were paid. Subsequently, the State Comptroller noted that the use of bonded moneys was inappropriate. An accounting adjustment then transferred this expenditure to a DMR operating appropriation in the General Fund.

Cause: DPW's lack of specific policies regarding the disposition of unexpended balances of completed bonded projects contributed to causing this problem.

Effect: There appears to be no lasting ill effect except for the unplanned charge to the General Fund. As noted above, the unauthorized use of bond moneys for this expenditure was corrected by transferring the expenditure to the General Fund. In addition, as described below, DPW issued rectifying policy revisions.

Conclusion: A recommendation does not appear warranted. DPW revised its guidelines to require that agencies transfer back to DPW the unexpended funds from completed projects. Also, DPW asked agencies to review existing project account balances and return any unexpended funds. The new guidelines also revised the funding mechanism for agency-administered projects. Now DPW will only initially transfer to an agency the amount of the construction bid. Contingency balances will then be transferred on a case-by-case basis as needed, for instance, for change orders.

In addition, subsequent to the audited period, pursuant to Section 18 of Public Act 01-7 of the June 2001 Special Session, effective July 2001, agencies that are given responsibility by DPW for a bond-financed construction project of more than $10,000 must report to the Bond Commission upon project completion. That report includes, among other things, the amount of bond monies remaining unexpended.

CONTRACTUAL PAYMENTS FOR SERVICES – FACILITIES OPERATIONS:

Background:

Pursuant to Sections 4b-1 and 4b-12 of the Connecticut General Statutes, DPW is responsible, with some exceptions, for facilities management including maintenance and security of State buildings in the greater Hartford area and certain properties outside of the Hartford area. DPW directly manages some of this property and in other cases it uses outside professional property management firms. As noted in the "RÉSUMÉ OF OPERATIONS" section of the report, DPW made significant contractual services expenditures to private contractual property management firms. In both the 1998-1999 fiscal year and the 1999-2000 fiscal year, such payments amounted to over $9,000,000 in each year.

PROPERTY MANAGEMENT EXPENDITURES:

Criteria: Section 3-117, subsection (a) of the General Statutes provides, in part, that "Each claim against the state shall be supported by vouchers or receipts for the payment of any money exceeding twenty five dollars at any one time, and an accurate account, showing the item of such claim, and a detailed account of expenses, when expenses constitute a portion of it, specifying the day when and purpose for which they were incurred."

Article Fourth, Section 24 of the State Constitution and Section 3-112 of the General Statutes provide that the State Comptroller shall prescribe the mode of keeping and rendering all public accounts of the State. The State Comptroller through her State Accounting Manual ("SAM") requires that State agencies are responsible to implement uniform procedures that contain proper internal control policies over their expenditures. SAM further requires that an agency employee must certify the accuracy and completeness of expenditure documents.

Condition: We noted procedural problems related to the processing of payments to private contractual property management firms (firms), for instance:

- DPW reimburses firms for the security services contracted out by those firms. In our test, the firms supplied DPW with inadequate documentation for these costs (e.g., time in/time out, number of guards on duty in each location, etc., were not supplied.)
- One firm frequently includes on its monthly bills to DPW charges for services (extra security, shelving, rearranging workstations, signs, etc.) performed at the request of tenant agencies. The firm then bills the agencies and after the tenant's payment is received, credits a subsequent month's bill to DPW. DPW does not verify that it eventually receives credit for all items previously charged. Moreover, the management firm does not provide adequate information to enable DPW to readily identify the credits to the items on previous bills. These credits frequently appear on the firm's invoices with no information on the date, purpose, vendor or State agency involved.
- Copies of the final contracts between the firms and their service subcontractors (such as security and janitorial firms) are not on file at DPW. The contract between DPW and the property management firms requires the firms to submit copies of proposed subcontracts. DPW's files, however, contain only copies of bid specifications and approval sheets listing bidders, amounts and indicating the one chosen. This does not appear to meet the requirements for proposed contracts. Not having a copy of the final signed and approved contract presents a risk that significant contractual changes that increase DPW's costs or reduce services had been made without DPW's knowledge.
- The firms' invoices to DPW contain a great deal of individual charges. However, DPW does not routinely test the invoices for mathematical accuracy.
- In at least one case, a firm collects fees for replacement parking access cards and then reimburses DPW for the moneys collected. These were not, but could have readily been, documented. The firm maintains a replacement parking card log and could have sent a photocopy of each month's log to DPW.

Cause: These problems appear to be the result of poor business procedures and staff time limitations.

Effect: Expenditures to property management firms do not seem to be properly documented and DPW's procedures do not entail a complete verification of the accuracy and completeness of the billed amount. Accordingly, there appears to be a violation of Section 3-117 of the General Statutes as discussed above in the criteria.

Recommendation: The Department of Public Works (DPW) should improve its procedures over the processing of contractual payments for services. (See Recommendation 21.)

Agency Response: "The agency generally agrees with the conditions stated in the audit. All requests for reimbursement of sub-contractor services are supported by an invoice from the sub-contractor and certified due and payable by the property management firm. Property management companies maintain but do not submit to the agency, monthly supporting documentation as noted by the Auditors, for some of the sub-contractor invoices that make up their monthly request for reimbursement from the agency. The underlying records not forwarded to DPW are maintained by the property manager and are available for review or audit at any time by the agency. Due to the volume of activity and staff time limitations, the agency relies on the property managers acting in a fiduciary capacity to ensure mathematical accuracy of the supporting documentation submitted with their monthly bill. The department does balance the sub-contractor invoice totals to the total property management company monthly invoice."

Auditors' Concluding Comments: DPW is required to implement internal control over its expenditures and cannot to such an extent rely on contractors to self-police payments to themselves.

CLEANING SERVICES PAYMENTS:

Criteria: DPW is responsible for implementing proper control policies and procedures over its expenditures to ensure that they are accurate, in accordance with contractual arrangements and for services actually performed.

Condition: We noted over-billing and inappropriate time documentation (photocopied time records with the date changed, time records submitted for duplicate hours, time sheets consistently completed by someone other than the worker, etc.) related to cleaning services payments to a contractor. These resulted in a calculation of $3,055 in overpayments, which were recovered, and potential excessive charges of $9,185. The excessive charges resulted from the contractual arrangement that resulted in cleaning services being performed in the same building with both hourly and fixed rate services that could be done by the same workers. DPW subsequently hired a public accounting firm to extend the review beyond the scope of our review.

We reported this matter to the Governor and other State officials on April 1, 2002 as required by Section 2-90 of the General Statutes.

Cause: DPW had inadequate control procedures in place to prevent over-billing related to these cleaning contracts.

Effect: The $3,055 overpayment was recovered. It was determined that the excessive charges were non-recoverable, because payments were made in accordance with the contract terms, and the services performed under that contract were acceptable. As noted above, DPW hired a private firm to do an in-depth review of this situation. That review cost DPW $28,277.

Recommendation: The Department of Public Works (DPW) should improve its procedures over the processing of contractual payments for services. (See Recommendation 21.)

Agency Response: "As a result of recommendations issued in July 2001 by an independent auditor hired by the department as well as observations by new management within the facilities management division, the department implemented performance based cleaning contracts for all contracts advertised after July 2001. These contracts are based on a lump-sum fee for service vs. hourly rate, thus eliminating the potential for over charges or duplicate charges for service provided by the same individual employee."

GOVERNOR'S RESIDENCE CONSERVANCY:

Background: Under subsection (2) of Section 4-37e of the General Statutes, a foundation is a tax exempt organization that receives or uses private funds to support or improve a State agency. The Governor's Residence Conservancy is a foundation supporting the Governor's residence.

Criteria: Section 4b-1 of the General Statutes provides that DPW, with certain exceptions not here relevant, is responsible for the care and control of State property in Hartford. As such it is the "Executive Authority" (or accountable oversight agency) as defined in Section 4-37e for the Governor's Residence Conservancy (Foundation). Under subsection (7) of Section 4-37f of the General Statutes, DPW is responsible for ensuring that the Foundation uses generally accepted accounting principals (GAAP) in its financial record-keeping and reporting. Also, DPW is responsible for ensuring that the Foundation meets the audit requirements of subsection (8) of Section 4-37f of the General Statutes. Under that subsection, the Foundation is responsible for providing DPW with a financial audit every year or at least every third year depending on its revenues. Among other things, that audit is required to have financial statements prepared in accordance with GAAP and an audit opinion addressing the Foundation's compliance with the provisions of Sections 4-37e to 4-37i inclusive of the General Statutes. Sections 4-37e to 4-37i deal with various operating requirements of foundations.

Condition: During a three year period that included fiscal years 1998-1999, 1999-2000 and 2000-2001, the Foundation provided DPW with audited financial statements even though an audit was required for only one of those fiscal years. However, none of the financial statements was prepared in accordance with GAAP. Moreover, the audit report did not contain an audit opinion addressing the compliance of the Foundation's operating procedures with the appropriate statutory provisions.

Cause: These problems appear to be the result of inadequate monitoring by DPW of the statutory requirements for reporting by the Foundation.

Effect: Not only was there statutory noncompliance but the Foundation's financial statements provided incomplete financial information. Those statements did not include, for instance, Foundation receivables and payables. Moreover, the financial statements did not show what, if any, capital assets the Foundation might have acquired and might be used in the governor's residence, for instance. That information should be of interest to DPW, which has responsibility for the care and control of the governor's residence.

Also, the absence of an audit opinion addressing the Foundation's compliance to applicable statutes weakens control.

Recommendation: The Department of Public Works (DPW) should require that the Governor's Residence Conservancy (Foundation) use generally accepted accounting principals (GAAP) in its financial reporting and that its audit reports include the additional information required by Section 4-37f of the General Statutes. (See Recommendation 22.)

Agency Response: "The department will advise the Conservancy of the requirement noted in the Auditor's recommendation. "

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **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.** This recommendation is essentially being repeated as part of Recommendation 1.

- **The Department should establish and maintain a system of accountability for supplies as well as develop, implement and maintain adequate internal control over a centralized supply stockroom.** Facility management supplies are now purchased on an "as needed basis" and the centralized supply stockroom has been discontinued. Accordingly this recommendation is not being repeated.

- **The Department should take the necessary steps to formalize its agreement with the Governor's Residence Conservancy, Inc.** An agreement has been signed between the Governor's Residence Conservancy, Inc. and the Department. Accordingly, this recommendation is not being repeated.

- **Policies and procedures for the Claims Management Unit, and the process to manage claims, need to be formally established.** We are repeating this recommendation. (See Recommendation 2.)

- **Procedures should be developed and implemented which detail the assessment and accountability process for review of project files for design error damage and the timely collection of monies due the State.** We are repeating this recommendation (See Recommendation 3.)

- **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 pre contract should be set at a level adequate to protect the State of Connecticut.** DPW has appropriately revised its liability insurance requirements. We are not repeating this 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.** This is essentially being repeated as Recommendation 4.

- **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.** We are repeating this recommendation in revised form as Recommendation 5.

- **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. We are repeating this recommendation in revised form as Recommendation 7.

- **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.** We noted improvement in this area. This recommendation is not being repeated.

- **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**. In revised form this is being repeated as Recommendation 9.

- **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.** DPW has reviewed its leasing process and is in the process of rewriting the leasing procedures. Also, effective August 2001, DPW revised its leasing procedures to include the submission of all final leases to the State Properties Review Board for review and signature by the Board prior to execution. Accordingly, this recommendation is not being repeated.

- **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.** This is being repeated in revised form as Recommendation 10.

- **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.** We are repeating this recommendation. (See Recommendation 11.)

Current Audit Recommendations:

1. **The Department of Public Works (DPW) should follow State Comptroller and Department of Administrative Service (DAS) requirements in processing equipment purchases and the equipment inventory should be properly maintained.**

Comment:

A number of the equipment expenditure documents tested had no receiving signature and had incorrectly recorded receipt dates. A number of items costing less than $1,000 were inappropriately classified as equipment. State Comptroller requirements include the provisions that expenditures have a receipt document and that the receipt date be properly recorded. DPW failed to document bids on three expenditures for which DAS requires three written bids.

DPW's computerized detailed inventory became inoperative because of computer software problems and was discontinued. That software was also used in performing physical inventories and those were discontinued. Substantial purchases had not been recorded on the inventory or reported to the State Comptroller. Items with a value less than $1,000 were not deducted from the inventory as required.

2. **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 covering post project claims against the State by contractors, but these were never finalized.

3. **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 or the rendering of additional services to 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 are no accounts receivable associated with claims due the State.

4. **The Department of Public Works should improve its monitoring of insurance requirements compliance by its capital project consultants and construction contractors.**

Comment:

DPW makes significant payments to capital project consultants and construction contractors. To indemnify the State properly, DPW requires such consultants and contractors to provide proof of certain types of liability insurance.

We noted problems in this area. For instance, in a number of cases, DPW was unable to provide us with insurance certificates or insurance certificates were provided but they had expired. Also, in some cases, insurance coverage was below contracted requirements or was otherwise inadequate.

In one instance, the State Insurance and Risk Management Board informed us that the coverage required by a consultant contract was inappropriately excessive.

Also, in a number of instances, the certificate of insurance failed to indicate if workers compensation insurance was at the statutory coverage limit.

5. **The Department of Public Works needs to improve its procedures over the processing of change orders.**

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. We also noted mathematical errors on the change order forms and other processing procedural problems.

6. **In addition to its total change order reporting by closed projects, the Department of Public Works (DPW) should routinely compile and report change order totals and rates by category type and by the fiscal year in which they occur. Also that information should be included as part of its budgetary reporting request pursuant to Section 4-67m of the General Statutes.**

Comment:

Section 4-67m of the General Statutes requires that for budgetary purposes State agencies develop quantifiable outcome measures. DPW should included change order amounts and rates as part of its performance measures. DPW does list change order totals and rates as part of a statutorily required annual report pursuant to subsection (a) of Section 4b-2 of the General Statutes. That report includes change order amounts and rates. However, those figures are for total change orders and are not broken down by causal type (architect/engineer errors, field conditions, and agency request.) A breakdown by the three types would provide more useful management information. Moreover, the Annual Report figure is based on cumulative change orders on projects completed in that year and not on the change orders actually processed during that year. Projects may be active for a number of years before being completed. Therefore the published data is not timely. Compilation of change order data in this format is not suitable for analytical and performance reporting purposes.

7. **The Agency should continue to monitor change orders and hold design firms more accountable for the increased cost due to errors and omissions on their part. In addition, the change order approval form should contain adequate documentation and explanation for the reason for the change order.**

Comment:

The Agency continues to process significant change orders. For instance, Agency data indicate that the amount of change orders processed for projects closed in fiscal year 2000-2001 were in excess of $17,000,000 with over $3,000,000 due to architect/engineering errors and omissions and over $9,000,000 due to field conditions. Over four million dollars was the result of client agency request. These change orders increased the cost of projects. They also delayed project completion and increased the risk of contractors' claims for additional money because of delays.

We noted that there was a lack of explanatory detail on change order approval forms on why the change order resulted from architecture/engineering errors or field conditions. This weakens the documentation of problems in this area. In addition, we noted "agency request" change orders approval forms that did not have an attached letter from the agency making the request.

8 The Department of Public Works (DPW) should improve its reporting of closed projects in the statutorily required report to the State Properties Review Board (Board).

Comment:

Subsection (a) of Section 4b-2 of the General Statutes requires that DPW submit to the Board an Annual Report that includes all pertinent data on realty acquisitions. That report should contain complete and accurate data on realty acquisitions. Pursuant to generally accepted accounting principals, real property should be reported at the total cost necessary to place the asset in its intended location and in condition ready for use. Accordingly, in addition to construction cost certain ancillary costs such as design costs, direct DPW personnel costs, legal fees, environmental studies, hazardous material removal, etc, should also be reported as part of the cost of any constructed real property. In its annual reporting to the Board, DPW has understated the cost of completed projects. The totals shown only included the amounts paid to construction contractors. Ancillary costs, which can be significant, have not been included. In addition, it appears that a number of closed projects were not reported in the fiscal year 2000-2001 report to the Board because of data processing problems related to changing computer programs for the active projects database.

9. The Department of Public Works should design and put into operation a centralized accounts lease receivable system.

Comment:

Our review of lease-out revenue records disclosed that there is no centralized receivable system to monitor the lease receivables total. A centralized receivable system would give greater assurance that all rents due are recorded and would indicate what rents are in arrears at a particular time.

10. The Department of Public Works (DPW) should review its processing system for the Capital Projects Revolving Fund in order to reduce the level of manual operations required to process billing transactions and to increase the usefulness of information provided by its system.

Comment:

DPW's Capital Projects Revolving Fund processing system consists of different computer systems that do not fully interact with each other. Various reports are produced that, when merged or transferred to another system, require manual intervention. The resulting reports have to be reviewed and corrections made. The review and correction process is time consuming and labor intensive. Also, the system does not facilitate the preparation of an aging of receivables, nor is one prepared by DPW. In addition, DPW does not routinely prepare a schedule classifying receivables by type. Periodic preparations of an aging schedule of receivables and a classification by type schedule would provide vital information.

11. The Department of Public Works (DPW) should make system improvements to ensure prompt billing of charges incurred for public works projects financed by funds controlled by other State agencies.

Comment:

DPW's Facilities Design and Construction unit incurs costs for projects that 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 payment will not be recorded as received and the receivable total may not be accurate.

12. The Department of Public Works (DPW) should routinely reconcile its Capital Projects Revolving Fund unreimbursed receivables to project billings and collections.

Comment:

The Capital Projects Revolving Fund process/accounting system, although automated, is a cumbersome system that requires a great deal of manual intervention and provides an inadequate accounting trail. As a result, we attempted to reconcile the changes in the Fund's receivable total to its project billings and collections. Our analysis indicated that there was a discrepancy between the anticipated and actual unreimbursed charges receivable. Subsequent follow-up revealed that $106,071 in Revolving Fund billings had been collected twice. This resulted in excess capital project charges and excess Revolving Fund receipts. The existence of these errors and the failure to discover them until our reconciliation process brought them to light are symptomatic of weaknesses in the Fund's accounting/processing system. The weakness reduces the reliance that can be placed on that processing system and the data generated from that system. Despite the weaknesses in the Fund's accounting/processing system, DPW might have timely discovered this problem if it had routinely reconciled its Capital Projects Revolving Fund unreimbursed charges receivable to project billings and collections

13. The Department of Public Works (DPW) should reconcile its account records to the centralized records of the State Comptroller's office in a timely manner and correct any errors.

Comment:

It is the responsibility of each agency to reconcile its records to the records of the State Comptroller. DPW should compare its records to the State Comptroller's centralized records, identify the differences and correct any errors. We noted discrepancies between Agency's records and the records of the State Comptroller resulting from recording errors. DPW had not identified and corrected those errors until we brought these discrepancies to its attention. DPW does compare its records to the records of the State Comptroller and had identified the differences. However, because of staff time limitations had not yet reconciled and corrected them.

14. The Department of Public Works needs to submit its Comprehensive Annual Financial Report (CAFR) financial figures within the State Comptroller's time requirements.

Comment:

The State Comptroller is responsible for the preparation of the Comprehensive Annual Financial Report (CAFR). In submitting CAFR financial data, adherence by State agencies to the State Comptroller's time limits is crucial to the timely preparation of the CAFR.

One of the CAFR financial figures submitted by DPW to the Comptroller is its substantial construction-in-progress figure. DPW failed to submit its construction-in-progress figure to the State Comptroller within the latter's time requirements. DPW needs to submit this data within the required time limits to ensure that the CAFR report is timely prepared with appropriate time being devoted to reviewing the accuracy of that data.

15. The Department of Public Works (DPW) should review its procedures related to real property reporting to client agencies.

Comment:

DPW's responsibilities include the construction/renovation of State facilities and the sale of State property. Part of that responsibility involves reporting those transactions to client State agencies. We reviewed that reporting process and noted a number of internal control weaknesses.

For instance, DPW's process of reporting the finalized construction/renovation cost of facilities could result in delays of significant cost being reported. A preliminary reporting of cost limited to only construction cost is given when a State agency occupies a building. Additional project costs that can be significant are not reported until DPW issues a certificate of completion. There might be a significant delay between the date of occupancy and the certificate of completion. Thus significant project costs related to the property may remain unreported and not capitalized (added to the values of the property) in the proper fiscal year.

DPW administers various types of construction projects. Depending on the project, project cost may or may not be capitalized according to the State Comptroller's guidelines. In some cases, a capital project may consist of some expenditures that require capitalization and some that do not. A detailed accounting/audit trail is needed for fiscal/audit determination of what should be capitalized. DPW's project closeout paper work does not seem to contain such a trail.

We tried to trace DPW's completed construction project and property sale paperwork to property inventory reporting of five of DPW's client agencies for the fiscal year ended June 30, 2000. We noted procedural problems and/or reporting inaccuracies for all five agencies.

16. The Department of Public Works (DPW) should meet any conditional requirements of the State Properties Review Board (Board) before finalizing any applicable property transaction.

Comment:

Pursuant to subsection (5) of Section 4b-1 of the General Statutes, the Department of Public Works (DPW) is responsible for the purchase of property and space to house State agencies. Pursuant to Section 4b-3 of the General Statutes, the State Properties Review Board (Board) must pre-approve such transactions.

We noted that the Board conditionally approved a $3,000,000 property acquisition by DPW. The conditional requirement was that DPW's site inspection, including environmental testing and the total cost bids for environmental remediation be completed and presented to the Board for approval before the expiration date of the State's right to terminate the purchase. Under the purchase agreement the State had 60 days to conduct the site inspection with an option to extend it another 30 business days. Within 30 days after the inspection, the State had the right to refuse to buy the property. DPW purchased the property without presenting the site inspection data and cost bids to the Board for the required approval.

17. The Department of Public Works (DPW) should seek the State Properties Review Board's (Board) approval of all leases including any effected by a license agreement.

Comment:

Section 4b-1, subsection (a), part (5) of the General Statutes provides that the Department of Public Works (DPW) is responsible for the purchase, lease, and acquisition of property and space to house State agencies. Section 4b-3, subsection (f) of the General Statutes provides that the State Properties Review Board (Board) shall review real estate transactions proposed by DPW.

Normally DPW enters into a lease arrangement through a formal lease agreement that is pre-approved by the Board. However in at least one case, DPW entered into a lease arrangement for warehouse space through a license agreement without the Board's pre-approval.

18. The Department of Public Works (DPW) should not use the Pending Receipts Fund for transacting State property operations.

Comment:

State Comptroller guidelines require that the Pending Receipts Fund be used for moneys received by State agencies to be held in suspense until the disposition is determined.

Since December 1996 DPW has been depositing real property sales receipts to its Pending Receipts Fund instead of the General Fund. It also has been paying expenses of property sales out of pending receipts. Real property receipts are properly recorded when received as General Fund revenue. Sale-of-property expenses should be paid out of monies budgeted or bonded for that purpose. As of January 15, 2002, approximately $4 million of property sales and approximately $700,000 of sales expenses have been processed through pending receipts. There has been no transfer of real property sales receipts to the General Fund from the Pending Receipts Fund. Agency records show a balance due to the General Fund of approximately $3,300,000 as of January 2002. Any balance due understates General Fund revenue and Fund balance.

19. The Department of Public Works (DPW) should adopt regulations regarding State leasing of space pursuant to subsection (o) of Section 4b-23 of the General Statutes.

Comment:

Subsection (o) of Section 4b-23 of the General Statutes requires that not later than January 1988, DPW, in consultation with the Secretary of the Office of Policy and Management (OPM) and the State Properties Review Board (Board), was to adopt regulations regarding State leasing of offices, space or other facilities. The regulations are to set forth the procedures that DPW, OPM and the Board are to follow in carrying out their leasing responsibility. Also, they are required to specify, for each step in the leasing process at which an approval is needed, what information is required, who shall provide the information and the criteria for granting the approval.

Agency management informed us that they have been working on a process of updating an analysis of the leasing process with the goal of streamlining that process. DPW will then prepare a new leasing policy and procedure manual to replace the existing one that has a 1986 date. Regulations will then be prepared in line with the revised leasing policies and procedures. However, until then DPW remains in statutory non-compliance.

20. The Department of Public Works (DPW) should provide all separated employees with benefits that are in conformance with the Connecticut General Statutes.

Comment:

Section 5-248 of the General Statutes provides that State agencies may with the approval of the Department of Administrative Services (DAS) grant paid leave of absence for educational proposes or for such other purpose as may be specified by DAS to be in the best interest of the State. On January 27, 2000, DPW notified two managerial employees that they were laid off because their positions were eliminated. DPW required the two employees to leave the workplace that day and placed them on paid leave until the effective date of their layoffs. One employee was on paid leave for four weeks and the other was on for eight. The differences in the effective dates of the layoffs resulted from the advance notice requirements of Section 5-241 of the General Statutes. That Section provides for different advance notice periods depending upon an employee’s length of State service. DPW did not provide documentation that DAS had authorized paid leave pursuant to Section 5-248 of the General Statutes.

21. The Department of Public Works (DPW) should improve its procedures over the processing of contractual payments for services.

Comment:

We noted invoices for property management services that were not properly documented. Copies of the final contracts between the property management firms (firms) and their service subcontractors are not reviewed and approved. DPW does not verify the mathematical accuracy of itemized invoices from the firms.

One firm bills DPW for additional services provided to tenant agencies. The firm then bills the tenant agencies and is supposed to reimburse DPW (by credit on the invoice) for the duplicate billings when collected. DPW does not have a procedure for follow-up tracking of billed items to subsequent credits.

In addition, control procedures were inadequate over a cleaning contractual arrangement. We noted over-billing and inappropriate time documentation (photocopied time records with the date changed, time records submitted for duplicate hours, time sheets consistently completed by someone other than the worker, etc.) These resulted in a calculation of $3,055 in overpayments, which were recovered, and potential excessive charges of $9,185. The excessive charges resulted from the contractual arrangement that resulted in cleaning service being performed in the same building with both hourly and fixed rate services that could be done by the same workers.

22. The Department of Public Works (DPW) should require that the Governor's Residence Conservancy (Foundation) use generally accepted accounting principals (GAAP) in its financial reporting and that its audit reports include the additional information required by Section 4-37f of the General Statutes.

Comment:

Under subsection (7) of Section 4-37f of the General Statutes, DPW is responsible for ensuring that the Foundation uses GAAP in its financial record keeping and reporting. Under subsection (8) of Section 4-37f of the General Statutes, the Foundation is responsible for providing DPW with an financial audit. That audit should have financial statements prepared on a GAAP basis and contain an audit opinion addressing the Foundation's compliance to the provisions of Section 4-37e to 4-37i of the General Statutes. The Foundation's financial reporting and its audit reports were not prepared in accordance with GAAP. Also, the audit report did not contain an audit opinion addressing the Foundation's compliance with the provisions of Section 4-37e to 4-37i of the General Statutes.

23. The Department of Public Works (DPW) should calculate its annual set-aside goals in accordance with the requirements of the General Statutes. Also, the DPW should prepare accurate and documented set-aside reports.

Comment:

The 1998-1999 set-aside goal was incorrectly calculated. Requirements at that time were that State agencies prepare their goals based on an average of the total value of their contracts awards during the three previous fiscal years. DPW used only a two year average excluding the total contracts of the immediate prior year. The amount of error this might have caused cannot be readily determined. Also, DPW based its 1999-2000 set-aside goal for General Fund expenditures on a General Fund appropriation of $37,130,320 for the 1999-2000 fiscal year. The appropriated amount was actually $39,365,448, $2,235,128 greater than the amount used by DPW in calculating its General Fund set-aside goal. We did not receive an explanation for this variance.

Beginning in the 1999-2000 fiscal year, DPW pre-calculated only its annual set-aside goals for General Fund expenditures. They did not pre-calculate set-aside goals for bond fund expenditures as they had been in the past. Section 4a-60g of the General Statutes, requires, that each State agency shall annually by September first of that year prepare annual goals for that fiscal year.

Our review of quarterly set-aside reports revealed that a worksheet or some other type of summary sheet was not available to indicate how line item amounts or counts were derived from DPW records.

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, 1999 and 2000. 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, 1999 and 2000, 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, 1999 and 2000, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying "Condition of Records" and "Recommendations" sections of this report. That finding is that the Department of Public Works, contrary to the requirements of the State Comptroller, has been depositing real property sales revenue to the Pending Receipts Fund and paying the expenses of real property sales from that Fund.

We also 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 complying 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;
- Lack of controls over property inventory;
- Inadequate monitoring of compliance to contractual insurance requirements by construction consultants and contractors; and
- Inadequate policies and controls over claims management.

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, and
- Inadequate policies and controls over claims management.

We also noted other matters involving internal control over the Agency's financial operations, 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.

Charles Woolsey
Principal Auditor

Approved:

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

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