STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF PUBLIC WORKS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007, 2008 and 2009

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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JOHN C. GERAGOSIAN

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

ROBERT M. WARD

December 19, 2012

AUDITORS' REPORT
DEPARTMENT OF PUBLIC WORKS
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We have examined the financial records of the Department of Public Works (DPW) for the fiscal years ended June 30, 2007, 2008 and 2009. This report on that examination consists of the Comments, Recommendations and Certification that follow.

Financial statement 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 DPW's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the department's internal control policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

For the fiscal years ended June 30, 2007, 2008 and 2009, the Department of Public Works operated primarily under the provisions of Chapters 59, 60 and 60a - Section 4b-1 et seq. of the General Statutes. For the audited period, its responsibilities included:

- The design, construction, and alterations 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.
- Collaboration with the Office of Policy and Management in the state real property surplus program.
- Assisting state agencies and departments with long-term facilities planning and the preparation of cost estimates for such plans.
- The establishment of security standards for facilities occupied by state agencies and the review of preliminary designs for renovations and new construction for compliance with security standards.

Raeanne Curtis served as DPW Commissioner from September 2007 to December 2010. Prior to Ms. Curtis, James T. Fleming served as DPW Commissioner until his resignation on August 31, 2007. Jonathan P. Holmes served as the Acting DPW Commissioner from January of 2011 to June 30, 2011, when Donald J. DeFronzo was appointed Acting Commissioner of the successor Department of Construction Services.

In accordance with Section 60, Subsection (c), of Public Act 05-251, effective July 1, 2005, the Commissioner of the Department of Administrative Services, in consultation with the Secretary of the Office of Policy and Management, developed a plan for the Department of Administrative Services (DAS) to provide personnel, payroll, affirmative action and business office functions for the Department of Public Works. This transfer of functions became effective during August 2005. It should be noted that effective July 1, 2011 the Department of Public Works ceased to exist as a separate and distinct state agency. The DPW duties specifically related to construction and construction management were transferred to the newly created Department of Construction Services. The remaining functions and duties were consolidated into the Department of Administrative Services. These changes are discussed further in the Legislative Changes section of this report.

The State Properties Review Board, under various state statutes (Sections 4b-3 and 4b-23 of the Connecticut General Statutes) must review and approve or disapprove any proposed DPW real estate acquisitions, sales, leases, and subleases. In addition, pursuant to subsection (i) of Section 4b-23, the board reviews and approves most proposed DPW contractual agreements with design professionals and other construction consultants. Also, pursuant to Section 4b-24 of the General Statutes, any DPW contract for a total cost project on a single contract with a private developer requires the approval of the board. Effective October 5, 2009, the State Properties Review Board was placed within the Department of Administrative Services, in accordance with Section 139, Subsection (e), of Public Act 09-7, of the September Special Session. The State Properties Review Board retained independent decision-making authority.

Legislative Changes:

Notable legislative changes, affecting the Department of Public Works are presented below:

Section 42 of Public Act 11-51, repealed Section 4a-1, of the General Statutes, effective July 1, 2011, subsection (b) established that the Department of Administrative Services shall constitute a successor department to the Department of Public Works, except those duties relating to construction and construction management, in accordance with the provisions of sections 4-38d, 4-38e and 4-39.

Section 45 of Public Act 11-51, added a new state department effective July 1, 2011. Subsection (a) established a Department of Construction Services (DCS). Subsection (b) noted that the Department of Construction Services shall constitute a successor department to the Department of Public Works in accordance with the provisions of sections 4-38d, 4-38e and 4-39 of the general statutes with respect to those duties and functions of the Department of Public Works concerning construction and construction management pursuant to any provision of the general statutes.

RÉSUMÉ OF OPERATIONS:

Revenue and Receipts:

Receipts net of transfers and adjustments totaled $65,070,119, $117,586,314, and $178,546,401, for the fiscal years 2006-2007, 2007-2008 and 2008-2009, respectively, compared with $54,864,510 for fiscal year 2005-2006. Receipts consisted primarily of grant transfers from other agencies to fund various capital projects. These transfers are accounted for in the Grants and Restricted Accounts Fund, which increased in 2007-2008 and 2008-2009, due largely to the receipt of some $99,500,000 and $168,500,000, in the respective years. These funds were designated for school additions and renovations. A summary of receipts for the years under review is presented below:

	Fiscal Year Ended June 30,		
General Fund:	**2006-2007**	**2007-2008**	**2008-2009**
Rents	$1,405,525	$1,389,354	$1,475,666
Sale of Property	1,000		1
Refunds	190,503	73,414	242,950
Miscellaneous	51,426	3,073	2,912
Total General Fund	1,648,454	1,465,841	1,721,529
Other Funds:			
Grants and Restricted Accts Fd	63,401,496	116,037,903	176,147,127
Fringe Benefit Recovery Fund	16,821	12,273	10,952
Funds Awaiting Distribution	3,348	70,297	666,793
Total Other Funds	63,421,665	116,120,473	176,824,872
Total Receipts	$65,070,119	$117,586,314	$178,546,401

The Funds Awaiting Distribution Fund is used to deposit and distribute security deposits, cash bid bonds, and fee revenue/costs 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. Deposits to the fund totaled $3,348 in fiscal year 2006-2007, $70,297 in fiscal year 2007-2008, and $666,793 in the 2008-2009 fiscal year. Transfers and payments from the fund totaled $69,488, $179,917, and $735,033, respectively, in the 2006-2007, 2007-2008 and 2008-2009 fiscal years. Additional comments concerning the use of the Funds Awaiting Distribution Fund are contained in the Condition of Records section of this report.

Expenditures:

During the period under review, DPW maintained two major expenditure-reporting systems (operating accounts and public works project accounts.) The operating accounts consisted primarily of General Fund accounts used for agency operating expenditures. The public works project accounts consisted primarily of capital project funds used to account for DPW's significant public works projects.

Overall, expenditures decreased from $366,329,931 in the 2006-2007 fiscal year, to $246,294,338 in the 2008-2009 fiscal year. The most significant change was associated with public works projects, which decreased from $315,969,811 in the 2006-2007 fiscal year, to $195,644,358 in the 2008-2009 fiscal year. Those decreases can be attributed in part to the completion of additions and renovations to state technical high schools amounting to approximately $69,000,000. The wide variation in the annual level of public works project expenditures reflects changes in bond monies made available and in the number of active major projects.

A summary of expenditures for the three audited years is presented below:

Expenditure by General Type:

	2006-2007	**2007-2008**	**2008-2009**
General Fund	$50,226,456	$55,261,905	$52,565,124
Minus funds used in DPW projects	(75,836)	(1,584,026)	(1,933,426)
General Fund for Operating Expenditures	50,150,620	53,677,879	50,631,698
Plus Capital Equipment Purchase Fund	209,500	67,080	18,282
Total Operating Expenditures	50,360,120	53,744,959	50,649,980
Public Works Projects	315,969,811	292,938,275	195,644,358
Total Expenditures	$366,329,931	$346,683,234	$246,294,338

Operating Expenditures:

	2006-2007	**2007-2008**	**2008-2009**
Personal Services	$11,245,237	$11,402,941	$11,804,214
Property Management	13,847,946	14,739,671	13,904,858
Utilities	13,012,745	13,586,163	12,914,310
Rents and storage	8,499,933	9,289,608	10,046,959
Miscellaneous	3,754,259	4,726,576	1,979,639
Total	$50,360,120	$53,744,959	$50,649,980

Public Works Project Expenditures:

	2006-2007	**2007-2008**	**2008-2009**
Acquisitions	$ 2,529,779	$ 5,355,531	$ 13,481,662
Design	29,362,068	27,340,699	28,997,018
Construction	269,909,720	245,353,142	134,571,649
Equipment	3,450,596	3,992,454	7,003,102
Art	932,774	618,400	545,280
DPW Fees	4,341,880	6,650,265	8,256,342
Claims	2,995,833	1,551,301	2,620
Telecommunications	2,393,909	2,057,160	2,143,992
Miscellaneous	53,252	2,747	29,476
Hazardous Material Abatement	0	16,576	613,217
Total	$315,969,811	$292,938,275	$195,644,358

Public works project expenditures are charged primarily to Capital Projects Funds. Smaller amounts are charged to Special Revenue Funds and the General Fund. A summary of public works project expenditures by funds follows:

	2006-2007	**2007-2008**	**2008-2009**
General Fund	$ 75,836	$ 1,584,026	$ 1,933,426
Special Revenue Funds	166,609,534	121,522,572	84,700,800
Public Works Service Fund	0	1,931,551	1,089,057
Capital Project Funds	149,284,441	167,900,126	107,921,075
Total	$315,969,811	$292,938,275	$195,644,358

Public works project grant transfers to other state agencies were made primarily for projects administered by other agencies pursuant to subsection (a) of Section 4b-52 of the General Statutes. The bulk of public works project expenditures are for projects involving the design and construction of state facilities. By far, the largest expenditure activity is for construction costs. Projects that had significant construction expenditures during the audited period include the following:

	2006-2007	2007-2008	2008-2009
Veterans Home-Master Plan	$19,442,258	$	$
Community Colleges-Consolidated Campus	10,838,188	3,051,704	
Community Colleges Renovations and Additions:			
Tunxis-Library, Science Tech, Office & Classroom Space	17,231,519	6,825,191	
Three Rivers-Learning Resource Ctr, Class, Lab, Offices		41,667,600	19,339,596
Quinebaug-Classrooms, Lab, Offices Library	1,446,084		
Housatonic-Performing Arts Ctr, Bookstore, Classrooms	6,583,414	28,509,379	
Gateway-Learning Resource Ctr, Classrooms, Garage		2,388,427	19,279,622
Naugatuck Comm. College-New Technology Building	10,897,560	12,126,706	4,749,154
Manchester-Central Heating & Cooling Plant	3,001,229		
MCTC-Great Path Academy Magnet High School		11,381,615	
ECSU-Science Bldg & Classrooms-Pre Design	30,110,670		
SCSU-Project Study& Renovations Buley Library	8,968,135	6,532,154	4,398,024
JUD-Juvenile Detention Center Bridgeport`	18,089,236	15,709,397	2,379,340
Additions and Renovations to Vocational Schools	167,667,033	99,473,414	63,587,166
School for Aviation Maintenance Technicians		2,241,619	5,776,389
DPS-Roof Repairs-Pelz Bldg			2,426,012
DPW-Lead Based Paint Abatement/Energy Conservation.	1,486,969		
DPW-Public Health Lab Biosafety-Hartford	2,201,439		
DOC-Htfd Corr. Mental Health Unit Air Conditioning	1,355,116		
American School for the Deaf-Master Plan Review	1,519,253		

Some of the public works project expenditures noted above were initially recorded in a revolving fund (The Capital Projects Revolving Fund). Employees working on public works projects are initially paid out of that fund. Subsequently that cost is allocated or charged back to applicable public works 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 cost of public works project employees. However, the fund has been operating in a deficit (negative cash balance) position for several years. A summary of the fund's transactions for fiscal years ending June 30, 2007, 2008, and 2009, is presented below:

Capital Projects Revolving Fund:

	2006-2007	2007-2008	2008-2009
Funding Sources :			
Project Costs Recovered	$4,321,071	$3,536,829	$5,279,106
Cost not Related to Specific Projects Recovered:			
From the General Fund	2,175,879	195,000	95,000
Recoveries of Fringe Benefit Costs	891,550	166,043	323,611
Total Funding	7,388,500	3,897,872	5,697,717
Less Expenditures – Project Costs	(7,476,906)	(5,920,095)	(6,001,427)
Expenditures in (Excess) of Funding	(88,406)	(2,022,223)	(303,710)
Cash Balance, Beginning of Fiscal Year	(2,042,096)	(2,130,502)	(4,152,725)
Cash Balance, End of Fiscal Year	($2,130,502)	($4,152,725)	($4,456,435)

The negative cash balances result from the failure, for various reasons, to charge back or to allocate payroll costs to funded capital projects. For example, charges were made to project activities that lacked available funding. As a result, an unreimbursed charges receivable has existed for several years. This receivable amounted to $27,565,351 on June 30, 2007. DPW was not able to provide the total receivable amount at June 30, 2008 or 2009. Additional comments concerning the use of the Capital Projects Revolving Fund are contained in the Condition of Records section of this report.

CONDITION OF RECORDS

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

Expenditures:

Criteria:	Proper internal control dictates that prices for goods or services on the vendor invoice should be verified to contracts or agreements. Requests for payment should be supported by sufficient documentation.
Condition:	We noted weaknesses in the internal controls pertaining to the accounts payable function. We examined 27 expenditure transactions for the fiscal years ended June 30, 2007, 2008, and 2009. Two invoices for printing and copying services were billed for services that were not on the contract. One payment for property tax and another for cable installation were paid without supporting documentation. One voucher for the purchase of software was not coded correctly. We expanded our sample to include invoices for contractual services provided during the 2010-2011 fiscal year. The expanded sample contains nine invoices. Five of the invoices in the expanded sample were either billed at an incorrect rate, or did not contain sufficient information to substantiate the charges.
Effect:	Risk is increased that DPW may pay for services not covered by approved contracts or may pay costs that exceed the pricing allowed by contract.
Cause:	It appears that proper internal control procedures were not followed by the accounts payable staff.
Recommendation:	DPW should adhere to accounts payable internal control procedures. The controls should include contractual cost and services reconciliations as well as reviews of supporting documentation. (See Recommendation 1.)
Agency Response:	"We agree with the criteria and the recommendation. It is difficult for DAS to comment on the condition, cause or effect regarding this finding because DAS was not involved with DPW's financial operations prior to July 1, 2011. As a result of the July 1, 2011 consolidation of former DPW business and fiscal office activities and procedures into DAS and the use of centralized processes and procedures, this condition will be rectified."

Claims by the State:

Criteria: Good business practice requires the establishment and application of formally approved construction claims procedures by a claims unit independent of the construction unit.

Good business practice also requires that formal policies and procedures be established to encourage the systematic review of project records to routinely determine if there is a likely basis for potential claims by the state against construction consultants or contractors.

Condition: A Claims Procedure Manual has not been prepared. DPW does not have formal procedures requiring a routine review of project records to determine if there is a likely basis for potential claims by the department against any construction consultant and/or contractor.

Effect: The absence of formal policies and procedures regarding claims to be made by the state jeopardizes recovery of claims.

Cause: DPW's financial and human resources are, of course limited; nonetheless, it appears that within existing resources, claims management activities have not been allocated a sufficiently high priority.

Recommendation: DPW should finalize and put into practice construction claims procedures. These procedures should include a requirement for a systematic review of construction project records to determine if there is a likely basis for potential claims against construction consultants and/or construction contractors. (See Recommendation 2.)

Agency Response: "We agree with the recommendation that construction claims procedures should be finalized and a Claims Procedure Manual should be prepared. Existing efforts addressing this issue will be strengthened."

Lease Revenue:

Background: Section 4b-38, subsection (a), of the General Statutes allows the commissioner to 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: Maintaining orderly records of lease revenues due and received as well as monitoring and enforcing the terms of active lease agreements are good business practices.

Condition: DPW does not maintain a comprehensive database of leases. Various lists of leases are created but are not maintained to reflect changing lease clauses, conditions, or requirements. Some leases also contain clauses which detail specific payment and other requirements.

In conducting our review, we noted two leases the Financial Management Unit was not aware of. Both leases contained specific requirements that were not being adhered to.

- Lease one required the department to bill the lessee who was occupying space at a facility for expenses associated with the space. The lease also required the lessee to send payment to the department's Financial Management Unit.

- Lease two required the lessee to pay a prorated portion of the property taxes.

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Effect: Lack of accountability of lease revenue could cause a loss of revenue due to the state.

Cause: The lack of a comprehensive database of lease revenue receivable, and failure of the Financial Management Unit to review existing leases causes the uncertainty of whether all lease revenue due was collected.

Recommendation: DPW should design and put into operation a system to monitor lease revenue, including lease revenue receivables. (See Recommendation 3.)

Agency Response: "We agree. Since the period covered in the audit, the DAS Leasing and Property Transfer Unit has put into operation a software program that maintains all leases under DAS control in which the state is the tenant. Moreover, DAS Leasing maintains an Excel spreadsheet with all lease-outs (in which the state is the landlord) and shares this with Financial Management as changes are made. In our continuing effort to improve reporting we are working to give database access to financial management so they can directly view the information."

Noncompliance with Section 4b-23 – State Facility Plan:

Background: Section 4b-23 of the General Statutes sets out the roles and responsibilities of the Secretary of the Office of Policy and Management and the DPW commissioner with regard to the State Facilities Plan (Plan).

Criteria: Section 4b-23, subsection (a), of the General Statutes requires that "Each agency and department shall…establish a plan for its long range facility needs and submit …to the Secretary of the Office of Policy and Management, and a copy thereof to the Commissioner of Public Works …."

Section 4b-23, subsection (b), of the General Statutes requires that "On or before December first of each even-numbered year, the Commissioner shall provide the Secretary of the Office of Policy and Management with a review of the plans and requests submitted pursuant to subsection (a) of this section for consistency with realistic cost factors, space requirements, space standards, implementation schedules, priority needs, objectives of the Commissioner and the need for the maintenance, improvement and replacement of state facilities."

Section 4b-23, subsection (l), of the General Statutes requires that when the space to be leased or the forecast cost of a project exceeds the square footage amount or the cost level in the approved Plan by ten percent or more, the "…Approval of the Secretary of the Office of Policy and Management, the Properties Review Board, the State Bond Commission and the Governor shall be required to continue the project."

Condition: DPW had not received State Facility Plans submitted by state agencies to OPM until the Fall of 2008. The department gave OPM a review of the plans by December 1, 2008. However, the department did this review in a manner that was not in report form. The department documented their review by entering written comments on the agencies' plans received from OPM. The department's comments entered onto the plans may address one issue, but do not show the department's analysis for all relevant issues per the statute, including: consistency with realistic cost factors, space requirements, space standards, implementation schedules, priority needs, objectives of the commissioner and the need for the maintenance, improvement and replacement of state facilities. Consequently, there is no way to assess the accuracy and efficiency of the review. During the audited period, these criteria were not met. For the fiscal years 2007, 2008 and 2009, the department did not receive State Facility Plans from OPM, which had received them from the state agencies, and the department did not perform a review of the plans.

When leased space or the cost forecast exceeded the approved plan by 10 percent or more, approval of the State Bond Commission and the Governor was not sought, as required by statute.

When the forecasted cost to complete approved capital projects or the square footage amounts of capital projects exceeded the levels of the approved plan by ten percent or more, the approval of the State Properties Review Board was not obtained as required by Section 4b-23, as amended by Public Act 08-154.

Effect: DPW has not been in compliance with the statutory provision relating to reviewing the State Facilities Plan request and with the statutory provision requiring approvals in instances where the forecast leased space or the forecast project cost exceeds by ten percent the square footage or the project cost per the State Facility Plan.

Cause: DPW apparently thought that their review, by inserting comments on the agency plans, that the department received from OPM was sufficient reporting. It is not clear why the department has still not established procedures for obtaining all required approvals before proceeding with lease projects or construction projects whose square footage or costs are ten percent or more than the amounts listed in the State Facility Plan.

Recommendation: DPW should, in conjunction with the Office of Policy and Management, where appropriate, establish procedures relating to compliance with the requirements of Section 4b-23 of the General Statutes. Section 4b-23 requires the department to review State Facility Plan requests submitted by state agencies to the Office of Policy and Management. Section 4b-23 also requires the department to monitor compliance with the approved State Facility Plan and to obtain approvals from the State Bond Commission, the Governor, and the State Properties Review Board for certain deviations from the plan. (See Recommendation 4.)

Agency Response: “We agree in part. The former DPW interpreted the statute to mean that State Bond Commission approval is required only for state projects which utilize state bonded funds. Because Leasing projects do not use bonded funds, it was not considered necessary to submit leasing projects to Bond Commission. Based on the audit recommendations, DAS will further analyze the statute and past practices and will either change its practices or work with the Legislature to modify the statute.”

Noncompliance with Section 4b-23 – Adoption of Regulations:

Criteria: Section 4b-23, subsection (o), of the General Statutes requires that not later than January 1988, the DPW, in consultation with the Secretary of the Office of Policy and Management (OPM) and the State Properties Review Board (SPRB), shall adopt regulations regarding state leasing of offices, space or other facilities. The regulations are to set forth the procedures that the department, OPM and SPRB must follow in carrying out their leasing responsibilities.

Section 4b-23, subsection (o), also requires that the regulations specify, for each step in the leasing process, at which point an approval is needed "…what information shall be required, who shall provide the information and the criteria for granting the approval."

Condition: As of April, 2011, the required regulations have not been finalized. DPW is working with the Office of Policy and Management in developing these regulations.

Effect: DPW has failed to comply with a statutory provision requiring it to adopt regulations regarding the leasing of offices, space and other facilities.

Cause: We were informed that, as of April 2011, a draft update of the 1986 leasing manual was being reviewed internally by the legal unit, and that when the review has been completed, regulations will be finalized in line with their revised leasing policies and procedures.

Recommendation: DPW should continue to work toward the adoption of regulations regarding the leasing of offices, space and other facilities pursuant to Section 4b-23, subsection (o), of the General Statutes. (See Recommendation 5.)

Agency Response: "We agree. Draft regulations were developed and submitted for review by the previous DPW executive team, but were not acted upon. Subsequently DPW, DAS, OPM and SPRB engaged in a year-long "LEAN" analysis of the leasing process, resulting in numerous changes to the procedures. DAS is currently analyzing whether any legislative changes will be required to further improve the leasing process and will either work with the Legislature to revise the statutes or draft regulations reflecting the current process."

Noncompliance with Section 3-21d – Capital Project Reporting:

Criteria: Section 3-21d of the General Statutes mandates that effective July 1, 2001, "The chief administrative officer of the department, institution or agency of the state responsible for any public works construction project administered by the Department of Public Works under Section 4b-1, with an estimated cost of more than ten thousand dollars and receiving any portion of its funding from the proceeds of bonds issued under the State General Obligation Bond Procedure Act shall file a report with the secretary of the State Bond Commission forthwith upon completion or acceptance of any such construction project, and in no event later than ninety days thereafter…" The report must provide the following information: 1) The estimated total cost of the construction project, or the actual amount of the project, if ascertainable; (2) The amount, if any, required to be held in retainage and the reason for such retainage; and (3) The amount of any bonds authorized by the State Bond Commission and allotted by the Governor to such project which remains unexpended.

Section 3-21d of the General Statutes also mandates that: "The chief administrative officer of the department, institution or agency of the state shall also file a report with the co-chairpersons of the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue and bonding on or before January 1, 2002, and each year thereafter, on any such projects which have been reported to the secretary of the State Bond Commission."

Condition: According to the DPW's annual reports to the State Properties Review Board for fiscal year 2006-2007, the department completed 34 public works construction projects at a cost of \$76,680,340; for fiscal year 2007-2008, 26 public works construction projects at a cost of \$193,801,458; for fiscal year 2008-2009, 24 public works construction projects at a cost of \$113,481,726; and for 2009-2010, 32 public works construction projects at a cost of \$140,014,686. The department is responsible for accounting for these projects. However, it has not reported to the secretary of the State Bond Commission the data required by statute relating to these 116 projects. Furthermore, for the fiscal years ended June 30, 2007, 2008 and 2009, annual reports on completed capital works projects were not submitted to the requisite joint standing committee of the General Assembly.

Effect: DPW is not in compliance with the mandates of Section 3-21d of the General Statutes.

Cause: DPW has no formal policies or procedures addressing compliance with Section 3-21d of the General Statutes.

Recommendation: DPW should comply with the requirements of Section 3-21d of the General Statutes, which requires that reports on completed capital works projects be submitted to the State Bond Commission and the General Assembly. (See Recommendation 6.)

Agency Response: "We agree with the recommendation. The Department of Construction Services (DCS) will develop a new quarterly report for submission to the State Bond Commission and the General Assembly that will include (1) the estimated total cost of the construction project, or the actual amount of the project, if ascertainable at the time; (2) the amount, if any, required to be held in retainage and the reason for such retainage: and (3) the amount of any bond funds authorized by the General Assembly and allotted by the State Bond Commission to such project that remain unexpended."

Compliance with the Statutory Requirement to Review General Contractors' Subcontracts:

Criteria: Subsection (e) of Section 4b-95 requires the contract awarding authority to periodically review the general contractor's subcontracts to ensure compliance with statutory provisions, "…and shall after each such review prepare a written report setting forth its findings and conclusions."

Condition: Periodic reviews of subcontractor agreements with contractors are performed by DPW. However, formal reports of these reviews are not prepared. If there are major discrepancies, the agreements are sent back to the contractors to be corrected. In the case of minor discrepancies, notes of these are made in the file. A transmittal memo is prepared in lieu of a formal report that sets forth its findings and conclusions.

Effect: DPW is not in compliance with the requirements of subsection (e) of Section 4b-95 of the General Statutes as it relates to the department's responsibility for reviewing general contractor subcontracts.

Cause: DPW does not have staff specifically responsible for issues relating to contract compliance. It appears that contract compliance issues are not prioritized.

Recommendation: DPW should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to its responsibility for reviewing general contractor subcontracts. (See Recommendation 7.)

Agency Response: "We agree with this recommendation. DCS will formalize its existing procedures and prepare a report template incorporating the subcontractor requirements set forth in Chapter 60 and will require contract reviewers to make findings as to the subcontractor's compliance with each element in order to determine whether a subcontract as a whole is or is not compliant."

Management of the Capital Projects Revolving Fund:

Criteria: Section 4b-1a of the General Statutes authorized the commissioner "…to establish and administer a fund to be known as the Capital Projects Revolving Fund, which shall be used for the financing of the costs of and associated with capital projects…".

Section 4-97 of the General Statutes provides that no appropriation is to be used for any other purpose than the express purpose of the appropriation.

The fact that the legislature established the revolving fund as a revolving fund means that the fund was intended to be replenished. That is, fund charges for projects are to be reimbursed, to the extent possible, by those projects. All appropriate project costs paid through the fund should be billed to project accounts.

DPW is responsible for the proper maintenance and accountability of the fund.

The Revolving Fund incurs payroll related costs for public works projects by other state and quasi-public agencies. These costs must be regularly billed and recovered on a timely basis, and credited to the revolving fund. Good business practice suggests that costs incurred in a given month should be billed no later than the end of the succeeding month.

Condition: As of June 2010, the fund had a negative cash balance of approximately five and one half million dollars. This fund is reconciled on a quarterly basis. The reconciliation does not include the unfunded charges receivable balance. A comprehensive report of the total unreimbursed charges receivable (unreimbursed Fund payments) at June 30, 2008, 2009 and 2010 was not available.

DPW maintains a spreadsheet of unfunded charges receivable which totaled $27,565,350.98 at June 30, 2007. The spreadsheet has not been updated to reflect periodic collections. The total unfunded charges receivable was not available for the fiscal years ended June 30, 2008, 2009, and 2010.

The General Fund's Facility Design Expense appropriation reimburses the fund for work done by billable employees that are administrative in nature and are not charged to a particular project. However, General Fund reimbursements are not applied as reductions to the receivable balance when collected. This is because a procedure to apply these collections was, inadvertently, never established.

DPW has established a schedule for processing billings for projects financed by other state and quasi-public agencies. A preliminary comparison of the scheduled billing date to the actual billing date shows inconsistent results.

Effect: Project expenses were understated by the fact that certain project related costs paid by the fund were not billed to the project accounts.

Accounting data (for instance, the total of unfunded charges receivable) for the fund was not available. Accurate account information is necessary to make policy decisions.

The failure to bill all project costs to applicable projects results in an increase of the fund deficit and/or additional General Fund subsidies to cover the deficit.

Cause: DPW has established a schedule for processing billings for projects financed by other state and quasi-public agencies. The billing schedule has not been strictly adhered to. In July 2007, the department implemented a new computer system that eliminates many of the manual transactions required by the old system. Comprehensive reports of the unreimbursed charges receivable either were not generated or not retained.

Recommendation: DPW should improve its administration of the Capital Projects Revolving Fund. All project costs and, when appropriate, the applicable General Fund appropriation should be billed. Billings for projects financed by other state and quasi-public agencies should be processed in a timely manner. Also, all applicable collections should be credited to the unfunded charges receivable balance. In addition, the department should maintain and regularly reconcile the fund's unreimbursed charges receivable to project billings and receipts. (See Recommendation 8.)

Agency Response: "We agree that administration of the Capital Project Revolving Fund should be improved. DCS and DAS are working toward that goal by improving the billing and reconciliation process and ensuring adequate funding is available to support DCS operations."

Capital Projects – Financial Reporting System:

Background: The Capital Projects Financial Reporting System which was used to facilitate the processing of charges made to the Capital Projects Revolving Fund was replaced when the Core-CT project tracking system was implemented in July 2007.

Criteria: The Core-CT project tracking system should be capable of providing management with the types of information and reports needed to facilitate decision making and planning.

Condition: Core-CT modules implemented in July 2007 replaced the existing legacy applications and reduced the reliance on manual operations and the potential errors associated with manual operations.

The July 2007 transfer to the Core-CT system did not eliminate the manual operations required to process fee reimbursement transactions incurred prior to the conversion.

The pre Core-CT system consisted of four component systems. There were three major stand-alone legacy systems: Time and Attendance, Project Tracking, and Fee Billing, and (formerly) the state's legacy State Agency Appropriation Accounting System and (currently) the state's Core-CT system. There is little interconnectivity between these components. As a result, certain data needs to be entered twice with a resultant need to reconcile data between different components. Manual intervention is required in order to transfer data from one component to another or to merge reports from different components. The resulting reports must be carefully reviewed and adjustments made. Duplicate entry, manual intervention, reviewing and adjustment are time consuming and labor intensive activities.

Data from prior years cannot be loaded into Core-CT, necessitating the continued use of spreadsheets. In order to obtain a comprehensive list of fee deficits by projects, the Core-CT system requires the generation of reports from four different databases. The database is updated with new billings and un-billed activity based on bi-weekly timesheets submitted by the project managers.

The project managers are not provided with a comprehensive list of employees charging time to the projects.

The system does not facilitate the production of an aging of unreimbursed charges receivable report, or a classification of receivables by type report such as projects in design not yet bonded, technical services provided to other state agencies, completed projects with no funding available, etc.

DPW was not able to provide us with a comprehensive report of the unreimbursed charges for fiscal years ended June 30, 2008, 2009 and 2010.

Effect: Because of the ineffectiveness of the processing system, manual intervention is required. This creates an administrative burden and increases the risk of undetected errors. In addition, the system does not provide certain important information required by management and oversight bodies.

Cause: DPW concurred with our prior audit recommendations to develop and implement system improvements that would provide a more reliable platform with less dependence on manual processes. The department transferred to the Core-CT system in July 2007. The lack of interconnectivity between the Core-CT system and the project accounting system does not facilitate the production of a comprehensive report of the unreimbursed charges. The department is not using the Core-CT modules to its fullest capacity.

Recommendation: DPW should continue to 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 9.)

Agency Response: "We agree with this recommendation. DCS and DAS are working together to create a more automated system for billable time invoicing and the subsequent project fund reimbursements to the revolving fund."

Real Property Reporting to Client Agencies:

Criteria: Pursuant to Section 4b-51, subsection (a), of the General Statutes, the commissioner of Public Works is responsible, subject to certain defined exceptions, for the remodeling, alteration, repair or enlargement of state agency real assets. Inherent in this responsibility is a requirement for the timely reporting of construction cost data to state agency clients who are responsible for the reporting of those assets as items of inventory.

According to generally accepted accounting principles (GAAP), expenditures for new buildings and building additions should be capitalized (added to the inventory of capital assets) but repairs should be expensed in the year in which they occur. Detailed documentation is needed to support the determination as to which costs should be capitalized and which should be expensed.

When a state agency construction project is sufficiently complete to allow the facility to be occupied and/or used, a Certificate of Substantial Completion (Form 781) is issued. To provide the state agency with cost data for inventory purposes, an "Insurance Notification/Transfer Form" (Form 784) should be prepared and sent to the occupying agency, State Comptroller and State Insurance Risk Management Board. An Asset Valuation Memorandum should be prepared at this time to enable the user agency to include the building's asset value on their CO-59 property inventory report.

The State Property Control Manual requires the preparation of an annual inventory report of real and personal property (CO-59 report.) Such reports are required to include the cost of capitalized additions to buildings.

Condition: DPW reports project costs at three major landmarks in a project's life. These are, the issuance of an Insurance Notification/Transfer Form, the issuance of a Certificate of Acceptance, and an Asset Valuation Memorandum. The Insurance Notification Transfer Form gives an estimate of the construction costs for the prime contractor only. Other cost elements such as design, hazardous material removal, construction not performed by the prime contractor, and allocated department labor, are not included. Such omitted costs are often material. Agencies that rely solely upon Insurance Notification Transfer Form cost data for annual inventory reporting are underreporting the cost of their buildings.

The full cost of a construction project is provided in connection with the issuance of an Asset Valuation Memorandum and a Certificate of Acceptance. However, we found that these forms might not be issued until a year after the issuance of a Certificate of Substantial Completion, and in cases involving claims litigation, change orders, furnishings and equipment purchases, and information technology purchases, the time period could be much longer. This means that any initial CO-59 underreporting of additions to buildings at the substantial completion stage might not be corrected for two or more years in extreme cases. As a result, state buildings on the state's inventory were underreported.

In addition, the Insurance Notification/Transfer Form, the Certificate of Acceptance, and the Asset Valuation Memorandum cost data provided to state agencies give a single dollar figure and do not provide the breakdown required to determine which cost elements should be capitalized and which should be expensed.

Effect: DPW's current procedures for reporting facility project costs to client state agencies can lead to the underreporting of costs and/or material delays in the reporting of costs.

Cause: DPW's procedures do not call for a sufficiently comprehensive or timely accounting of facility project costs to be provided to client agencies until a Certificate of Acceptance is issued. Even then, it does not require that data be presented to distinguish between project costs that should be capitalized and those that should be expensed.

Recommendation: DPW should improve its procedures over the timely reporting of facility project costs to client agencies. (See Recommendation 10.)

Agency Response: "We disagree with this finding. The Department's current procedure, outlined below, complies with its statutory obligations, by providing the agency with the all the information the Department possesses to allow the agency to determine whether to capitalize or expense costs.

At the beginning of the project, an 1105 Form Capital Project Initiation Request is generated and is maintained throughout the project life. This Form memorializes the project budget, including the five major areas of expenditures: Haz-Mat, total construction, equipment/telecom, professional fees, 1% art, and DCS fees. At the beginning of the project, the Form reflects estimated costs. Throughout the project, we update the estimates to reflect actual costs as they occur.

At the completion of a building project (when the project is ready to be turned over to that agency) we provide the agency with a Substantial Completion (SC) Form 781, Insurance Notification/Transfer Form 784 and the 1105 Form. This documentation demonstrates to the agency the various expenditures that occurred during the project that DCS oversaw on their behalf. At the time of SC, we believe that the project represents a 99% accounting of the costs to the project. The outstanding items still appear in our budget, as do estimates for any change orders and other incomplete work. The only costs not included are potential claims; however, because a vendor has up to two years to make a claim after the certificate of acceptance is given, we know of no reliable method of anticipating claim costs in advance."

Auditors' Concluding Comments: Our testing revealed that the client agencies were not provided with detailed cost information in a timely manner.

Processing of Operations Through Funds Awaiting Distribution:

Criteria: Section 3-112 of the General Statutes provides that the State Comptroller shall prescribe the mode of keeping and rendering all public accounts of the state. The State Accounting Manual defines pending receipts as "…monies received by state agencies that are to be held in suspense until the final disposition is determined." Examples of pending receipts given include: surety deposits, collections of fees where immediate distribution is uncertain, receipts without significant identification to properly determine the source, incorrect or disputed receipts, and cash receipts determined unacceptable after the payee has left the office. The manual requires that pending receipts be deposited to an agency fund, entitled Funds Awaiting Distribution (FAD).

Except as provided by Sections 17a-451d through 17a-451f of the General Statutes, proceeds of real property sales should be promptly deposited as General Fund revenue. Sections 17a-451d, 17a-451e, and 17a-451f, effective July 6, 2001, May 6, 2004, and July 1, 2004, respectively, provide that sales of Norwich Hospital and Fairfield Hills Hospital real property are required to be deposited to specific state accounts of the Department of Mental Health and Addiction Services (DMHAS.) DMHAS can make mental health related expenditures from these accounts. However, there is no provision in the manual or in state law for agencies to use FAD to hold any money that properly should be deposited to the General Fund as revenue, or to use FAD to make off budget operational expenditures.

Condition: Since December 1996, DPW has been depositing real property sales receipts to FAD instead of to the General Fund. It also has been paying related real property expenses out of FAD. Real property receipts, when applicable, should be recorded as General Fund revenue when received. Property sales expenses for these properties should be paid out of funds budgeted or bonded for that purpose.

The department records show that, as of January 5, 2011, approximately \$8.2 million of property sales and approximately \$3.7 million of property sales related expenses have been processed through FAD. Of the \$8.2 million in property sales, \$4.1 million was for sales of Fairfield Hills Hospital real property. The \$4.1 million was transferred to DMHAS as required by General Statute Section 17a-451e. This leaves approximately \$397,000 due to the General Fund. The department is not able to accurately determine the source of the remaining balance in the Funds Awaiting Distribution account.

DPW continues to process a minimal number of property disposition charges through FAD. This is done with the consent of the Office of Policy and Management (OPM) in accordance with past practice and the original conceptual agreement between the department, OPM and the Office of the State Comptroller.

Effect: General Fund revenues and related expenditures have been understated. Making operational expenditures from the FAD weakens budgetary control. DPW has failed to follow the State Comptroller's mandates. The department is not able to determine the source or final disposition of the balance in the Funds Awaiting Distribution account.

Cause: This practice started because there were large unbudgeted revenues and expenditures related to the sale of surplus state property, such as closed state hospitals. Expenditures related to such real estate transactions include legal, consultancy and appraisal fees, environmental studies and mitigation work. DPW is working with OPM on the above-mentioned sale of surplus state property. OPM will make the decision regarding when the sales initiative will be considered completed. At that time, it is anticipated that the net balance in FAD will be transferred to the General Fund, and the department will go back to depositing property sales revenue directly to the General Fund.

The department cannot accurately attribute expenditures for the disposal of property to the associated sale.

Recommendation: DPW should discontinue the use of the Funds Awaiting Distribution account for transacting state property operations. The net proceeds from real estate sales should be transferred to the General Fund. Expenditures for the disposal of state property should be accurately accounted for and attributable to the specific property sold. The unidentified balance in the Funds Awaiting Distribution account should be transferred to the General Fund. (See Recommendation 11.)

Agency Response: "DAS agrees that using the Funds Awaiting Distribution Account for the revenue from the sale of real property and the applicable expenses is not the proper procedure to follow. We are working with OPM to determine a better method of accounting for the sale and the associated expenses to address the difficulties caused by the length of time between the sale and the expenses associated with the sale."

Governor's Residence Conservancy, Inc.:

Background: The Governor's Residence Conservancy, Inc. has loaned a collection of antiques, art objects, carpets and other items to DPW for use at the Governor's Residence. The department has responsibility for the collection's custody, control, security and maintenance.

Criteria: Section 4b-1 of the General Statutes provides that DPW is responsible, with certain exceptions, "for supervising…the care and control of buildings and grounds owned or leased by the state in Hartford…"

Section 3-10 of the General Statutes states in part that "The land, buildings, furnishings and improvements of the Governor's official residence shall be maintained by the Commissioner of Public Works…"

Good business practice requires that all personal property be accounted for, bear an identification tag with a unique inventory number where practical, be included on an inventory listing of personal property, and be regularly examined for existence and condition by a person or persons independent of the process of obtaining and controlling the property. Record keeping requirements include a full description of the asset, the date of acquisition, acquisition cost, current value where applicable, inventory tag number and physical location. In addition, a photographic record of works of art and historical treasures should be kept to assist with any insurance claims.

Sound internal controls include the requirement that the DPW's representative follow written procedures when receiving an inventory item into state custody for display at the Governor's Residence. Listings documenting the item of inventory, including description and valuation, should be prepared. An appraisal of the item should be made to establish its valuation. The value should be recorded on the CO-59 form, showing the accurate valuation of all Governor's Residence Conservancy inventory items at the Governor's residence. An annual inventory of these items should be taken. These controls are required in the disposal of inventory items. A memorandum of understanding (MOU) between the Governor's Residence Conservancy and the department should be in force. The MOU must provide for insurance.

Condition: The DPW representative acts as the primary custodian of the items added to the Governor's residence by the conservancy. The value of the property at the Governor's residence attributed to the conservancy was reported on the September 30, 2009 and September 30, 2010, DPW CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form as $504,685. We were not able to trace this value to a listing of the inventory. This same dollar amount has been used to report the value of the conservancy's assets located at the residence for many years. An annual inventory was not taken.

DPW does not have written procedures detailing how inventory items conveyed by the Governor's Residence Conservancy are to be added to the inventory displayed at the Governor's residence or returned to the conservancy. The procedures would detail how the transfer of custody from the conservancy to the department is documented. This should include documentation of the description and valuation of the item as well as its corresponding location and tag number. The item should be added to the inventory listing. An appraisal of the item when required should be made to establish the valuation of the item. When an item is returned to the conservancy, procedures would require written documentation of its transfer from the department's custody. A physical inventory should be taken annually and the valuation of the Governor's Residence Conservancy inventory items at the Governor's residence entered onto the CO-59 form.

Effect: Without written procedures, items may be purchased and displayed that are not properly accounted for and consequently, not properly secured. In the absence of adequate inventory records, there is a greater risk that conservancy property located at the Governor's residence could be unaccounted for. Without accurate valuations, the CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form may not be filed properly.

Cause: It appears that DPW did not place adequate importance on developing written procedures to document the addition and deletion of conservancy items at the Governor's residence. We did not determine the cause for the lack of an annual inventory that would have documented the value of the inventory.

Recommendation: DPW should develop and implement written procedures to provide accountability of the antiques, art objects, carpets and other items loaned to the state by the Governor's Residence Conservancy, Inc. The department should conduct an annual inventory of the residence and report the value of the Governor's Residence Conservancy, Inc. collection on the CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form. (See Recommendation 12.)

Agency Response: "We agree with this recommendation. DAS has begun the process to inventory Conservancy items and to distinguish those from other property in the residence. In addition, we are developing an MOU to address the disposition of these items if the Conservancy is dissolved."

Equipment Inventory:

Criteria: Section 4-36 of the General Statutes states that "Each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June thirtieth, of all of the following property owned by the state and in the custody of such agency: (1) real property, and (2) personal property having a value of one thousand dollars or more."

Sound business practice requires clear and accurate accounting and tracking for physical assets from purchase through disposition. As physical assets comprise a significant portion of the asset base of the state, accurate inventory valuation is essential to produce accurate financial statements. Generally Accepted Accounting Principles dictate that inventory be carried at historical cost with a separate account for accumulated depreciation.

The State Property Control Manual states that assets should be assigned a department-specific identification number, that the records regarding the asset in Core-CT should be amended to include this information, that the identification number should be in some manner affixed to the item, and that the numbers should be affixed in a consistent manner that makes the number visible for inventory purposes without disturbing the function of the asset.

The manual further states that all inventory data must be reconciled to the Core-CT Asset Management Module and that the reconciliation may be traced to source documents. Additionally, the manual states that a "person should be assigned responsibility for each asset as the custodian."

Condition: We found in our review of equipment inventory that the Core-CT Asset Module inventory reports provided by DPW appear to be inaccurate and incomplete:

- Item descriptions were not sufficiently detailed.
- Although supporting documentation was available, inventory valuation as reported on form CO-59 could not be traced exactly to the supporting documentation.
- When items were replaced, there was no evidence that the old items were sent to surplus.
- A scan of the inventory report found many instances of missing information from the data fields for serial numbers and custodians. Additionally, we noted many instances of missing purchasing information (i.e. Core-CT coding) on the inventory report.

Effect: In the absence of accurate valuations on supporting documentation, items may not be properly accounted for. The annual property valuation for the state agency may not be accurate. Without complete purchasing information and coding, it is not possible to determine whether all purchases were accurately included in asset management records. Further, it is not possible to determine whether DPW was compliant with all applicable laws and regulations concerning the disposal of those assets.

Cause: DPW did not adequately implement its process to ensure complete and accurate inventory record keeping. Further, the Department did not sufficiently monitor its inventory activity or make the appropriate corrections.

Recommendation: DPW should maintain, reconcile and report inventory assets as prescribed by the State Property Control Manual. (See Recommendation 13.)

Agency Response: "We agree that the Department should have followed these procedures. The adoption of DAS internal procedures and controls since the agency consolidation should correct this condition."

Controllable Property:

Criteria: The State Property Control Manual, issued by the State Comptroller, states, "Controllable assets must be identified because of their sensitive, portable and theft-prone nature.

Controllable property is tangible property with a value less than $1,000, an expected useful life of one or more years. Controllable items are to be coded as minor equipment in Core-CT. Controllable assets must be inventoried on a regular basis. It is mandatory that each agency maintains a written listing of controllable property that has been approved by the agency head." Section 4-36 of the General Statutes states that "Each state agency shall establish and keep an inventory account…"

Condition: In our test of P-Card purchases, we found 23 items charged to Premises Repair and Maintenance. It appeared that these items should be charged to Minor Equipment. The 23 items purchased were not included on an inventory of controllable assets. We noted an additional 8 items that should be inventoried as controllable property. Our examination of a purchase of 36 window air conditioners, with a total purchase price of $35,802, showed that the air conditioners were coded as minor equipment. These air conditioners were not included in an inventory of controllable property. We noted that the controllable property inventory was limited to computer equipment.

Effect: It appears that the agency is not providing proper accountability for state assets.

Cause: It appears that DPW miscoded items that should be inventoried as controllable property and does not account for minor equipment controllable items in its inventory.

Recommendation: DPW should take greater care in properly coding items purchased that require accountability as minor equipment. The department should identify and inventory controllable property. (See Recommendation 14.)

Agency Response: "We agree that the Department should have taken greater care in coding items and complying with the Property Control Manual. The adoption of DAS internal procedures since the agency consolidation should correct this condition."

Petty Cash:

Criteria: The State Accounting Manual details internal control procedures that apply to petty cash funds. The controls include general rules that apply to all petty cash funds. Included in those procedures is the requirement for the chief fiscal officer to verify that the established procedures are being followed. The manual also requires the chief fiscal officer to obtain the checking account statement direct from the bank and perform a verification of all checks. Included in the verification of checks is a determination of the proper endorsement.

Condition: The Department of Public Works received notification from the bank in November 2007, that copies of cancelled checks would no longer be included with the monthly bank statement. The bank provides electronic copies of checks upon request. DPW has not requested electronic copies of checks since the bank switched to the electronic system. The expenditure documents to support the petty cash expenses are not obtained by the department.

DPW was not able to provide evidence that a periodic examination of the Petty Cash Fund was performed. At the time of our review, the department had issued 66 checks totaling $9,814, after the bank stopped providing copies of the canceled checks. A review of the electronic version of the checks has not been performed.

Effect: The assets of the state are not being properly safeguarded. DPW increased the risk of being unable to detect potential errors or fraud involving the Petty Cash Fund.

Cause: It appears that proper internal control procedures were not implemented.

Recommendation: DPW should implement and adhere to applicable petty cash internal control procedures. (See Recommendation 15.)

Agency Response: "We agree the Department should have implemented and adhered to applicable petty cash internal control procedure. With the adoption of DAS internal control procedures since the agency consolidation, this condition should be rectified and appropriate action will be taken with the bank account and Treasurer's office."

Prolog Database System:

Background: DPW's capital project managers use the Prolog database system to record the progress to completion of capital projects. The payments made by the project accounting unit are done in Core-CT. The system has been recently updated to PMWeb.

Criteria: The responsibility for recording and maintaining information about the progress to completion of capital projects should include having a comprehensive database of those projects to provide accountability and accessibility to design and construction information. Ready access to information consistent to the mission of the agency, in this case regarding all capital projects being worked on, enhances internal controls. The project tracking database should be accurate, complete, and up-to-date. It needs to be used to generate payment applications in a timely manner, with assurances that the work that is being paid for has been satisfactorily performed and approved. This database should be available for access by the project management team, both for input of information and readability, and to the project accounting unit, for read-only access. Discrepancies should be reconciled expeditiously between the project management and project accounting units.

Condition: The Prolog database used by project managers to record and maintain information about the progress to completion of capital projects can only be accessed by the project management team. It cannot be accessed by the Project Accounting Unit. The Project Accounting Unit cannot use the Prolog database system to check on the progress to completion of capital projects, in order to verify the information and amount of requisition for payment from the vendors.

Effect: The accuracy of project payments cannot be assured. The Project Accounting Unit is unable to properly monitor the progress to completion of capital projects. This lack of access by the Project Accounting Unit could lead to discrepancies in amounts owed and amounts to be paid.

Cause: DPW has not allowed the Project Accounting Unit access to its Prolog database system.

Recommendation: DPW should allow the Project Accounting Unit read-only access to the Prolog database system. (See Recommendation 16.)

Agency Response: "We agree that the project accounting staff should have read-only access to the Prolog Project Tracking Database and the PMWeb System. DCS will take steps in the next three to six months to provide the project accounting staff with access to the System."

Software Inventory:

Criteria: The State Property Control Manual, issued by the State Comptroller under authority granted under Section 4-36 of the General Statutes, states that "a software inventory must be established by all agencies to track and control all of their software media, licenses or end user license agreements, certificates of authenticity, documentation…Each agency will produce a software inventory report on an annual basis…A physical inventory of the software library…will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report."

The policy and procedures specifically states that software compliance is a legal responsibility for state agencies and noncompliance can impact an agency, as they may be held financially liable for the use of unlicensed copies of software.

Condition: DPW did not maintain a current updated software inventory. An annual software inventory report is not prepared. A physical inventory of software is not performed as required at the end of each fiscal year.

Effect: DPW is not in compliance with the software inventory policy and procedures contained in the State Property Control Manual. The unauthorized duplication or use of software could occur. If it occurred, this would constitute copyright infringement and create a financial liability for the state.

Cause: We were not able to determine the cause.

Recommendation: DPW should comply with the software inventory requirements contained in the State Property Control Manual. (See Recommendation 17.)

Agency Response: "We agree with the recommendation. Former DPW software inventory items that can be identified are being added into the DAS database and all newly purchased software since the time of the merger have been added directly to the database as DAS software."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Department of Public Works should implement internal control procedures to ensure that contract cost reviews are made of the costs on vendor invoices and are in agreement with the applicable master agreement. This recommendation is being repeated. (See Recommendation 1.)

- Construction claim procedures should be finalized and put into practice. Such procedures should include a requirement for a systematic review of construction project records to determine if there is potential for claims against construction consultants and/or construction contractors. This recommendation is being repeated. (See Recommendation 2.)

- The Department of Public Works should obtain proper authorization and approval for any changes to the terms of a lease. This approval should include prior review and approval by the State Properties Review Board. This recommendation is not being repeated.

- The Department of Public Works should, in conjunction with the Office of Policy and Management, where appropriate, establish procedures relating to compliance with the requirements of Section 4b-23 of the General Statutes. Section 4b-23 requires DPW to review State Facility Plan requests submitted by state agencies to the Office of Policy and Management. Section 4b-23 also requires DPW to monitor compliance with the approved State Facility Plan and to obtain approvals (from the State Bond Commission, the Governor, and the State Properties Review Board) for certain deviations from the Plan. This recommendation is being repeated. (See Recommendation 4.)

- The Department should continue to work towards the adopting of regulations regarding the leasing of offices, space and other facilities pursuant to subsection (o) of Section 4b-23 of the General Statutes. This recommendation is being repeated. (See Recommendation 5.)

- The Department should comply with the requirements of Section 3-21d of the General Statutes, which requires that reports on completed capital works projects be submitted to the State Bond Commission and the General Assembly. This recommendation is being repeated. (See Recommendation 6.)

- The Department of Public Works should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to DPW's responsibility for reviewing general contractor's subcontracts. This recommendation is being repeated. (See Recommendation 7.)

- The Department should improve its administration of the Public Works Capital Projects Revolving Fund. All project costs and, when appropriate, the applicable General Fund appropriation should be billed. Billings for projects financed by other state and quasi-public agencies should be processed in a timely manner. Also, all applicable collections should be credited to the unfunded charges receivable balance. In addition, the

Department should regularly reconcile the Fund's unreimbursed charges receivable to project billings and receipts. This recommendation is being repeated. (See Recommendation 8.)

- The Department should continue to 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. This recommendation is being repeated. (See Recommendation 9.)

- The Department should improve its procedures over the timely reporting of facility project costs to client agencies. This recommendation is being repeated. (See Recommendation 10.)

- The Department of Public Works should discontinue the use of the Funds Awaiting Distribution account for transacting state property operations. This recommendation is being repeated. (See Recommendation 11.)

- The Department should develop and implement written procedures to provide accountability of the antiques, art objects, carpets and other items loaned to the state by the Governor's Residence Conservancy, Inc. The Department should conduct an annual inventory of the Residence and report the value of Governor's Residence Conservancy, Inc. collection on the CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form. This recommendation is being repeated. (See Recommendation 12.)

- The Department of Public Works should maintain, reconcile and report inventory assets as prescribed by the State Property Control Manual. This recommendation is being repeated. (See Recommendation 13.)

Current Audit Recommendations:

1. **DPW should adhere to accounts payable internal control procedures. The controls should include contractual cost and services reconciliations as well as reviews of supporting documentation.**

   Comment:

   Our review of expenditures revealed that the agency did not routinely review contractual provisions prior to making payments. This practice resulted in payment errors.

2. **DPW should finalize and put into practice construction claims procedures. These procedures should include a requirement for a systematic review of construction project records to determine if there is a likely basis for potential claims against construction consultants and/or construction contractors.**

Comment:

The DPW lacks a claims procedure manual. Without formal procedures there is a heightened risk that construction claims and disputes against the state will not be managed in the state's best interests.

3. **DPW should design and put into operation a system to monitor lease revenue, including lease revenue receivables.**

Comment:

We noted that DPW did not maintain a comprehensive database of leases.

4. **DPW should, in conjunction with the Office of Policy and Management, where appropriate, establish procedures relating to compliance with the requirements of Section 4b-23 of the General Statutes. Section 4b-23 requires the department to review State Facility Plan requests submitted by state agencies to the Office of Policy and Management. Section 4b-23 also requires the department to monitor compliance with the approved State Facility Plan and to obtain approvals from the State Bond Commission, the Governor, and the State Properties Review Board for certain deviations from the plan.**

Comment:

DPW did not receive the State Facility Plans from OPM until the Fall of 2008. The department performed a review of the plans as required, but did not prepare the required report. In the case of leased space cost forecasts exceeding the Plan by 10 percent, required approvals were not obtained from the State Bond Commission and the Governor.

5. **DPW should continue to work toward the adoption of regulations regarding the leasing of offices, space and other facilities pursuant to Section 4b-23, subsection (o), of the General Statutes.**

Comment:

Subsection (o) of Section 4b-23 of the General Statutes requires that not later than January 1988, the DPW, in consultation with the Secretary of the Office of Policy and Management (OPM) and the State Properties Review Board (Board), adopt regulations regarding state leasing of offices, space or other facilities. The regulations are to set forth the procedures that the department, OPM and the Board must follow in carrying out their leasing responsibilities. As of April 2011, the required regulations have not been finalized.

6. **DPW should comply with the requirements of Section 3-21d of the General Statutes, which requires that reports on completed capital works projects be submitted to the State Bond Commission and the General Assembly.**

Comment:

DPW has not reported to the Secretary of the State Bond Commission the data required by statute relating to the projects completed in the fiscal years ended June 30, 2007, 2008 and 2009. Furthermore, the related data on an annual basis was not presented to the requisite joint standing committee of the General Assembly.

7. **DPW should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to its responsibility for reviewing general contractor subcontracts.**

Comment:

Section 4b-95 deals, in part, with requirements concerning the general contractor's use of subcontractors. Pursuant to subsection (e) of Section 4b-95, DPW is required to periodically review the general contractor's subcontracts to ensure statutory compliance and prepare a written report of that review. The department does not prepare written reports setting forth its findings and conclusions.

8. **DPW should improve its administration of the Capital Projects Revolving Fund. All project costs and, when appropriate, the applicable General Fund appropriation should be billed. Billings for projects financed by other state and quasi-public agencies should be processed in a timely manner. Also, all applicable collections should be credited to the unfunded charges receivable balance. In addition, the department should maintain and regularly reconcile the fund's unreimbursed charges receivable to project billings and receipts.**

Comment:

As of June 2010, the fund had a negative cash balance of approximately $5.5 million. A comprehensive report of the total unreimbursed charges receivable at June 30, 2008, 2009 and 2010 was not available. A regular reconciliation of the fund's unreimbursed charges receivable to project billings and receipts could help ensure that project billings processed through the system and the resulting unreimbursed charges receivable amounts are accurately recorded.

9. **DPW should continue to 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:

Our review of the processing system for the capital Projects Revolving Fund revealed that the system does not facilitate the production of an aging of unreimbursed charges receivable report, or a classification of receivables by type report (such as projects in design not yet bonded, technical services provided to other state agencies, completed projects with no funding available).

DPW was not able to provide us with a comprehensive report of the unreimbursed charges for fiscal years ended June 30, 2008, 2009 and 2010.

10. DPW should improve its procedures over the timely reporting of facility project costs to client agencies.

Comment:

We noted deficiencies related to the timely reporting of facility project costs. DPW reports project costs at three major landmarks in a project's life. These are the issuance of an Insurance Notification/Transfer Form, the issuance of a Certificate of Completion, and at Project Accounting Closeout. The Insurance Notification/Transfer Form, which is supposed to be issued contemporaneously with the Certification of Substantial Completion gives an estimate of the construction costs for the prime contractor only. Other cost elements such as design costs, hazardous material removal costs, costs for construction not performed by the prime contractor, and, allocated department labor costs, are not included. Such omitted costs are often material. Agencies that rely solely upon Insurance Notification/Transfer Form cost data for annual inventory reporting are underreporting the cost of its buildings. The full cost of a construction project is provided in connection with the issuance of a Certificate of Completion. However, we were told that a Certificate of Completion might not be issued until a year after the issuance of a Certificate of Substantial Completion, and in cases involving litigation, the time period could be much longer. This means that any initial CO-59 underreporting of buildings at the substantial completion stage might not be corrected for two or more years in extreme cases. The Insurance Notification/Transfer Forms, the Certificate of Acceptance, and the Asset Valuation Memorandum cost data provided to state agencies give a single dollar figure and do not provide the kind of breakdown required to determine which cost elements should be capitalized and which should be expensed.

11. DPW should discontinue the use of the Funds Awaiting Distribution account for transacting state property operations. The net proceeds from real estate sales should be transferred to the General Fund. Expenditures for the disposal of state property should be accurately accounted for and attributable to the specific property sold. The unidentified balance in the Funds Awaiting Distribution account should be transferred to the General Fund.

Comment:

Since December 1996, DPW has been depositing real property sales receipts to FAD instead of to the General Fund. It also has been paying related real property expenses out of FAD. Real property receipts, when applicable, should be recorded as General Fund revenue when received. Property sales expenses should be paid out of monies budgeted or bonded for that purpose and not paid from FAD. Records show that as of January 5, 2011, approximately $8.2 million of property sales and approximately $3.7 million of property sales related expenses have been processed through FAD. Of the $8.2 million in property sales, $4.1 million was for the sale of Fairfield Hills Hospital. The $4.1 million was transferred to DMHAS.

12. DPW should develop and implement written procedures to provide accountability of the antiques, art objects, carpets and other items loaned to the state by the Governor's Residence Conservancy, Inc. The department should conduct an annual inventory of the Residence and report the value of Governor's Residence Conservancy, Inc, collection on the CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form.

Comment:

DPW's representative acts as the primary custodian of Governor's Residence Conservancy, Inc. inventory on display at the Governor's residence. Although the department has responsibility for the care and safeguarding of these items, the department does not have written procedures detailing the control of this extensive inventory.

13. DPW should maintain, reconcile and report inventory assets as prescribed by the State Property Control Manual.

Comment:

Our examination of the DPW's equipment inventory revealed deficiencies, which we detailed. These deficiencies should be corrected. In the future, the department should properly maintain, reconcile, and report inventory assets as prescribed by the State Property Control Manual.

14. DPW should take greater care in properly coding items purchased that require accountability as minor equipment. The department should identify and inventory controllable property.

Comment:

We noted that P-Card purchases were incorrectly coded. Due to the miscoding of these items, they were not added to the inventory of controllable assets. In addition, other minor equipment items purchased were not included in the inventory of controllable assets.

15. DPW should implement and adhere to applicable petty cash internal control procedures.

Comment:

Our examination of the DPW's petty cash fund revealed deficiencies, which we detailed. These deficiencies should be corrected.

16. **DPW should allow the Project Accounting Unit read-only access to the Prolog database system.**

    Comment:

    We noted that the Prolog database system could not be accessed by the Project Accounting Unit. Access to this information is necessary to assure accurate project payments by the Project Accounting Unit.

17. **DPW should comply with the software inventory requirements contained in the State Property Control Manual.**

    Comment:

    Our examination of DPW's software inventory revealed deficiencies, which we detailed. These deficiencies should be corrected. In the future, the department should properly maintain, reconcile, and report software assets as prescribed by the State Property Control Manual.

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, 2007, 2008 and 2009. This audit was primarily limited to performing tests of the agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the agency are complied with, (2) the financial transactions of the agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2007, 2008 and 2009, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

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

In planning and performing our audit, we considered the Department of Public Works' internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the agency's internal control. We consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements:

Recommendation 2 – Lack of a claims procedure manual
Recommendation 3 – Lack of a comprehensive database of leases
Recommendations 8 and 9 – Inadequate management and financial reporting of the Capital Project Revolving Fund
Recommendation 11 - Incorrect use of the Funds Awaiting Distribution Fund
Recommendation 13 - Equipment inventory deficiencies
Recommendation 14 – Controllable assets not coded properly or indentified
Recommendation 17 – Inadequate software inventory

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the agency being audited will not be prevented or detected by the agency's internal control.

Our consideration of the internal control over the agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the Capital Project Revolving Fund deficiencies described above are material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department of Public Works complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed certain instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Condition of Records and Recommendations sections of this report. Those findings are as follows:

- The Department of Public Works, contrary to the requirements of the State Comptroller, has been depositing real property sales revenue to the Funds Awaiting Distribution account and paying the expenses of real property sales from that account.

- The Department of Public Works, contrary to the requirements of Section 4b-23 of the General Statutes, does not report on proposed State Facility Plan requests. Further, it does not obtain all of the required approvals (Governor, State Properties Review Board, and State Bond Commission, as applicable) when actual leases or capital projects costs exceed by 10 percent or more the amounts in the approved State Facility Plan.

- The Department of Public Works, contrary to the requirements of Section 3-21d of the General Statutes, does not file reports with the State Bond Commission upon completion of each construction project. Nor did the DPW submit an annual report to the General Assembly for 2008 and 2009 on those completed projects.

- The Department of Public Works failed to finalize regulations regarding the leasing of offices, space or other state facilities as required by subsection (o) of Section 4b-23.

We also noted certain matters which we reported to agency management in the accompanying Condition of Records and Recommendations sections of this report.

The Department of Public Works' responses to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the Department of Public Works' responses and, accordingly, we express no opinion on them.

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

CONCLUSION

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

Josepha M. Brusznicki
Principal Auditor

Approved:

John C. Geragosian	Robert M. Ward
Auditor of Public Accounts	Auditor of Public Accounts