STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF TRANSPORTATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002

AUDITORS OF PUBLIC ACCOUNTS
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We have examined the financial records of the Department of Transportation as they pertain to that Agency's operations for the fiscal years ended June 30, 2001 and 2002.

The financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants and evaluating the Department's internal control structure policies and procedures established to ensure such compliance. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

The Department of Transportation operates generally under Titles 13a and 13b of the General Statutes. During the audited period the Department was organized into the following five Bureaus, each administered by a Bureau Chief: Engineering and Highway Operations, Aviation and Ports, Public Transportation, Finance and Administration, and Policy and Planning.

The Bureau of Engineering and Highway Operations is responsible for design, construction, inspection, maintenance, and improvement of the State highways and bridges. It administers the acquisition of highway rights of way and the lease and sale of highway property. It also administers programs aiding local governments in maintaining and improving roads and improving highway safety. It operates, among other facilities, four district offices and 53 maintenance garages.

The Bureau of Aviation and Ports operates six State-owned airports, the State Pier in New London, as well as two ferry services on the Connecticut River. It also licenses and regulates private aviation facilities, State harbor and river pilots and agents of foreign vessels. Its most significant financial operations are related to the State's largest airport - Bradley International Airport. Financial operations at that airport are accounted for in the Bradley International Airport Operations Fund, an enterprise fund, and carried out under the terms of the bond indenture, which secures revenue bonds issued to finance major renovations at the airport. Section 15-101*l* of the General Statutes originally authorized the issuance of Airport revenue bonds, of which $100,000,000 was issued in 1982. These were redeemed and replaced by an issue of $94,065,000 in refunding bonds in 1992. On March 1, 2001, Bradley International Airport issued $213,180,000 in revenue bonds. These bonds are secured by and payable solely from the gross operating revenues generated by the Airport, as well as other receipts, funds or monies pledged in the bond indenture. Total Airport revenue and refunding bonds outstanding amounted to $263,935,000 as of June 30, 2002. Revenues derived from airport operations are deposited with a corporate trustee and applied as provided for in the indenture.

The Bureau of Public Transportation is responsible for the operations of three mass transit systems: Metro-North Railroad, the Connecticut Transit bus system and the Shore Line East rail commuter service. The Metro-North Railroad, an agency of the New York Metropolitan Transportation Authority, operates commuter train service between New Haven and New York and on branch lines to Danbury and Waterbury in partnership with the Department of Transportation. The Connecticut Transit system is comprised of the public bus service in Hartford, New Haven, and Stamford. A corporate agent under contract with the Department operates the Connecticut Transit system. The Shore Line East Rail Commuter Service is operated by Amtrak and provides service between New Haven and New London. The State of Connecticut, through the Department of Transportation, subsidizes the operating deficits of these three mass transit systems. The Bureau of Public Transportation is also responsible for the many projects needed to maintain these systems and for aid and assistance to local and regional mass transit districts and for the regulation of motor carriers.

The Bureau of Finance and Administration provides administrative, budgetary, financial, personnel, information management, and support services to all bureaus of the Department.

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

The current Commissioner of Transportation, James F. Byrnes, Jr., was originally appointed Acting Commissioner of Transportation, effective January 31, 2002. He served in that capacity until he was appointed Commissioner of Transportation on March 4, 2003. He replaced James F. Sullivan, who retired from State service on January 31, 2002. James A. Adams was appointed Deputy Commissioner of Transportation, effective August 15, 1997, and continues to serve in that capacity. Louis S. Cutillo was appointed Deputy Transportation Commissioner, Bureau of Aviation and Ports, effective January 7, 2001, and continues to serve in that capacity.

Significant Legislation:

Significant legislation affecting the Department was passed by the General Assembly or became effective during the audited period. Some of the more significant legislation is presented below:

Public Act 01-75, effective June 6, 2001, amended Section 13a-76 of the General Statutes by requiring environmental remediation costs to be considered in condemnation proceedings by the Department of Transportation.

Public Act 01-105, effective June 20, 2001, allows the Commissioner of Transportation to designate the Hartford-New Britain busway project as a "design build" project on a total cost basis. It allows the Commissioner to enter into a contract with a single private developer for any construction that needs to be done in order to successfully accomplish the project.

Public Act 01-143, effective July 6, 2001, amended Section 32-425 to 32-430 of the General Statutes revising the responsibilities of the Connecticut Coastline Port Authority and changing its name to the Connecticut Port Authority.

Public Act 01-2 (June Special Session), effective July 2, 2001, established an Eastern Connecticut Transportation Access Project to provide transportation to jobs in the Eastern Connecticut Service Area for persons who reside in the Greater Hartford, Greater New Haven, or Eastern Connecticut Service Areas.

Public Act 01-5 (June Special Session), effective July 2, 2001, established the Connecticut Transportation Strategy Board, the Bradley International Airport Board of Directors, the Bradley International Community Advisory Board, and abolishes the Bradley International Airport Commission. The Connecticut Transportation Strategy Board and the Bradley International Airport Board of Directors are discussed in the following sections of this report.

Public Act 01-5 also established the Bradley International Community Advisory Board. It consists of chief elected officials from East Granby, Suffield, Windsor, and Windsor Locks. The Community Advisory Board must work with the administration of the airport and use the Board of Directors as a resource.

Public Act 01-5 also amended Section 15-101*l* of the General Statutes by removing the previous aggregate cap of $294,000,000 for Bradley International Airport related bonds. It specifies that Airport revenue shall be used to repay such bonds, including any revenue from Federal passenger facility charges that may be allowed.

Public Act 01-6 (June Special Session), effective July 1, 2001, amended Section 32-305 of the General Statutes to grant funding from the tax on hotel rooms to the Department of Transportation for the operation of the Connecticut River ferries.

Public Act 02-123, effective June 7, 2002, amended Section 13b-4c of the General Statutes to exclude any State funded or assisted elderly transportation services that are not available to the general public from the required review by the Commissioner of Transportation.

Public Act 02-123 also amended Section 13b-36, subsection (a), of the General Statutes to allow the Department to apply the process of eminent domain used for acquisitions of property for State highways for the acquisitions of property for other transportation services.

Public Act 02-132, effective October 1, 2002, amended Sections 13a-74 and 13a-76 of the General Statutes so that the responsibility for approving cases of assessment damages over one hundred thousand dollars is assigned to a judge of the Superior Court or a judge trial referee.

Public Act 02-134, effective July 1, 2002, established that when certain contracts to provide food or beverage services at Bradley International Airport are taken over by another food or beverage company, current employees must be retained for a ninety-day probationary period after the take over. New contractors may only terminate employees with poor attendance or performance records, and if any layoffs must occur, they must be done on a seniority basis.

Public Act 02-1 (May Special Session), effective July 1, 2002, extended the availability of funds appropriated to the Department of Transportation for the operation of busses for the fiscal year ending June 20, 2002, an additional year, until June 30, 2003.

BOARDS AND AUTHORITIES:

Connecticut Transportation Strategy Board:

The Connecticut Transportation Strategy Board (CTSB) is composed of fifteen members; the Commissioners of Transportation, Environmental Protection, Public Safety, Economic and Community Development, and the Secretary of the Office of Policy and Management, five representatives of the private sector, and five representatives of regional transportation investment areas. The purpose of the Board is to propose strategy ideas to the members of the legislature. The goals of the Board include improving the mobility of the people and of goods, enhance connectivity to regional, national, and global economies, and to enhance safety and security.

The CTSB is required to submit its strategies to the legislature, which can be either passed as law or rejected. In compliance with statute, its first strategy was submitted to the legislature by January 15, 2002; we note that a revised version was submitted on January 6, 2003, instead of by the December 15, 2002 statutory requirement. By statute, the strategy is required to be revised at least once every two years after that date. The strategy must include specific programs, projects, studies, and initiatives. The CTSB must also annually review and make recommendations on the proposed Department of Transportation operating and capital budgets, as they relate to the adopted strategy.

The Board was funded by an appropriation from the State General Fund. Expenditures for the fiscal year ended June 30, 2002, the first year of operation, totaled $2,796,472. The majority of expenditures were for consultant services, grant awards to regional planning agencies and regional transit districts, and to Amtrak, for the extension of Shoreline East services to Stamford.

Bradley Airport Board of Directors:

The Bradley Airport Board of Directors consists of seven members. These members include the Commissioners of Transportation and Economic Development, a representative from the CTSB, a member of the Bradley International Community Advisory Board, and three private sector members. Each member serves a four-year term, the first group serving until June 30, 2005. The Board of Directors is to advocate the airport's interests, make sure resources are being fully utilized, and to ensure that there is an appropriate mission statement and goals in place for the airport.

According to statute, the Board must implement and maintain an organizational and management structure that will allow Bradley International Airport to accomplish its goals. The Board must approve the annual operating and capital budgets for the airport. The Board must also advocate the airport's interest in economic development, approve the master plan of the airport, establish and review policies and plans for the airport and ensure that the appropriate independent expertise is available. The Board is required to adopt rules to conduct business and establish a code of ethics for its members. The Board must also put procedures in place to review significant contracts. The Board is required to submit an annual report to the governor and legislature.

Connecticut Port Authority:

The Connecticut Port Authority is a quasi-public agency created for promoting economic development for all ports in the State, through planning, coordinating, and marketing in support of the entities operating the ports together with the establishment of foreign-trade zones.

A seventeen-member Board of Directors governs the Authority. Membership includes the Commissioner of the Department of Transportation, who serves as chairperson, and the Commissioner of the Department of Economic and Community Development, both of whom are ex officio voting members, six directors appointed by the Governor, and six directors appointed by the President Pro Tempore of the Senate, the Speaker of the House of Representatives, and the majority and minority leaders of the Senate and the House, respectively. Additionally, three port professionals, who serve as ex-officio nonvoting members, are also designated members.

The Authority is empowered to solicit, receive and accept aid, grants or contributions of money, property or labor, or other things of value, to be used and applied to carry out its purpose. The Authority is also empowered to hire employees and to engage consultants, attorneys and other professionals as may be necessary. The Authority is also authorized to appoint an executive director to serve as the chief administrative and operational officer of the Authority.

During the audited period, the Authority's expenditures were included in appropriations of the Special Transportation Fund administered by the Department of Transportation - Bureau of Aviation and Ports. Section 32-426, subsection (f), of the General Statutes authorizes the Commissioner of Transportation to provide administrative or other services to the Authority within available appropriations. No appropriations were made to the Authority itself, nor was it responsible for the management of any funds. Expenditures, primarily for the travel and conference costs of board members, and office and promotional supplies, totaled $10,429 and $8,162 during the fiscal years ended June 30, 2001 and 2002, respectively.

As a quasi-public agency, the Authority is subject to the requirements included in Sections 1-120 through 1-125 of the General Statutes. As such it was required to annually contract for an audit to determine whether it has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance. Because the Connecticut Port Authority did not receive its own funding, and did not employ its own personnel during the audited period, the Authority did not seek to have such an audit performed.

The Auditors of Public Accounts examined the financial records of the Connecticut Port Authority as a separate entity for the fiscal years ended June 30, 2000 and 2001. No findings or recommendations resulted from that review. We have examined the financial records of the Connecticut Port Authority for the fiscal year ended June 30, 2002, as part of this audit of the Department of Transportation.

RÉSUMÉ OF OPERATIONS:

The operations of the Department are funded from various sources. Appropriations for continuing operations, including highway maintenance, minor highway and bridge renovation projects, and commuter rail and bus operations are included in the Special Transportation Fund. Major capital projects for roads, bridges, mass transit equipment and facilities, and airports are financed from the Infrastructure Improvement Fund, a Capital Project Fund. The use of separate miscellaneous Capital Projects Funds has been phased out. Separate State funds are used to account for other operations. They include the Public Bus Transportation Revenue Fund, the Local Bridge Revolving Fund and the Bradley International Airport Operations Fund. For the audited period, town aid grants for roads and bridges were funded from the General Fund.

Schedules of total receipts and expenditures for all funds and summarized expenditures from the Special Transportation Fund and Infrastructure Improvement Fund for the fiscal years ended June 30, 2000, 2001, and 2002, are presented below for comparative purposes:

Schedule of Receipts - by Fund:

	Fiscal Year Ended June 30,		
	2000	**2001**	**2002**
General Fund	$ 12,305	$ 11,776	$ 16,491
Special Transportation Fund	137,012,769	126,319,852	131,158,958
Public Bus Transportation Revenue Fund	22,701,972	22,960,320	22,465,714
Infrastructure Improvement Fund	375,221,579	388,553,997	477,684,775
Miscellaneous Capital Project Funds	987,591	411,355	964
Bradley International Airport Operations Fund	22,952,067	23,560,843	29,925,686
Local Bridge Revolving Fund	2,312,583	1,162,747	321,245
All Other Funds	60,000	256,315	-
Total Receipts	$561,260,866	$563,237,205	$661,573,833

Schedule of Expenditures - by Fund:

	Fiscal Year Ended June 30,		
	2000	**2001**	**2002**
General Fund	$ 2,218,038	$ 34,856,862	$ 37,653,271
Special Transportation Fund	430,345,328	417,469,275	449,867,295
Public Bus Transportation Revenue Fund	24,526,899	22,201,941	22,819,712
Infrastructure Improvement Fund	561,500,937	567,189,146	706,902,492
Miscellaneous Capital Project Funds	7,416,433	130,583	2,609
Bradley International Airport Operations Fund	22,050,946	23,335,021	28,548,170
Local Bridge Revolving Fund	5,998,836	4,144,366	4,375,385
All Other Funds	332,123	29,896	191,743
Total Expenditures	$1,054,389,540	$1,069,357,090	$1,250,360,677

Special Transportation Fund - Expenditures:

	Fiscal Year Ended June 30,		
	2000	**2001**	**2002**
Personal Services	$ 99,884,925	$111,681,244	$128,528,468
Other Expenses	30,311,234	35,804,177	29,602,758
Highway Planning and Research	2,473,636	2,138,918	2,695,211
Highway and Bridge Projects	10,030,719	12,877,801	14,334,256
Handicap Access Program	7,347,798	7,411,906	8,728,800
Rail Operations	62,811,983	62,593,587	62,938,108
Bus Operations	61,710,890	66,883,960	70,589,517
Dial-A-Ride	2,500,000	2,500,000	2,500,000
Amtrak Pass Through Funds	20,130,989	3,916,034	2,368,784
Town Aid Grants	34,857,231	-	-
Highway and Bridge Renewal Equipment	12,076,412	13,476,124	3,896,556
Transit Equipment	-	8,207,717	20,969,030
General Agency Equipment	1,176,346	1,489,666	1,830,367
Airport Improvement - Federal Share	1,124,525	1,629,660	5,793,789
Highway Construction - Federal Share	71,628,766	73,132,099	79,660,885
Transit Assistance - Federal Share	710,490	2,842,643	3,081,698
Non-Urban Transit Assistance - Federal Share	2,737,235	3,811,829	2,711,949
Highway Safety - Federal Share	1,824,037	3,829,384	6,718,256
All Other	7,008,112	3,242,526	2,918,863
Total Expenditures	$430,345,328	$417,469,275	$449,867,295

Infrastructure Improvement Fund - Expenditures:

	Fiscal Year Ended June 30,		
	2000	**2001**	**2002**
Personal Services	$ 55,327,699	$ 51,933,258	$ 54,025,173
Employee Fringe Benefits	24,325,266	21,506,047	24,812,442
Other Expenses	114,110,833	125,679,996	146,355,184
Highway and Transit Facility Projects	347,724,446	342,997,081	448,732,310
Land	17,859,958	24,543,382	23,037,612
Equipment	2,152,735	529,382	9,939,771
Total Expenditures	$561,500,937	$567,189,146	$706,902,492

Revenues and Receipts - Infrastructure Improvement and Special Transportation Funds:

The most significant component of Department revenues during the audited period was the operations of the Infrastructure Improvement Fund. Receipts for the Fund totaled $388,553,997 and $477,684,775 for the 2000-2001 and 2001-2002 fiscal years, respectively, as compared to $375,221,579 for the 1999-2000 fiscal year. Revenues for the Special Transportation Fund totaled $126,319,852 and $131,158,958 for the 2000-2001 and 2001-2002 fiscal years, respectively, as compared to $137,012,769 for the 1999-2000 fiscal year.

The reimbursement of expenditures partly funded by Federal grants was the major source of receipts for the Department of Transportation. The principal portion of these receipts were deposited to the Infrastructure Improvement Fund, as a reimbursement of construction project costs, with a significant amount also deposited to the Special Transportation Fund. Federal grant receipts in the Infrastructure Improvement Fund totaled $387,256,290 and $474,035,151 for the fiscal years ended June 30, 2001 and 2002, respectively, as compared to $369,250,100 for the 1999-2000 fiscal year. The significant increase in receipts in the Infrastructure Improvement Fund over the audited period, and as compared to the 1999-2000 fiscal year, was primarily from an increase in the number of Federally reimbursed highway construction projects.

Federal grant receipts for the Special Transportation Fund totaled $81,976,672 and $97,725,388 for the fiscal years ended June 30, 2001 and 2002 respectively, as compared to $78,453,300 for the 1999-2000 fiscal year. Other major receipts deposited to the Special Transportation Fund included motor carrier permit fees, royalties from highway concessions, rental income, and sales of surplus real property.

Expenditures - Infrastructure Improvement Fund:

Expenditures for highway and transit construction projects are accounted for in the Infrastructure Improvement Fund, one of the Capital Projects Funds. Expenditures of the Infrastructure Improvement Fund totaled $567,189,146 and $706,902,492 for the fiscal years ended June 30, 2001 and 2002, respectively, as compared to $561,500,937 for the fiscal year ended June 30, 2000. There was a net increase in expenditures of $5,688,209 in the 2000-2001 fiscal year as compared to the 1999-2000 fiscal year, and a further net increase in expenditures of $139,713,346 in the 2001-2002 fiscal year, as compared to the 2000-2001 fiscal year. The significant increases in expenditures were attributable to changes in the level of activity in major highway and bridge projects. Significant projects included: the reconstruction and improvement of various parts of I-95 in the Bridgeport area, replacement of the Tomlinson bridge in New Haven, reconstruction of the Route 15 bridge over the Housatonic River in Milford, and the reconstruction of the New Haven rail yard and repair shops. In addition, new buses were purchased for Connecticut Transit.

Expenditures - Special Transportation Fund:

Expenditures from the Special Transportation Fund totaled $417,469,275 and $449,867,295 for the fiscal years ended June 30, 2001 and 2002, respectively, as compared to $430,345,328 for the fiscal year ended June 30, 2000. There was a net decrease in expenditures of $12,876,053 in the 2000-2001 fiscal year, as compared to the 1999-2000 fiscal year, and a net increase in expenditures of $32,398,020 in the 2001-2002 fiscal year, as compared to the 2000-2001 fiscal year.

Payments for personal services, subsidies for bus and rail transit, equipment for highway maintenance and transit services, and the maintenance of highways and bridges, including snow and ice removal, were the major expenditures made by the Special Transportation Fund. The decrease in expenditures in the 2000-2001 fiscal year was primarily the result of transferring the payment of town aid grants from the Special Transportation Fund to the General Fund and a reduction in the pass through funding available from Amtrak. The decrease was partially offset by increases in personal services and equipment expenditures, and increases in the amount of Federally funded program activities. The increase in expenditures in the 2001-2002 fiscal year over the previous fiscal year was the result of continued increases in those categories.

The increase in personal services expenditures over the audited period was primarily from collective bargaining wage increases. The number of Department employees has remained relatively constant; there were 3,505 filled positions for Department operations and 118 filled positions for Bradley International Airport operations, as of June 30, 2002. This is compared to the total filled positions as of June 30, 2000, which were 3,524 for Department operations and 119 for Bradley International Airport.

Expenditures - General Fund:

The Department received appropriations from the State General Fund during the audited period. General Fund expenditures, for town aid grants for roads and bridges, were $34,856,862 and $37,653,271 for the fiscal years ended June 30, 2001 and 2002, respectively.

Public Bus Transportation Revenue Fund:

Receipts from Connecticut Transit bus fares are deposited to the Public Bus Transportation Revenue Fund. Revenues of the Fund totaled $22,960,320 and $22,465,714 for the fiscal years ended June 30, 2001 and 2002, respectively. Expenditures from the Fund, for Connecticut Transit operations, were $22,201,941 and $22,819,712 for the fiscal years ended June 30, 2001 and 2002, respectively.

Bradley International Airport Operations Fund:

Income from airport parking, car rentals, landing fees, and concessions at Bradley International Airport is reflected in receipts of the Bradley International Airport Operations Fund. Revenues of the Fund totaled $23,560,843 and $29,925,686 for the fiscal years ended June 30, 2001 and 2002, respectively. Expenditures from the Fund, for airport operations, primarily for the cost of payrolls and fringe benefits, were $23,335,021 and $28,548,170 for the same fiscal years, respectively.

Bradley International Parking Operations Fund:

The Bradley International Parking Operations Fund was established to account for the revenue collected by the operator of certain parking facilities at the Airport. Revenues of the Fund are held by a trustee and are used to repay bonds issued to fund the construction of garage parking facilities.

Local Bridge Revolving Fund:

The Local Bridge Revolving Fund is used for granting loans to municipalities for the repair, rehabilitation or replacement of local bridges. Revenues of the Fund, primarily from loan repayments and interest on investments, totaled $1,162,747 and $321,245 for the fiscal years ended June 30, 2001 and 2002, respectively. Expenditures from the Fund, for grants and loans, were $4,144,366 and $4,375,385 for the fiscal years ended June 30, 2001 and 2002, respectively.

State Funds Awaiting Distribution Fund:

Receipts credited to the Department's account in the State Funds Awaiting Distribution Fund, totaled $1,131,202 and $2,790,485 for the fiscal years ended June 30, 2001 and 2002, respectively. Expenditures from the Department's account in the Fund were $1,143,310 and $864,507 for the same fiscal years, respectively.

PROGRAM EVALUATION:

Our audit report, for the fiscal years ended June 30, 1999 and 2000, included a review of previous program evaluations of the Operation Lifesaver Committee, the Department's Maintenance Management System, and the Department's surplus real property and real property control systems. That report also included new program evaluations of the Department's application of "Value Engineering" analysis for highway construction projects and the Department's use of construction change orders.

During this audit, we reviewed those program evaluations and the corrective action implemented by the Department. In addition, we reviewed the program evaluation of the Coastline Port Authority, which was included in a separately issued report in previous years. We also conducted a new program evaluation of the records inspection procedures for various types of construction projects, and a brief review of the security costs for Bradley International Airport.

Follow-up of Prior Program Evaluation - Operation Lifesaver Committee:

In our previous audit we assessed the status of recommendations developed as part of a program evaluation of the Operation Lifesaver Program. We had noted that two vacancies on the nine-member Committee that were not filled for the entire audited period and that one appointed member had never attended a meeting.

In response to our findings, the Department stated that it would propose an amendment to the General Statutes so that three members of the Committee would be the Commissioners or designees of the Department of Transportation, Department of Public Safety and the Department of Education. These members, would appoint, by unanimous consent, four other Committee members - one who will serve as a representative from a local law enforcement agency, one from the railroad industry, one from a parent/teacher association, and lastly, a local government official. Legislation would also be proposed to specify that, if such appointed representatives do not attend the meetings, they are deemed to have automatically resigned. Our current review disclosed the following:

Criteria: The Operation Lifesaver Committee was authorized by Section 13b-376 of the General Statutes. The nine-member Committee is to be comprised of the Commissioners, or their designees, of the Department of Education, the Department of Public Safety, and the Department of Transportation, who serves as chairperson, together with six appointees of the General Assembly leadership, each representing various concerned groups.

Condition: Our current review found that Committee attendance for the audited period has improved somewhat. However, the Committee still operates without full membership and many Committee members do not regularly attend meetings. One Committee meeting out of the six held during the audited period did not have a quorum, and one Committee position has remained unfilled by the legislature.

The Department requested legislation to correct this condition during the 2003 General Assembly. The proposed legislation was not passed.

Effect:	The Operation Lifesaver Committee is not operating in compliance with the statutory requirements related to its organization and function.
Cause:	The legislative leadership did not appoint one of the six public Committee members until October 2002. The other public position remains unfilled. In addition, there were other members of the Committee that did not show interest in regularly attending meetings.
Conclusion:	The Department has made all efforts possible to improve the operation of the Operation Lifesaver Committee. The legislation requested to restructure the membership of the Operation Lifesaver Committee was not passed by the General Assembly. Therefore, we are considering this Recommendation to be implemented.

Follow-up of Prior Program Evaluation - Maintenance Management System:

Our previous audit reports contained recommendations from a program evaluation of the Department's Maintenance Management System (MMS). The MMS provides reports that should enable the Department's highway maintenance management to review actual productivity and accomplishments of work crews and compare them to planned amounts. The reports should provide a comparison of reported daily attainments against established performance standards so that problems could be identified, and corrective action implemented, if significant variances are found. Our original audit report, and our follow-up review, found areas in which we believed the Department's Maintenance Management System could operate more effectively. We noted that the activity reports generated by the MMS showed significant variances between planned and actual activity, to the extent that we questioned their value for planning and controlling purposes. For individual activities we found variances from 473 percent over planned hours to 91 percent under planned hours. For the same activity between districts, we found total variances from 53 percent over planned hours to 14 percent under planned hours. We also found a cost per unit that varied from $99 to $2,425 year to year for the same activity, because of significant variances in reported accomplishments, although expenditures and annual hours reported were approximately the same. Our follow-up review also found that the equipment expenditures were drastically overstated in the calculation of unit costs.

Our current audit reviewed the annual cost model reports for the audited period. We found that, in general, improvements were made. The number and size of unexplained variances has been reduced. Errors noted in the previous audit were corrected, and we found equipment costs to be calculated correctly. However, we still found significant year to year variances in planned and actual activity, and in reported unit costs that were not readily explained. For example, in District 1, nonproductive time was budgeted at 9,090 hours for the 2001-2002 fiscal year; 40,759 actual hours were reported. In District 2, 18,265 hours were budgeted for the same activity, and 47,496 actual hours were reported. The two other Districts showed minor variances for the same activity. Such discrepancies were noted in our previous audits, and we note that these errors should have been corrected during the subsequent year's budget.

For reported unit costs, our current audit found that one activity – sweeping, had a unit cost of $314 per lane-mile in the 2000-2001 fiscal year, and $88 in the 2001-2002 fiscal year. In the 1998-

1999 and 1999-2000 fiscal years the unit cost for this activity was $25 per lane-mile. Another example, the activity - paint pavement lines, had a unit cost of $576 per lane-mile in the 2000-2001 fiscal year, $941 per lane-mile in the 2001-2002 fiscal year, and $221 and $269 per lane-mile in the 1998-1999 and 1999-2000 fiscal years, respectively. In response to our inquiry, the Department's management attributed the variance to reporting errors.

Department officials indicated that they could possibly be relieved of the Federal Highway Administration mandate that the State employ such a comprehensive Maintenance Management System. This matter should be researched, and if possible, the current system could be changed to require less administrative overhead.

Our current review investigated the possibility of making further applications for the Maintenance Management System, including creating efficiencies in highway maintenance staffing and procedures, and equipment utilization and costs. We found that with the Department operating this system within available resources, and because of the current limitations in personnel, expanding the applications of this system would not be feasible.

We conclude that the application of the Maintenance Management System as a planning and budgeting tool has improved. However, there are still problems with accurate reporting, but more importantly, in making effective use of the system to the extent that the cost of its operation is justified. We are repeating the Recommendation as follows:

Criteria: Performance measurement can determine how effectively and efficiently that highway maintenance resources are being used for the delivery of services and administration of programs. However, such measurements must be effectively applied and the performance standards used must be effectively implemented.

Condition: Our previous audit report cited two areas in which we believed the Department's Maintenance Management System was deficient. We found the activity reports generated by the Maintenance Management System, and used for planning and controlling purposes, illustrated significant variances between planned and actual activity. We also found that the reports generated by the Maintenance Management System did not adequately identify equipment downtime or other matters affecting productivity.

Our follow-up review again found notable variances between planned and actual activity reported. The wide range of these variances could not be logically explained. We also found a wide range of variances and significant differences in the calculated unit costs that management attributed to reporting errors.

The Department continues to rely on separate maintenance and repair records to track equipment downtime.

Cause: The cause of the variances could not be explained. The Department indicated that it has an ongoing process to correct deficiencies in the Maintenance Management System, but further work is required.

Effect: The resources expended in operating the Maintenance Management System may not have resulted in corresponding efficiencies in the management of the Department's highway maintenance operations.

Recommendation: A decision should be made to either eliminate the Maintenance Management System, or modify it to either reduce the cost of its operation, or to make it more accurate and effective as a monitoring, planning, and budgeting tool. (See Recommendation 1.)

Agency Response: "As stated in prior responses, managers/supervisors responsible for overseeing the Maintenance Management System (MMS) are continually making a conscientious effort to monitor and improve the accuracy of the information reported. The discrepancies found during the audit will be brought to the attention of the personnel responsible. However, factors such as weather, funding, and available resources impact the levels and types of activities performed in any given year. Therefore, the planned hours will vary from one year to the next.

Personnel from the Department's Office of Maintenance and Highway Operations have been in contact with the Federal Highway Administration (FHWA) to determine if the MMS is a Federal mandate. FHWA personnel indicated that MMS is not listed under the Federal Register 23 CFR Section 500A listing of management systems. Upon the Department's conversion to the CORE-CT Financial System being implemented Statewide, the Office of Maintenance and Highway Operations will review the compatibility of these two systems and the cost-effectiveness to convert the MMS Program."

Follow-up of Prior Program Evaluation - Surplus Real Property:

In October 1999, the Auditors of Public Accounts issued the *Performance Audit Report of Surplus Real Property and Real Property Control Systems - Department of Transportation.* That report contained six recommendations, some of which were restated and repeated as recommendations in our previous audit report. Our previous audit report, which reviewed the status of corrective action implemented by the Department as of June 2001, noted that the following recommendations had not been implemented:

1. The Department of Transportation's Office of Rights of Way, Division of Property Management, should work towards having one comprehensive inventory of all of its real property with provisions to identify property that is surplus.

2. The Department of Transportation should establish an agency-wide policy, which includes, criteria for making property surplus, procedures for early identification of property not used for transportation purposes, and how and when to place such property on a surplus property inventory listing.

3. A review of the surplus property process should be made and consideration should be given to eliminating some steps in the process. Evaluation of the two most time consuming processes, the in-house review and the appraisal, should be given special attention to determine whether adjustments can be made to improve processing time.

4. Appraisals should be performed in a more timely manner if the appraisal value of the property is going to be a determining factor in the sale price.

Our current review found that the Department has continued its work toward establishing a comprehensive inventory of surplus property. This project is still in the process of completion; however, the most significant parts of the surplus property inventory, which were the result of several cancelled highway projects, have been completed. The remaining inventory consists of smaller parcels, and will be more time consuming to complete. Department officials could not provide an estimated date for the completion of the entire inventory, and also indicated that the resources available for the project were limited.

The Department has made efforts to identify and market available parcels. The Department provided our audit with statistics on the extent it has disposed of its surplus property. They indicated that the most significant parcels of its surplus inventory have been disposed of, and in most cases, rather than private developers purchasing the various properties, the municipality in which the property was located acquired them. In these cases, the parcel is transferred by the General Assembly to the municipality by a Legislative Special Act. The surplus property is disposed of and placed in higher use, but in accordance with Statute, the transfer is at no cost, and no revenue accrues to the State.

According to Department reports, from July 1, 2000 through June 30, 2002, the Office of Rights of Way sold 144 parcels of surplus property with a listed value of $4,909,112. In the same period, it transferred 23 parcels by Legislative conveyance with a listed value of $4,330,500.

Our current review also found that the Department has revised some of its procedures to allow for more timely property appraisals. In respect to the remaining recommendations, we found that the Department has not prepared an agency-wide policy for surplus property; nor has it sought the statutory and policy and procedural changes needed to reduce the complexity of disposing of surplus property. Department officials responded to our inquiry by stating that the existing procedural safeguards were necessary to prevent the inadvertent disposal of a parcel that was actually needed.

Accordingly, we are making the following Recommendation:

Criteria: The efficient management of the State's assets includes maximizing the return on the State's investment in real property.

Condition: Our previous audit report cited the need to establish an agency-wide policy for the identification of surplus property, and the need to eliminate some statutory requirements in the surplus property process, as well as policy changes to facilitate the processing of real property disposals.

Our follow-up review found that the Department has significantly eliminated its inventory of surplus property. It has not implemented our recommendations regarding statutory and procedural changes resulting from those findings. We also found that the Department is still in the process of identifying and recording all potential parcels of marketable surplus property.

Effect: There may still be some surplus real property held by the Department that is not being marketed. The process of identifying, marketing, and transferring surplus property has unnecessary inefficiencies.

Cause: The Department indicated that limited staff prevented a more aggressive policy toward implementing changes.

Recommendation: The Department should complete the identification and inventory of surplus real property. (See Recommendation 2.)

Agency Response: "The Department is actively working to inventory real property owned by the Department that is not part of the Highway Infrastructure. On July 15, 2002, the Department's Office of Rights of Way reported an inventory of 120 improved properties and 65 vacant parcels with a total value of approximately $26,000,000. The Inventory Report for 2003 is currently being compiled.

Inventory of excess property related to the former I-291 in the Greater Hartford area has been completed. The Department is currently working on an inventory of property acquired for the Route 7 expressway in the Towns of Wilton, Ridgefield, Danbury, and Norwalk. The section through Wilton has been completed to show 151 parcels acquired with a total area of 488.94 acres.

Property acquired by the Department for actual construction projects is not designated as excess until the construction of the project has been completed. The Office of Rights of Way is currently developing a new Project Management System that includes a method for identifying potential excess property. Upon completion of construction, a report will be generated for each project to identify those properties that are tagged as potential excess. These properties will be reviewed and added to the Department's inventory as warranted at that time."

Follow-up of Prior Program Evaluation - Value Engineering Analysis:

Our previous audit report contained a program evaluation of the Department's application of "Value Engineering" (VE) analysis for highway construction projects. Our previous audit found that the Department does not routinely perform VE studies on Federal-aid projects below $25,000,000, or on projects of any amount that only use State funds. We noted that if the Department had done so, significant savings could result.

As was done with our original review, we compared the Department's application of Value Engineering by using the *Annual Federal-Aid Value Engineering Summary Report* compiled by the Federal Highway Administration (FHWA) for the 2001 fiscal year. This report summarized the information supplied to the FHWA by the states on VE studies done in that year.

From that report, we developed the following table which shows the results for selected Northeast states for the 2001 fiscal year. This data is the most recent available, and is comparable with that presented in our previous audit report. We included calculated averages for the Northeast states and for the entire United States from this data for comparison purposes:

State	Number of VE Studies 2001 FY	Cost of VE Studies	Approved Savings	Return on Each Dollar Invested
Connecticut	**2**	**$150,000**	**$ 0**	**$ 0.00**
Delaware	1	40,000	1,510,000	37.75
Maine	-	0	0	n/a
Maryland	3	90,000	16,000,000	177.77
Massachusetts	1	10,000	11,670,000	1,167.00
New Hampshire	-	0	0	n/a
New Jersey	22	230,000	61,940,000	269.30
New York	12	846,000	20,500,000	24.23
Pennsylvania	18	20,000	22,830,000	1,141.50
Rhode Island	-	0	0	n/a
Vermont	1	60,000	1,840,000	30.67
Northeast Average	5	131,454	12,390,000	94.25
U.S. Average	8	$145,800	$17,292,000	$118.60

We reviewed the Department's records of VE studies conducted by the Division of Consultant Design since our previous audit. There were two studies conducted in the 2001 fiscal year, and one in the 2002 fiscal year. All of them were for large Federally funded projects where value engineering was required by the FHWA. A chart summarizing those studies follows:

VE Study	Cost of Project	Cost of VE Study	Proposed Number of Findings/ Savings	Approved Findings/Savings
I-95 New Haven Harbor Crossing	$750,000,000	$75,000	9 recommendations 17 design suggestions $217,000,000 in potential savings	3 recommendations and 10 suggestions were selected for further evaluation
I-84 Corridor Waterbury	$200,000,000	$75,000	35 recommendations 9 design suggestions $46,878,106 in potential savings	6 design suggestions were approved - no savings were reported
I-95 Bridge Milford / Stratford	$120,000,000	$39,000	11 recommendations 22 design suggestions $26,000,000 in potential savings	1 recommendation was approved at $76,000 in additional costs

As shown in the table above, during the 2001 and 2002 fiscal years, the Division of Consultant Design performed three in-house VE studies. One of those VE studies did not yield any cost savings, as the proposed recommendations had been either previously evaluated or did not meet Departmental objectives. One study resulted in a functional improvement at an additional cost. The savings resulting from the third study remain to be determined pending the final design of the project. We observe that the low number of approved proposals and cost savings does not match the experience that other States have had with Value Engineering. During the audited period, the Department did not conduct any VE studies for projects for which it was not Federally mandated to do so, although the costs of such studies would have been Federally reimbursable.

We also reviewed the VE studies conducted by the Office of Construction for the same period. These VE studies are generally submitted by the contractor and by agreement, one half of the cost savings are shared with that contractor. A chart summarizing those studies follows:

VE Study Conducted	Cost of Project	Proposed Changes	Approved Savings
I-84 Waterbury Reconstruction	$51,984,906	Mill, repave, and reuse existing concrete roadway	$919,465 State share was $459,732
I-95 Bridgeport Reconstruction	$119,515,055	Eliminate stage 2A from "orange" contract	$290,000 State share was $145,000
New Haven Rail Yard Complex	$39,530,498	Decontaminate and reuse existing ballast	$354,800 State share was $177,400
I-95 Darien Reconstruction	$37,263,937	Substitution of different type of barrier curb.	$383,000 State share was $191,500
Rt. 1 New Haven Replace Bridge	$96,667,244	Use different method for submarine cable excavation.	$454,549 State share was $227,274
Church St. Bridge New Haven	$31,970,245	Remove old drainpipes rather than add flowable fill.	No savings, suggestion was not approved
Int. Rts. 11 and 15 Trumbull	$10,838,992	Eliminate median crossover. Revise project staging plan.	$337,795 State share was $168,897

As shown in the table above, during the 2001 and 2002 calendar years, the Office of Construction accepted seven VE studies through its vendors. One of those VE studies was not approved and did not yield any cost savings. The studies that were approved resulted in savings for the State totaling $1,369,803.

Our current review again found that VE studies are a desirable practice for construction design. Accordingly, based on the above, we are repeating our previous Recommendation:

Criteria: Value Engineering (VE) analysis is a practice promoted by the FHWA to generate suggestions for cost improvements without sacrificing performance and safety criteria. The FHWA encourages the use of such studies by making the cost of them eligible for Federal reimbursement.

Condition: Our previous audit found the Department does not routinely include VE studies in the design stage of construction projects, unless it is specifically required by the FHWA. Our current review found that the Department has not actively implemented Value Engineering in more design projects.

Our current review also observed that the savings resulting from the Department's recent VE studies were considerably less than the national average, and less than the results the Department had achieved in 1998 and 1999.

Cause: In our original review, the Department's management explained that the significant cost savings, as reported by other States, would not necessarily result here because the Department already does a comprehensive review of design that incorporates many VE elements. They also explained that performing a VE analysis could cause potential delays in project time frames, resulting in additional costs.

A discussion with Department officials made as part of our current review disclosed that the Department did not have the resources necessary to implement the Value Engineering process. They also indicated that the existing procedures within the Department met many of the goals established by the Value Engineering process, and they believed that implementing Value Engineering would not result in significant savings.

Effect: Based on statistics gathered in the FHWA - *Annual Federal-Aid Value Engineering Summary Report*, we believe that the Department is neglecting significant net cost savings that could result from applying VE studies to more projects.

Recommendation: The Department should develop an active program to extend the use of Value Engineering studies to those highway design projects for which it is not already Federally mandated. (See Recommendation 3.)

Agency Response: "Comparing the Department's Value Engineering (VE) results with any other state cannot be properly accomplished without first possessing a full understanding of the design practices and operating procedures of the comparison state. The Department performs detailed technical reviews of each project at the preliminary, semi-final, and final design stages. Individuals possessing specific expertise (i.e. geotechnical, hydraulics, utilities, bridges, highway design, etc.) accomplish these reviews. Detailed comments and recommendations for changes are prepared and submitted to the prime designer by these Department specialists. It is the Department's position that the detailed technical reviews accomplished during the design process are quite effective and the need for an expanded VE program is questionable."

Auditors Concluding Comments: As noted above, there are significant savings observed by the Office of Construction when the construction contractors suggest their improved methods. This would indicate the potential savings that could result with some improvements in design practices.

Follow-up of Prior Program Evaluation - Construction Change Orders:

Our previous audit report contained a program evaluation of the Department's use of construction change orders. Change orders or construction orders come about when specifications for a construction project are changed after a contract and prices for the project have been negotiated. Our review sampled projects with large change orders, or, as used by the Department "construction orders." We found that when the Department uses a construction order, it frequently must negotiate the price for the additional items after the contract has been awarded and work begun. The cost for the additional items was significantly higher than if the item was in the original project bid.

Our previous audit also reviewed a sample of non-Federally funded construction projects; in that sample we found projects with a considerable number of contract changes. We examined the documentation for these changes and identified a significant number that identified errors or omissions in preliminary surveys or in project plans as the cause for the change. Our original review found that the Department's Office of Engineering had underestimated the quantities of certain material items or failed to anticipate the need for certain major work prior to the project being bid. In some cases when this occurred, we found the unit quantity price for the added quantity to be significantly higher than the price established for that item under the competitive bid, or greater than the average price approved for that item for other projects during the same time period. We concluded that these changes, and the resulting increases in project costs, might have been avoided by more careful preliminary planning.

Our original review also found construction orders that added large cost increases due to major revisions in the scope of the project. We found that the conditions causing some of these changes should have been noted and the appropriate changes made during the planning and design phase.

The Department responded to our previous audit by stating that it had instituted procedures to review contract plans for constructability and plan quality control prior to the project being bid. The Department developed checklists for designers and construction personnel reviewing the plans to ensure that recurring issues were addressed and were not repeated on future designs. We conducted our follow-up review by examining these procedures. That review found some improvements made and further work in process.

Our review found that the Department had employed quality control checklists to check for recurring design issues when plans are reviewed. The checklists, which were developed by the Design Practices Committee, identified previous sources of construction orders. The use of these checklists was discontinued as the design staff implemented corrective action by adopting the Department's current practices in their work.

In January 2002, the Department of Transportation, in a joint effort with the Federal Highway Administration, conducted a process review of its pre-construction estimating procedures. It was found that significant increases in the estimated costs of a project were not identified and added to the planned project until very late in the design phase, or when the project was almost ready for bid. Proper cost estimates would reflect complete and thorough site surveys, planning, and design, which would help serve to eliminate the need for subsequent changes.

In addition, the Department has established a Cost Overrun Committee, which is currently reviewing many of the Department's design and construction practices. This review is addressing a number of issues that have historically resulted in costly construction orders. Among the improvements being considered, are: providing a detailed sequence of construction to properly plan detours and traffic control, gaining more accurate knowledge of subsurface conditions, conducting plan reviews and constructability reviews at the project site, establishing environmental mitigation work as a separate project, training project engineers to more effectively negotiate with the contractors, and establishing accountability for design errors and omissions, especially in providing more accurate quantity estimates. We believe that this study will be an important step by the Department in identifying and eliminating the causes of unnecessary construction orders. The report resulting from this study was scheduled for completion by the Fall of 2003.

Both of these efforts are intended to address areas identified by the Department as needing improvement in the design and construction process. Some of the improvements resulting from these areas will serve to eliminate the potential for unnecessary construction orders.

Our review also examined the processing of construction orders by the Department's field inspectors. We found 27 percent were not processed within the 90-day period established by the Department. The prompt review and processing of construction orders, in order to facilitate their review by the project engineer, supervising engineer, and District office staff, is an essential control over the approval of additional work and the costs resulting from that additional work.

As a result of our follow-up examination, we make the following Recommendation:

Criteria: The *Department of Transportation, Bureau of Engineering and Highway Operations - Construction Manual* states that "Changes and extra work should be held to a minimum and limited almost exclusively to revisions and additions necessitated by conditions that could not reasonably be anticipated before the project was advertised for bid."

The manual also states "All construction orders, including the fiscal paperwork, are to be final-processed within 90 days of initiation."

Condition: Our current review selected and tested a sample of four projects that were entirely State funded. In the projects tested, we again found some construction orders that cited problems with plans that had errors, or plans that did not match actual field conditions. We also noted instances where studies of field conditions were conducted after the project was bid and work begun. There was additional work required in which the Department was not promptly advised that the contractor would be requesting additional funds. As a result, the Department was not able to properly plan, direct and track the work. In this example, the final cost of the additional work was settled through negotiation between the Department and the contractor.

From the sample tested in our current audit we could not conclude if conditions have improved. However, we do note that corrective action by the Department was in process.

Our current review also examined the processing of construction orders; we sampled and reviewed the records of 63 construction orders from several Districts. We found 17 out of the 63, or 27 percent, were not processed within the 90-day period established by the Department. These construction orders were outstanding for a period ranging from 116 to 508 days from initiation to final approval.

Effect: Additional costs are incurred for construction projects that may have been preventable.

Work on construction orders was allowed to proceed and costs were incurred, without the benefit of the prompt review and processing by the project engineer, supervising engineer, and District office staff.

Cause: Site surveys and field inspections did not provide adequate information on existing conditions to allow project designers to accurately assess the amount of work and quantity of materials needed.

Construction inspectors did not promptly process construction change orders and submit them to supervisory engineers and District managers.

Recommendation: The Department of Transportation should improve its inspection and design procedures so that it could avoid the need for construction orders to the greatest extent possible. It should also ensure that construction orders receive final approval within 90 days of initiation. (See Recommendation 4.)

Agency Response: “The Department's Office of Construction will continue to work with the various Design Units in improving the design and pre-construction plan and site reviews. It is the Office of Construction's intention to continually strive in processing and approving construction change orders within the 90-day window that is noted in the *Department of Transportation, Bureau of Engineering and Highway Operations - Construction Manual*.”

Follow-up of Prior Program Evaluation - Connecticut Port Authority:

The Connecticut Port Authority (formerly the Connecticut Coastline Port Authority) was originally established in 1993. Our audit report of the Authority for the fiscal years ended June 30, 1997, 1998 and 1999, contained a program evaluation that reviewed the activities and accomplishments of the Authority since its inception. That report noted that the Authority was attempting to carry out its responsibilities; however, it was restrained from doing so by a low level of resources and a lack of organizational independence from the Department of Transportation. We also noted that attendance at board meetings was poor, and the limited statutory powers granted to the Authority did not permit it to operate effectively.

As part of our current audit, we have conducted a follow-up examination to determine if the

Connecticut Port Authority has been more successful in fulfilling its mission. We found minor corrective action was implemented with the passage of Public Act 01-143, which changed the name of the Authority and made the Authority responsible for promoting economic development for all ports of the State, instead of only Bridgeport, New Haven, and New London. However, no significant improvements were made in making resources available for marketing efforts, or to provide the planning and analysis functions that are described in the statutory purpose of the Authority. We noted that the meetings of the Authority are presided over by a Deputy Commissioner of the Department of Transportation, and there was still limited organizational independence from the Department. We also noted that the Authority's Board of Directors continued to have vacancies, and on several occasions in the past two years, failed to attain a quorum at meetings.

An additional matter affecting the status of the Authority occured in 2001. The Department of Economic and Community Development launched the Maritime Industry Cluster. This organization represents all components of the Connecticut maritime industries, of which the Connecticut Maritime Coalition functions as the organizational center. The Connecticut Maritime Coalition is a non-profit organization consisting of over 30 businesses and organizations dedicated to enhancing the competitive position of Connecticut's maritime industries. This organization receives private funding and has an executive director, which are resources that the Authority has not been able to develop. Although not specifically dedicated to the development of Connecticut's ports, the Connecticut Maritime Coalition can represent an alternative channel to achieve the mission originally granted to the Connecticut Port Authority.

Another organization introduced to promote and develop Connecticut ports is the Special Maritime Task Force of the Transportation Strategy Board. Established in 2003, the Task Force is composed of representatives of the Board, the Connecticut Port Authority, the Departments of Transportation, Economic and Community Development, and Environmental Protection, and the Office of Policy and Management. There are also representatives from each port, and other organizations. The Task Force is required to "submit to the Board, by September 30, 2003, a Statewide Maritime Policy that includes governance and other recommendations applicable to all ports of Connecticut." In addition, "The Policy will define the State's role in maritime matters and will specifically address whether all ports in Connecticut are to come under the jurisdiction of the Connecticut Port Authority..."

As a result of our follow-up review we note the following:

Criteria: Section 32-430 of the General Statutes, as amended by Public Act 01-143, states that the purpose of the Connecticut Port Authority shall be to promote the economic development of the port areas in the State, in support of those entities operating such port areas.

Section 32-431 of the General Statutes grants the Authority the ability to solicit, receive and accept aid, grants or contributions, and to employ assistants and enter into contracts and agreements, for the purposes of its mission.

Condition: Our previous and current reviews found that the Authority has continued to maintain the advisory role it held in the past. Operating under minimal resources, it has not been able to function as a strong leader in facilitating the improvement of Connecticut's port areas, either with projects administered by the Department of Transportation, such as in the development of the State Pier, or with projects administered by private or municipal organizations.

In its enabling legislation, the Connecticut Port Authority was assigned a detailed purpose and granted the ability to solicit and receive aid, grants and contributions, and to use such resources to carry out its purposes. This opportunity has not been capitalized upon.

Effect: An alternative organization has been developed by another State agency that may either enhance or compete with the mission of the Connecticut Port Authority, and in sources of funding and influence.

Cause: Our previous review noted that the effectiveness of the Authority was limited by a lack of funding, a lack of organizational independence from the Department of Transportation, and vacant positions on the Authority's Board of Directors. Our current review found similar conditions. The Authority has received only minimal funding to operate and several vacant positions on the Board were not filled until May 2003.

We also note that the promotion and development of Connecticut ports has grown into a more complex environment with other organizations now taking part.

Conclusion: The Authority has strived to accomplish its goals under limited resources. Our follow-up review found that this condition is receiving attention from the Authority and various other interested parties. We are not making a recommendation on this matter.

Examination of Construction Inspection Records:

Our current audit conducted a program evaluation of the Department's construction administration, with emphasis on the Headquarters Review Section of the Office of Construction, Bureau of Engineering and Highway Operations. The Headquarters Review Section is assigned the role of conducting a periodic examination of the records maintained by the project inspectors at each highway construction project.

A standardized system of recording and documenting construction work is detailed in the *Department of Transportation, Bureau of Engineering and Highway Operations - Construction Manual*. The Chief Inspector of a project is responsible for maintaining a set of project files that completely document the inspection of the work. The records include daily inspection reports, materials receiving reports, requests for materials testing, reports of construction orders and cost plus work, labor wage checks, and payroll reports. These records are vital to document the proper completion of a project, in order to meet the requirement for the Federal reimbursement of a project, and to document field conditions in the case of a claim or dispute between the State and the contractor.

Due to the importance of these records, our current audit examined the activity of the Headquarters Review Section, which is assigned the intermediate review of records maintained for ongoing projects as well as the final review at project close out.

At the time of our review (April 2003), the Headquarters Review Section consisted of two persons reporting to a supervisor. The Headquarters Review Section originally had 11 employees, but subsequent to retirements in June 2003, has only one employee remaining who is dedicated to the examination of construction inspection records of highway projects throughout the State. As part of our examination, we attended the actual inspections of the records for two sampled projects, and reviewed the policies and procedures established by the Bureau of Engineering and Highway Operations. On average, approximately 100 intermediate reviews are done each year. The records are inspected to the same standard without regard to whether the project is supervised by Department inspectors, or consultant inspectors.

Our review concluded with the observations that the Headquarters Review Section makes a very good effort to ensure that project records are in keeping with standards. We noted that the limited personnel resources available for this work place this internal control at risk.

Our review also examined the policies and procedures of the Bureau of Public Transportation; we found that the Office of Rail did not perform routine inspections of project records for the construction projects it administers. There was no set program or schedule for records inspection of such projects. Rather than using State personnel, the Office of Rail generally employs consultant construction inspectors. The Office of Rail assigns its managers to supervise and review the work of the consultant inspectors; however, intermediate record reviews of the standard performed by the Headquarters Review Section are not made.

In our examination of policies and procedures at the Bureau of Aviation and Ports, we found that the Office of Project Management for the Bureau of Aviation and Ports does not schedule its own routine intermediate reviews on their projects. The Bureau of Aviation and Ports manages its construction projects from the project initiation until the start of construction. For the duration of the project construction, a District Construction office from the Bureau of Engineering and Highway Operations oversees the project. We found the Headquarters Review Section only performs intermediate reviews on such projects when requested to do so by the Bureau of Aviation and Ports.

Projects that are reimbursed by the Federal Aviation Administration and that rely on consultant construction inspectors will also have District office personnel assigned to supervise those projects. The extra costs of District personnel are charged to the project, but are not eligible for Federal reimbursement. The State must cover these costs, thus increasing the overall cost of the project. Cost savings may result if the Bureau of Aviation and Ports is allowed to directly administer the project by assigning appropriate personnel from the Bureau, and include implementing a procedure for periodic records reviews. This procedure is currently employed for the largest projects at Bradley Airport. Those projects have consultant companies providing construction management services, including inspecting the work and maintaining inspection records. Personnel from the Bureau of Aviation and Ports that are continually on site review the records maintained by the consultant.

Accordingly, we are making the following Recommendation:

Criteria: In accordance with the *Department of Transportation Bureau of Engineering and Highway Operations - Construction Manual*, the Bureau maintains a Headquarters Review Section that ensures that project records, such as inspection reports, materials testing reports, computations, labor and environmental compliance matters, and other contract matters are maintained in conformance with current policies and procedures. The manual provides that reviews should be performed, as deemed necessary, if new inspectors or consultant firms, unfamiliar with the Department's record keeping procedures, are assigned. It also provides that intermediate reviews should be conducted at various times during a project's duration to spot-check project record keeping. This valuable control should be extended to all of the Department's construction projects.

Condition: Our review found that the Office of Rail of the Bureau of Public Transportation does not have a policy to routinely conduct intermediate reviews of construction inspection records.

We also found that the Office of Project Management of the Bureau of Aviation and Ports is reliant upon the Bureau of Engineering and Highway Operations for construction record reviews on their projects. This method does not provide for regular reviews of construction inspection records, and may result in additional project costs.

Effect: Project records were not reviewed on a routine basis in order to prevent project errors, identify lack of controls, and facilitate the final project review that will conclude the project.

Cause: The management of the Office of Rail has indicated that project record reviews are not routinely performed due to a lack of available staff. They also explained that a review could be performed on larger projects if requested by a project manager or engineer.

The administration of aviation projects is divided between the Bureaus of Aviation and Ports and Engineering and Highway Operations. For certain projects the shared expertise may be desirable, however, additional costs can result and responsibilities are not clearly delineated.

Recommendation: The Department should revise its polices on the administration of aviation and rail construction projects to establish routine intermediate record reviews. (See Recommendation 5.)

Agency Response: "The Department agrees with the Auditors' observations that this is a vital task, ensuring that the inspection staff prepare and maintain the required inspection records in accordance with prescribed standards.

Although examiners staffing levels have been affected by attrition, including the recent early retirement incentive program, the Department's Office of Construction is making efforts to recruit or reassign staff, as necessary, to continue without interruption to these duties.

The Department's Bureau of Aviation and Ports will assign a representative from their Office of Project Management to examine records assuring that they are maintained in accordance with Department Policy.

The Department's Bureau of Public Transportation will adopt the policy and procedures utilized by the Bureau of Engineering and Highway Operations for conducting intermediate and final reviews of construction project records. This procedure is outlined in the *Department of Transportation, Bureau of Engineering and Highway Operations - Construction Manual*.

Intermediate and Final Review Checklists from the Bureau of Engineering and Highway Operations will be utilized by the Bureau of Public Transportation and such reviews will be conducted on Public Transportation managed construction projects."

Security Costs - Bradley International Airport:

The Department of Public Safety provides police services for the Department of Transportation for Bradley International Airport. At the time of our review (April 2003), the Department of Public Safety was providing seven days a week, 24 hours a day, security services at Bradley Airport with 49 State Police troopers, seven Airport Police officers, and eight civilian employees. In the 2000-2001 and 2001-2002 fiscal years, payments for police services from the Bradley International Airport Operations Fund to the State General Fund for the Department of Public Safety totaled $3,910,874, and $6,347,778, respectively. In addition, there was an additional $198,000 in security costs for the new parking garage at Bradley. Our review of these payments found that the costs charged by the Department of Public Safety included significant amounts for overtime hours and meal allowances.

The billings from the Department of Public Safety for these services are based upon individual trooper's salaries by pay period, including overtime. The security staffing levels are set by budgetary negotiations between the Department of Public Safety and the management of Bradley Airport. This does not provide for a formal agreement, but, if the management of the Department of Public Safety wants to increase the assigned State Police trooper complement at Bradley, the additional costs must be paid from its own appropriations. Our review found there is no fixed or maximum amount for specific services charged. As an example, the management of Bradley Airport does not have the ability to select coverage by a greater number of Airport Police officers, which can provide the same services at a lower cost. A fixed cost for coverage could provide incentives to employ resources more efficiently.

A consultant report that reviewed the operations and competitive position of Bradley International Airport cited the high costs of police and fire services at Bradley Airport in comparison to seven other airports. The report also stated that security costs at Bradley were three times the security costs at airports in some other cities. The report stated that the statutory requirements for airport security set by the Federal Aviation Administration could be met and efficiency improved by employing fewer State Police troopers and using private security officers in appropriate positions. The consultant report also advocated that, because the security responsibilities were outsourced to the Department of Public Safety, the management of Bradley Airport was not as closely involved in that function.

Bradley Airport officials have made efforts to implement these findings, and reduce the security costs for the Airport. As a result of negotiations with the Department of Public Safety, the number of troopers assigned and overtime costs have been reduced. In the budget for security services at Bradley Airport for the 2004 fiscal year, the Department of Public Safety allotted 15 State Police troopers, seven Airport Police officers, and ten civilian employees at a total cost, including fringe benefits, of $3,080,000.

As another step to reduce the costs of the security services provided by the Department of Public Safety, the management of Bradley International Airport has used the alternative of employing private security officers in certain areas of the Airport. The cost of employing these officers was estimated at $13.90 per hour, as opposed to a cost of $45.83 per hour to use State Troopers. This action is made permissible by the Federal Transportation Security Agency, which has specified that security service personnel, rather than law enforcement officers, may be used for security at certain restricted areas of the Airport.

An additional factor in the cost for security services at Bradley Airport during the audited period was the temporary coverage of passenger screening locations. It is a Federal security directive that law enforcement personnel be available at all times when passenger screening locations are active. This has generally required an additional five State Police troopers during those hours when the Airport is busy. It has been the intention of the Federal Transportation Security Agency to assume the duties of security at passenger screening locations. Until they could do so, the Department of Public Safety had provided those services. According to an agreement effective May 27, 2002, the Transportation Security Agency will reimburse the Department of Public Safety for these services until the takeover is completed, or upon expiration of the agreement on December 1, 2003. This agreement provides for reimbursement at a maximum estimated cost of $2,554,307 for the period the agreement is effective. This reimbursement does not cover the cost of security services for the remaining areas of the Airport.

Our review of these conditions disclosed the following:

Criteria: The management of Bradley International Airport is responsible for maintaining security at Bradley International Airport in compliance with Federal Aviation Administration regulations.

Condition: Bradley International Airport has historically maintained a force of State Police Troopers and Airport Police officers, the costs of which are paid from the Bradley International Airport Operating Fund. A consultant study had found the costs paid for these services to be excessive in comparison to similar airports. The management of Bradley Airport has concluded that, by the use of private security services to patrol the curbside passenger check in and at two locations at access gates, over $1,200,000 in costs could be saved each year.

Effect: The costs of operating Bradley International Airport must be passed on to users, significantly affecting its competitiveness in the marketplace.

Additionally, State Police troopers may not be available for other law enforcement needs in the State.

Cause: The Bradley International Airport Operating Fund has covered the significant costs of maintaining a State Police presence (Troop W) at Bradley International Airport for many years. The security requirements following the September 11, 2001, terrorist attacks have exacerbated this condition, with only some of the costs being recovered from the Federal government.

Conclusion: The Department of Transportation is making a conscious effort to maintain the operating expenditures of Bradley International Airport within available revenues given current circumstances. We are not making a recommendation on this matter. Our concerns regarding formalizing the Airport's relationship with the Department of Public Safety are detailed in Recommendation 12 of this report.

CONDITION OF RECORDS

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

Petty Cash Fund:

Previous audits of the Department have reported the need to improve the timeliness of the settlement of travel advances. Our current review of the Department's petty cash fund records disclosed the following:

Criteria: The *State Accounting Manual*, issued by the State Comptroller, specifies procedures for petty cash funds that include the prompt settlement of travel advances. Those procedures require "That within five working days after return, the employee will submit a completed employee voucher, with the required documentation, to the agency business office."

Condition: We found the settlement of some travel advances continued to exceed the five working days allowed after return from the trip. A random sample of 25 travel vouchers, totaling $11,961, disclosed the untimely submission of five, or 20 percent of the sample. Two of the five untimely advances were six or more days late, with one nine days late. This condition was improved from the previous audit, in which 56 percent of the travel advances sampled and tested were late.

Effect: The untimely settlement of travel advances prevents prompt replenishment of the petty cash fund and may necessitate maintenance of an excessive fund balance.

Cause: The timely settlement of travel advances may not be a priority for certain employees.

Recommendation: Petty cash fund travel advances should be settled promptly. (See Recommendation 6.)

Agency Response: "The Department will re-emphasize the importance of timely submissions of travel reimbursement requests. We will continue with aggressively pursuing delinquent items. However, our internal system of approvals and budget checks coupled with the fact that some documents have extensive travel before reaching the central "business office" in some instances makes the 5-day timing very difficult. In the near future when petty cash is assimilated into the new CORE-CT accounting system being implemented Statewide, the documents may be electronic. This should improve "travel time" immensely."

Management of Grants to Transit Districts and Private Carriers:

The Department of Transportation expends over $24,000,000 in grant payments to 13 transit districts, numerous private carriers, and other providers in each fiscal year. Our previous audit found that the current record keeping system over these grants does not provide reasonable assurance that they will be properly recorded, tracked, and closed out in a timely manner. Part of the close out process includes the receipt and review of audit reports from grant recipients. Our follow-up review found improvements have not been made. We are repeating the prior Recommendation, as set forth below:

Criteria: Proper grant management requires a system of controls and procedures to ensure that all contractual obligations of a grantee, including formal submission of audit reports, are complied with.

A system should be designed to incorporate proper controls to completely track the progress of all agreements, from initiation through close out. The system should identify all items that are currently open and provide for an aging schedule that allows the older agreements to be finalized first. At any given time the system should be able to determine the inventory of outstanding items and this number should be communicated periodically to management.

This tracking system should be part of "an Agency-wide, comprehensive, integrated information system for tracking an agreement and its associated budget addenda from initiation to final close out," that has been recommended in our previous audits. Such a system must include an on-line record system documenting the initial grant agreement, the budget addendum, the receipt of audit reports, the distribution of audit reports, the status of pending items, and the follow-up of open items; which would encompass all the information needed by each Bureau to discharge completely its responsibilities and to document that effort.

The Department must monitor the compliance with its standardized grant agreement which states: "…within 180 days of the completion of each full fiscal year…(the provider) shall have prepared and delivered to the State an audit performed by an Independent Certified Public Accountant…"

Condition: There are three units within the Department involved with the management of transit grants, the Office of Transit and Rideshare, the Office of External Audit, and the Office of Fiscal Administration. Multiple logs are used to record the receipt of audit reports submitted and to track the status of the reports during the various stages of the review process within the Department. This practice results in wide discrepancies among the relevant dates including the initial audit receipt dates and the various report distribution dates within the Department.

Our follow-up review found two late audit reports. In both instances, the reports were issued late due to problems with the transit districts' management. One report was a year overdue, and the other was received three months after the deadline.

We compared the recorded receipt dates on the separate logs maintained by the Office of Transit and Rideshare, the Office of External Audit, and the Office of Fiscal Administration. We found one exception and 14 discrepancies. The exception concerned the request for a financial review. We found that a request noted on the records of the Office of Transit and Rideshare was not recorded and had not been received by the Office of Fiscal Administration. At the time of our review (April 2003) the request had been outstanding for over a year.

Eight items on the Office of External Audit log had "review request" dates that were earlier than the "report sent to External Audit" date per the Office of Transit and Rideshare log. Three other items had review request dates that were significantly later than the "sent to External Audit dates" recorded on the same log. We noted three instances in which the Office of Transit and Rideshare noted that the report was submitted late; however, the Office of External Audit noted that the report was received on time. Furthermore, the audit receipt dates recorded by the Office of Fiscal Administration was only an estimate that was based on the date of the desk review request memo from the Office of Fiscal Administration to the Office of External Audit.

Effect: Critical information is either omitted or recorded inaccurately on one or more of the logs maintained by different units. This results in a significant delay in requesting and scheduling audit reviews and in completing a timely final cost settlement to determine if monies are owed to the State.

Cause: The Department of Transportation has not developed a single unified information system tracking the status of the reports during the various stages of the review process within the Department.

Recommendation: The Department of Transportation's Bureau of Public Transportation and Bureau of Finance and Administration should jointly develop a single unified information system for grant management of transit agreements, budget addenda, and audit reports. (See Recommendation 7.)

Agency Response: "The Department is in concurrence that having three units each maintaining their own logs specifically for audit tracking is inefficient. The Bureau of Public Transportation will facilitate a meeting with the Bureau of Finance and Administration to modify an existing system or develop a new system for tracking agreements and budget addenda through the closeout process. The goal will be to clearly delineate responsibilities of various offices for their facet of the tracking process, and develop a mechanism for management reporting and review."

Prompt Close Out of Transit Grants and Unbilled and Uncollected Accounts Receivable:

Our previous audit of transit grants had found long delays in the collection of receivables and many receivables still outstanding. Our current review found that all but one of the long-standing receivables noted in our previous audit were collected. However, our current review still found the need for improvement in the close out of grants, and in the billing and collection of receivables. Accordingly, we are reporting the following:

Criteria: The Department of Transportation must perform the procedures necessary to bill and collect money owed to it forthwith, in order to maximize the benefit of State resources.

Condition: We found three instances in which accounts receivable had not been billed and collected because of a difference in opinion between the Office of Transit and Rideshare and the Office of Fiscal and Administration within the Bureau of Public Transportation regarding the amounts to be included in the accounting review calculation to arrive at the operating deficit for which the State is responsible. The issue remains unresolved because the Office of Transit and Rideshare is not obligated to accept the balance indicated by the Office of Fiscal and Administration, and the Office of Transit and Rideshare cannot dictate how the Office of Fiscal and Administration interprets the terms of the contractual agreements relating to State reimbursement. There was a receivable balance from three different grants from the fiscal years ended June 30, 1999 and 2000, totaling $41,731 that, because of the aforementioned disagreement, was not billed.

In another instance, we found an accounting review performed for a grant from the fiscal year ended June 30, 1996, was not promptly submitted to the Office of Transit and Rideshare. As a result a receivable of $23,527, was not billed until April 2003. Further investigation revealed that it is Department procedure that the accounting review should not be done prior to the successful completion of the review by the Office of External Audit. This requirement and the absence of proper follow-up procedures for an accounting review resulted in a seven-year delay. The Office of Transit and Rideshare did not initiate follow-up procedures until June 2002.

Billings for two similar grant receivables from the fiscal years ended June 30, 1996 and 1998, totaling $20,316 and $11,359 respectively, were not sent to the grantee for payment until February 2003.

In another instance, the collection of an accounts receivable balance of $77,262 from the fiscal year ended June 30, 1994, has been indefinitely postponed because the Office of Transit and Rideshare has not reviewed the accounting calculation and payment history that it deems necessary to bill the vendor for the balance. The reason for the delay appears to be the low priority given to project close out activities. We noted several completed projects that have not been closed out in the Department's accounting system because the Office of Transit and Rideshare did not make prompt project close out a priority.

The Department also cancelled a receivable balance of $29,287, due from the fiscal year ended June 30, 1993, because the Department was unable to determine with any certainty whether or not the receivable was previously collected. The situation occurred because the Department failed to do a timely follow-up of the accounting review. The pertinent documentation that would have proven whether or not the balance was received had already been disposed of in accordance with the Department's records retention policy.

We also found that no action was taken by the project manager to close out three completed projects in the Department's information system. The reason for the delay is indicative of the low priority placed on project close outs. Timely project close outs are sometimes critical because multiple projects are associated with a single grant; therefore, a delay in the close out for one completed project causes delays in other active projects. During our audit, we noted several completed projects awaiting project close out by the Capital Projects Unit that were linked with other active projects.

Effect:

Accounts receivable balances remain unbilled and uncollected for several years following the end of the fiscal year to which the receivables arose and the receivable balances determined. Further, the Department has been unable to ascertain whether or not certain accounts have been collected due to significant delays in finalizing project close outs.

Monies owed to the State and not collected in a timely manner may be subject to possible loss, or result in the inefficient utilization of State resources.

Cause:

We found that the Department of Transportation has not established a reasonable timetable for project close outs. The length of time taken to close out a project should not exceed the total time required for each processing stage performed by the External Audit Division, the Office of Fiscal Administration and the Office of Transit and Rideshare.

The Department of Transportation does not view project close outs as a priority, and an unreasonable amount of time is allowed to lapse between when the grant period expires and when the project is actually closed out. Specifically, steps necessary to promptly complete final project close outs in the Department's information system and collect monies due to the State have not been implemented.

Recommendation: The Department of Transportation should establish and implement a reasonable timetable for project close out and the billing and collection of receivables due from transit grants. (See Recommendation 8.)

Agency Response: "With the completion of a new project tracking process and the development of a management reporting and review process, the Department should be better able to set timeliness standards for project closeouts. Through the use of the new tracking system, the Department will be better able to track agreements and address those agreements that are taking more time than normal to closeout."

New Haven Parking Authority - Compromise of Receivable:

Criteria: Section 3-7 subsection (a) of the General Statutes provides that only uncollectible claims in the amount of one thousand dollars or less may be cancelled by the head of a State department or agency.

Section 3-7 subsection (c) of the General Statutes provides that, upon the recommendation of the Attorney General, the Governor may authorize the compromise of any disputed claim by or against the State and shall certify the amount to be received or paid under such compromise by a State department or agency.

Condition: In March 1982, the Department entered into a lease and funding agreement between the State of Connecticut, the City of New Haven and the New Haven Parking Authority to construct a parking garage and rehabilitate rental space at the Union Station Transportation Center. The agreement establishes the New Haven Parking Authority as lessee and operator of the garage. The agreement has a term of 35 years, expiring on June 30, 2017. The agreement clearly states the method in which the interest rate and repayment amount is to be determined in order for the New Haven Parking Authority to repay bonds issued by the State of Connecticut. The agreement specifies a repayment term of 20 years at an interest rate set by the average of the actual interest rates for the preceding general obligation bond sales for the State. The total to be repaid is to be based on the average debt service for the actual construction cost. The agreement specifies that the State can request an independent audit to verify the repayment amount.

In October 1991, the beginning of the repayment term, the New Haven Parking Authority informed the Department that they would begin making payments of $25,000 a month until they were notified of any change based on the independent audit performed to calculate the final bond repayment amount. At that time, the New Haven Parking Authority indicated that they were in agreement with the independent audit calculation being done.

The independent audit was completed in October 1992. Based on that audit, the calculated payment was to be $28,395 per month for 20 years, based on an interest rate of 8.85 percent. The New Haven Parking Authority was informed of the new calculated payment and was asked to remit the difference of the previous payments to date and the new amount. The Department's Accounts Receivable Unit posted the receivable and continually tried to collect the balance, but was not successful. On November 1, 1996 the New Haven Parking Authority sent the Department a letter stating that they felt that the original interest rate was not reasonable considering the current cost of funds and the refinancing done by the State.

On February 9, 1998 the Bureau Chief of the Bureau of Public Transportation, wrote a letter to the New Haven Parking Authority stating, "The Department of Transportation will reduce the rate so that the monthly repayment remains at $25,000 per month throughout the repayment period." The accounts receivable records for the Department were adjusted to reflect the change in the receivable due from the difference in payments already made for over six years, so that a total of $263,887 was cancelled off the system.

Effect: In October 2001, the management of the Bureau of Public Transportation summarized in a memorandum their understanding that, as of that date, the total balance due on the original agreement would have been $6,814,840 based on payments of $28,395 per month. It was noted that the Department is receiving payments of $25,000 per month, which would total $6,000,000 paid over the life of the agreement, resulting in a total difference of $814,800. The Department compromised the collection of this difference in a manner not in compliance with Section 3-7 of the General Statutes.

Cause: The Department of Transportation authorized the modification of the repayment terms and the cancellation of the receivable amount without the consent of the Attorney General and the Governor.

Recommendation: The Department of Transportation should comply with the provisions of Section 3-7 of the General Statutes in the compromise of disputed claims. (See Recommendation 9.)

Agency Response:

"The decision to allow the New Haven Parking Authority (NHPA) to stretch out its payments to the State of Connecticut was a conscious business decision based upon the financial need of Union Station and the financial problems facing the NHPA. While the decision does stretch out the time of repayment of the State loan, it does not diminish the amount of interest and principal the Parking Authority will eventually be paying.

The Department of Transportation entered into a cooperative agreement with the NHPA for a 35-year term, which expires in 2017. The agreement called for the NHPA to repay the State bond used to renovate the facility at an annual interest rate of 8.85 percent. Through October of 2001, a total of $3,050,000 in payments has been received. The Parking Authority has been making its monthly payments of $25,000 as agreed based upon the business decision.

Unlike today, the Union Station garage did not always generate sufficient revenues to cover operating and maintenance expenses. Very early on it became apparent that the maintenance costs of the facility exceeded revenue generated by the facility. The NHPA actually advanced the Station money from its other garage operations between 1987/1988 in the amount of $718,921. The roof started to leak and the chiller for the air conditioning system failed. This required the State to cover $400,000 in additional expenses.

All of this led to a business decision to permit the Parking Authority to pay only $25,000 per month instead of the agreed upon $28,395. The total amount due to the State was not changed, nor was the interest rate. The extension of time to pay also does not exceed the original 35 years of the lease agreement."

Auditors Concluding Comments:

The Department's memoranda discussing this matter refer to monthly repayments of $25,000 "throughout the repayment period." The lease agreement allows an indefinite repayment period not to exceed the length of the agreement. However, the provisions in the lease agreement regarding the repayment calculation appear to be intended to match the payment schedule of the debt service for this project.

We conclude by stressing that the Department of Transportation did not have the authority to modify the agreement and compromise the receivable without the approval of the Attorney General and the Governor.

Monitoring of Usage of State Telephones:

Our previous audit, covering the fiscal years ended June 30, 1999 and 2000, cited the Department for failure to maintain a log or other record to ensure that all calling reports distributed to employees for review and signature had been returned. Our current review of the Department's controls and procedures to monitor the use of State telephones disclosed the following:

Criteria: Department of Transportation - *Administration Policy Statement No. 7* and Department of Transportation - *Personnel Memorandum #96-2*, both specify that State time, facilities, equipment, supplies and materials must be utilized only for official State business and that their use for private or personal or other non-State purposes is prohibited.

The Department of Information Technology (formerly the Department of Administrative Services) *Telecommunications Procedure Manual* requires employees that are assigned calling cards or cellular telephones to review and sign monthly reports of calling activity.

The Office of Policy and Management - *Cellular Telephone Policy* states, "…It shall be the responsibility of the Agency to verify the accuracy of each bill, and to certify the usage as appropriate…If under any circumstances costs are incurred for personal use of this service, those shall be reimbursed to the State."

It is a proper business practice that any employee leaving State service be required to hand in any State issued equipment or property to the issuing agency.

Condition: Our current review found that it was not until January 2003, that the Department's Property and Facilities Unit established a log to ensure that all of the calling card and cellular phone reports distributed to employees for review have been signed and returned.

Effective June 2002, the calling card reports were modified by the Department of Information Technology to provide a space for supervisors to sign that they reviewed the reports of their employees. However, the Department did not formally notify its managers that they were now required to do so. Reports for fixed telephones are made available to those unit managers who request them. We found that unit managers would review the reports for fixed telephones only on an exception basis. The Department does not require its managers to periodically review the calling reports for the fixed telephones assigned to their units.

We also reviewed the records of those employees who had left the Department between December 2002 and March 2003 and had been issued State calling cards. Out of 192 employees tested, we found 24 of them, or over 12 percent, that still retained active State calling cards.

Effect: There is no assurance that all calling card, cellular or fixed telephone bills are correct, and that all calls are for authorized use.

Misuse of cellular or fixed telephones and calling cards can occur and not be detected.

Cause: The Department does not have a requirement that unit managers perform a periodic review of the calling reports for fixed telephones to identify billing errors or abusive practices. In addition, there is no procedure to notify the Property and Facilities Unit of employees possessing State telephone calling cards that have left the Department.

Recommendation: The Department should improve its controls and procedures to ensure a more complete review of telephone calling reports and calling cards. (See Recommendation 10.)

Agency Response: "As the auditors' indicated, the Department has implemented a procedure to distribute all calling card and cellular telephone reports to the appropriate management for the respective employees. The reports are returned to the Office of Property and Facilities, signed by the individual employee as well as an appropriate supervisor.

Regarding fixed telephones, the Department has different types of facilities with different types of telephone systems. Our over 70 garages, for example, do not have sophisticated telephone switches that have the ability to provide a printout of all outgoing calls from a specific telephone. In addition, the only outgoing calls that can easily be identified for these types of facilities/switches are the toll calls appearing on the monthly bill, all non-toll calls are included in the monthly service charge and do not appear on a bill.

The Department will examine the concept of a random printout for each telephone number for telephones located in our major administrative facilities, with the printouts to be distributed to the appropriate level of management in each respective area, with a transmittal that states:

'This randomly selected data has been provided for your use in reviewing the telephone calls that have been made by your staff for the specified time period. Please review it to insure that the State has not incurred expense for non-business related calls. Please inform us only if there are any questionable charges. Do not return printouts that are acceptable to you.'

Pertaining to State Calling Cards, the Department has established a procedure to automatically obtain from Personnel a copy of a report entitled "Turnover Report - Separations" which lists who has been separated from State service along with the effective date. Once we have this information, we can immediately cancel the card."

Monitoring of Usage of Internet Resources:

Our current review of the Department's controls and procedures to monitor the use of State Internet resources disclosed the following:

Criteria: Department of Transportation - *Administration Policy Statement No. 7* and Department of Transportation - *Personnel Memorandum #96-2*, both specify that State time, facilities, equipment, supplies and materials must be utilized only for official State business and that their use for private or personal or other non-State purposes is prohibited.

Condition: Our review of the controls and procedures of the Department's information systems found there was no blocking control or monitoring software in place to prevent the misuse of Internet resources.

Effect: Misuse of State Internet resources can occur and not be detected.

There is no assurance that State Internet resources are used for appropriate and productive purposes.

Cause: The Department's computer system is not equipped with the necessary blocking and monitoring software to limit and monitor access to Internet sites that are not related to Department operations. According to Department officials the appropriate software has been purchased and plans are in place to install such controls. At the time of our review (April 2003) such controls have not been implemented.

Recommendation: The Department should establish administrative controls and monitoring over its Internet resources. (See Recommendation 11.)

Agency Response: "The Department's access and use of the Internet continues to evolve. Currently, Department Information Systems staff is working with the Department of Information and Technology (DOIT) to redesign and bring its web pages into compliance with DOIT standards. Ongoing work on the Internet access includes the establishment of acceptable Internet monitoring and controls. While Department employee Internet acceptable use policy is delineated in specific personnel policy, the technical controls to augment the policy are not fully implemented.

The Department's Internet access does, however, undergo a certain level of monitoring and control. Nemx content filtering software that disallows the sending and receiving of e-mail messages containing certain words or phrases controls the e-mail system. This software was implemented within the past few months and has effectively blocked e-mails containing inappropriate and non-business-related messages.

The Department's general Internet Service Provider (ISP) access is routed through DOIT where a proxy server is employed. The proxy server intercepts Internet requests coming from client computers. If the particular web page is not on the proxy server's access control list, the request is processed and the web page information is sent back to the requesting client. When a client attempts to access a web site that is on the proxy server control list, the client receives a message indicating the URL is not accessible or valid. Establishment and monitoring of the proxy server control list is the responsibility of DOIT.

Additionally, the Department acquired a software package designed to further enforce its Internet acceptable use policy. This web filtering solution allows proactive monitoring, managing, and, if necessary, blocking access to inappropriate web sites. The product is Elron's Web Inspector, Reporting and Filtering software. Although the Elron software is not yet fully implemented, the capability to view Internet sites accessed by a particular computer, based on the user's unique identification, is available. The software has not been configured to block access to particular web sites. However, this capability is intended for activation and it is considered a priority implementation within the Department's Office of Information System's workload."

Cellular Phones Issued by Contractor to Department Employees:

As part of a project to install an Incident Management System on Interstate highways 84 and 91 in the Hartford area, an agreement was made with the contractor to furnish cellular telephones to Department managers.

Criteria: Department of Transportation - *Administration Policy Statement No. 7* states, "Employees shall not use Department supplies, materials, equipment or its facilities for personal or private business or other non-State purposes."

Condition: As specified by the construction contract, the contractor issued cellular phones to the Commissioner, the Deputy Commissioner, the Bureau Chief of Engineering and Highway Operations, the Administrator for Highway Maintenance, the Director of Highway Operations, five Directors for Highway Maintenance and two Incident Management Supervisors in February 1999. A total of 12 phones were issued, of which 7 were actively used. The employees that were issued these phones had already been issued Department cellular phones. The construction of the project began in June 2000, and its planned completion date was June 2003, at the time of our review (April 2003), the use of the phones was still continuing.

Our review of the billings for these phones for the period of April 1999 through May 2001, identified a certain amount of personal use. The billings for the seven phones showed a total of 310 calls that we observed were not related to the installation of the Incident Management System or other State business.

Effect: The cost of these phones could have been an unnecessary addition to the contract price of the project. There were employees that may not have necessarily needed these phones. Although not specifically prohibited by Statute, the personal use of contractor provided and paid equipment by Department employees lends the appearance of impropriety.

Cause: The justification for the agreement stated that the Department's current cellular phones did not provide the required level of services and the Department's two-way radio system was also not suitable for the needs of the project. The contractor issued the digital cellular phones so that the Department's incident management staff could be contacted during highway accidents or other emergencies. It was the intention of the Department that, if the application of the new cellular service was successful, the phones currently issued and paid for by the Department would be upgraded to the new service.

Conclusion: We are not making a recommendation on this matter. The Department has periodically reminded its employees of the prohibition against the personal use of Department resources.

Calculation of the Gasoline Additive Rate:

The Department of Transportation calculates an additive rate that is designed to recover the costs of operating its fuel distribution system. The rate is applied to the price per gallon on billings to other State agencies purchasing fuel at Department operated pumps. Our review of the data and method used to calculate the rate for the 2000-2001 and 2001-2002 fiscal years disclosed the following:

Criteria: Handling charges designed to recover costs should include all direct and indirect costs, and should make adjustment for prior year over or under recoveries.

Condition: As noted in our previous audit, the Department did not prepare a depreciation schedule and include the depreciation of its new automated fuel delivery system.

Our previous audit also noted that the calculation of the additive rate did not include prior year under recoveries. Our current review found that it has not yet done so.

Effect: The gasoline additive rate charged does not reflect the true cost of operating the Department's fuel distribution system. The automated fuel system cost $632,000 to install, and the depreciation of this system should be included in the charges for its operation.

Cause: In response to our original finding, Department officials explained that because the cost of the automated system was funded by a grant from the Office of Policy and Management and not from Department appropriations, they did not intend to recover the depreciation of that system.

Conclusion: Department officials stated that when enough historical data is accumulated, they would again include prior year over or under recoveries in the calculation of the gasoline additive rate. They again stated they would not include the depreciation costs for the system.

Interagency Agreement - Police Services at Bradley International Airport:

Our previous audit noted that the Department of Public Safety provides the services of State Troopers and Airport Police for Bradley International Airport. These services have been provided for many years without the benefit of a negotiated and executed agreement between the Department of Public Safety and the Department of Transportation. In the 2000-2001 and 2001-2002 fiscal years, payments from the Bradley International Airport Operations Fund to the State General Fund - Department of Public Safety totaled $3,910,874, and $6,347,778, respectively. For the 2002-2003 and 2003-2004 fiscal years, those costs were budgeted at $7,200,000 and $3,080,000, respectively. Our follow-up review of the payments made for these services disclosed the following:

Criteria: Generally accepted accounting principles for governments provide that each fund is a distinct fiscal and accounting entity. Proper business practice requires services granted between State agencies and the transfers between funds to compensate for those services, to be based on a written agreement or memorandum of understanding.

The Federal Transportation Security Agency identifies the level of services, whether law enforcement officers, or security service personnel, that are required for the various restricted areas of Bradley International Airport.

Condition: Our current review again found that no formal agreement has been prepared. The Department of Transportation and the Department of Public Safety annually negotiate a proposed level of staffing and a corresponding budget for the State Police services at Bradley. However, this negotiation does not establish a formal agreement.

Bradley International Airport does not have specific administrative control over the level of services provided and also does not have complete control over the costs of these services. Components of its operating budget are subject to the approval of the airlines. Services provided by the Department of Public Safety in excess of those agreed to would be paid from appropriations of the Department of Public Safety. The Bradley International Airport Operations Fund cannot cover additional costs.

Effect: Without a properly executed agreement, the level of services provided is not properly defined and subject to dispute. The Department of Transportation is less able to control the costs of operating Bradley International Airport, and excessive security costs can affect the Airport's ability to compete in the marketplace.

In addition, the applicable accounts for both State agencies may not be charged or compensated for the proper costs resulting in an inaccurate presentation of financial activity.

Cause: Originally, the Department of Transportation and the Department of Public Safety could not come to an agreement. With the introduction of the Federal Transportation Security Agency, the completion of an agreement is made more complex.

Recommendation: The Department should execute an agreement with the Department of Public Safety for the police services at Bradley International Airport. (See Recommendation 12.)

Agency Response: "The Auditors write-up concerning Airport security costs and the absence of an Interagency Agreement included in the Preliminary Audit Findings is correct in terms of the costs incurred from fiscal year 2001 through the current fiscal year 2004 budget. The Airport's successful efforts at controlling security costs through budget negotiations with the Department of Public Safety and outsourcing services where possible is also correctly stated. However, the finding that there is no fixed or maximum amount for specific services charged is not correct. For example, the fiscal year 2003 budget negotiations were directly related to analysis of the number and extent of the security patrols required in the post 9/11 environment. This resulted in a $1,000,000 reduction to the budget proposal submitted by Public Safety and a full understanding of the specific services that would be paid for. A similar process was followed for Public Safety staffing of vehicle parking checkpoints, and in the recent negotiations to outsource certain services, thereby reducing Public Safety staffing requirements, and in the budget development process for fiscal year 2004 (where overtime was extensively cut). For over a year, the Department's Bureau of Aviation and Ports has routinely adjusted Public Safety invoicing where inconsistent with

established service requirements.
The Department agrees it should execute an agreement with Public Safety for police services at Bradley International Airport. The Department has attempted to negotiate such an agreement in prior years. It is the Department's position that such an agreement should specifically define the services required at the Airport. In particular, the staffing and budget necessary to provide those services, and a reporting framework that allows Airport management to fulfill its obligation to establish and implement the Airport Security Plan in accordance with applicable Federal Aviation Administration regulations. The Department will again propose an agreement with Public Safety and continue to use the budget development and expenditure reimbursement process to manage the relationship until an agreement is executed."

Calculation of Longevity Payments:

State employees who have completed ten or more years of service are granted continuing semiannual longevity payments. Our previous audit cited the Department for errors made on the calculation of these payments. Our current audit reviewed a random sample of these payments and found the following:

Criteria: The amounts and extent of longevity payments to State employees are established by Section 5-213 of the General Statutes as well as the provisions of various collective bargaining agreements. Longevity payments are based on the number of full years of eligible service time and the salary or wage group of the employee.

Condition: In a test of the longevity payments made to a sample of 20 employees, we found two that had recorded eligible service time that was higher than the amount calculated by our audit. One of these errors resulted in an overpayment to the employee. In one of these exceptions, the initial calculation for longevity payments was made during the audit period. In the other exception, the initial calculation for longevity payments was made during previous years, and that error was continued forward.

Our audit conducted an additional sample of 25 employees who were continuing to receive longevity payments, and verified their service time. We found four out of the 25 had errors relating to the calculation of service time. One error resulted in an overpayment to an employee.

Effect: The overstatement of eligible service time could result in employees receiving longevity payments and/or increases to longevity payments before they were eligible, resulting in overpayments to employees.

Cause: It appears that the errors occurred when unpaid leave time or breaks in State service were not properly deducted from service time.

Recommendation: The Department should use more care in the calculations of State service time to avoid longevity overpayments. (See Recommendation 13.)

Agency Response: "Prior to May 22, 2001, longevity payments were calculated from an Employee History System (EHS) computer system field that was used to calculate all types of seniority, which may have different criteria on which seniority is based. Extended leaves of absence without pay do not qualify under longevity seniority and had to be deducted in order to prevent overpayment of longevity monies. However, in order not to adversely affect vacation and sick leave accruals, this deduction could not be made until the end of the calendar year (i.e., after the October longevity payment had been made), which resulted in the overpayments noted in the report.

As of May 22, 2001 the EHS program was modified to include a new field that calculates longevity separately from other types of seniority credit on an ongoing basis without affecting the vacation and sick leave accruals. Therefore, the errors noted should not occur in the future."

Audit Reports - Bradley International Airport Parking Operations Fund:

The Department has contracted with a private vendor to construct and operate certain parking facilities at Bradley International Airport. Revenues to be used to repay bonds issued to pay for the construction of garage parking facilities are collected by the vendor and deposited with a trustee.

Criteria: On March 1, 2000, the Department of Transportation entered into an agreement with a private vendor to operate surface parking lots and to construct and operate a parking garage at Bradley International Airport. In April 2000, the State of Connecticut issued bonds to provide funds to finance the cost of the acquisition and the construction of the garage parking facilities. Under the Trust Indenture, the vendor is required to provide an annual audit of the books and records of its operations.

Condition: As of the conclusion of our audit fieldwork (June 2003), the Department had not yet received final audited financial reports for the Bradley International Airport Parking Fund for the fiscal years ended June 30, 2001 and 2002. The final audited financial report for the fiscal year ended June 30, 2000, was not received until June 2002, and, as of June 2003, it has not been accepted as final.

The existing parking lots were operating and providing revenues for the vendor since the implementation of the agreement. The new garage opened and began providing revenues in September 2001. Subordinate to the repayment of the bonds, a share of the revenues from these facilities is due and payable to the State.

Effect: Audited financial reports are not presented on a current basis. The State may not be properly informed of possible risks of noncompliance with the Trust Indenture.

Cause: There were unresolved matters pertaining to the recovery of home office overhead by the vendor. Until the recovery charges were resolved, final financial statements could not be provided.

Recommendation: The Department should ensure that conditions preventing the timely completion of audit reports for the Bradley International Airport Parking Fund are resolved, and the reports are promptly submitted, reviewed, and accepted. (See Recommendation 14.)

Agency Response: "Preventing the timely completion of audit reports for the Bradley International Airport Parking Fund, the condition of home office recovery was being addressed in an amendment to the parking lease agreement. However, the parking operator was not willing to accept certain financial definitions and criteria requested to be included in the amendment by the State Properties Review Board. This effectively concluded the issue of home office recovery from the Department's perspective. Completion of the audit reports became further entangled in litigation brought by the parking operator seeking declaratory judgement on whether it is responsible for certain vehicle inspection costs, and whether the Department may use certain bond funds to recover the cost of additional improvement made to the garage. The court only recently settled this issue. It is the Department's position that conditions preventing timely completion of the audits have been removed."

Prompt Federal Billing:

To maximize resources to the State, the Department is required to, within Federal laws and regulations, promptly bill the grantors of Federal assistance programs for expenditures incurred for the benefit of those programs. The Department maintains two Federal billing units; one in the Bureau of Administration and Finance for highway and transit related projects and programs and the other in the Bureau of Aviation and Ports for airport related projects.

Criteria: To maximize the benefit of Federal financial assistance, sound business practice requires the prompt billing, receipt and deposit of Federal grant receivables.

Condition: In the Bureau of Aviation and Ports we found several construction projects that were not promptly billed to the Federal Aviation Administration. Of the three projects we sampled, all three did not have project expenditures billed on a timely basis. Two of the three projects had not been billed for approximately seven to nine months, and we found that the projects had incurred monthly expenditures from $664 to $795,569 that were eligible for reimbursement during this period. When these projects were finally billed, the receivable amounts totaled $1,545,675 and $1,393,929. The third project had a receivable balance that increased from $46,598 to a total of $123,028, from November 2001, through September 2002, when the project was given final billing.

In the Bureau of Finance and Administration we found that a $1,348,429 receivable from a Federal government program recorded in the Department's records as having been billed and received had neither been billed nor received. The error occurred in October of 2001. After reporting our findings to the Department, the billing was processed and the $1,348,429 was received in September 2002. This matter was reported in our *State of Connecticut - Single Audit Report for the Fiscal Year Ended June 30, 2002*.

We also identified two other transactions in the Bureau of Finance and Administration that were not promptly billed to the Federal grantor. One was a transaction for $8,947 that occurred in October of 2002; the Federal billing for this amount was not processed, and the funds not received, until the end of March 2003. The other was a transaction for $671, which was recorded as billed as of August 2002, but was not actually billed until October 2002.

Effect: The State is deprived of the use of financial resources and of any interest income that would accrue for the period that any Federal grant drawdown and/or receipt is delayed. In addition, there is no assurance that when a claim for reimbursement is prepared, all applicable expenditures are billed, including manual entries, and that any errors made are identified and corrected.

Cause: In the Bureau of Aviation and Ports, agency personnel explained that the report that provides the eligible expenditures for Federal reimbursement information was not readily available for prompt Federal billing. Also, one of the projects was not promptly submitted for reimbursement because it was going through the project close out process, which can be lengthy.

In the Bureau of Finance and Administration we found the delays were caused by manual adjustments that were made to a computerized system. These adjustments were not accounted for and there were no offsetting controls in place to detect the unbilled expenditures.

We found that an unbilled receivable can be reflected on the Federal Project Account Ledger in the Bureau's Federal billing system as billed. This can result from manual adjustments used to transfer unbilled balances from expended grant awards to other grant awards with remaining funds. Because of the design of this system, these manual adjustments are required to transfer unbilled balances from an expended grant award to another grant award. When such entries are made, postings are automatically made to both the billed and received totals on the ledger, without regard to whether that billing was actually made and the reimbursement received.

Recommendation: The Department of Transportation should revise its controls and procedures to ensure that all Federal grant receivables are promptly billed and collected. (See Recommendation 15.)

Agency Response: "The Department has developed an accrued unbilled report for Federal Transit Administration billable amounts due the Department.

The accrued unbilled report has a column that addresses the action(s) taken by the administering bureaus involved and the Federal Billing Section. Federal Billing Section staff reviews all amounts on the accrued unbilled report in excess of $1,000 to determine if there are additional actions that can be taken to recover the unbilled federal funds. If there are, a manual billing is prepared during the following billing period. The supervisor of the Federal Billing Section reviews the accrued unbilled report and verifies that all actions taken by section staff, specifically amounts that could be billed, were included on the claim schedule and billed on the electronic payment request form.

The Department's Internal Audit Unit will audit the accrued unbilled report to insure that all necessary steps are taken to recover billable charges from the Federal Transit Administration.

This procedure was instituted on the first billing period in February 2003.

The Department's Bureau of Aviation and Ports is transitioning the Federal billing function from its Accounts Payable Unit to its Revenue Accounting Unit, and in the process is implementing a more systematic approach to Federal billings."

Federal Billings for District 1 Force Account Work:

In January 2002, the Department's Internal Audit Unit released a report describing billing errors made by its District 1 construction office. The Department bills and collects reimbursements from the Federal Highway Administration for certain preventative highway maintenance expenses that meet the Federal requirements. We are including a finding as follows:

Criteria: The *U. S. Office of Management and Budget (OMB) Circular A-87* lists requirements affecting the allowability of costs for Federal reimbursement. Paragraph C of OMB Circular A-87 states that, "to be allowable under Federal awards, costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards." Paragraph D of OMB Circular A-87 states that, "one of the direct costs chargeable to Federal programs are costs of materials acquired, consumed or expended specifically to the execution of grant programs."

Policies and procedures of the Bureau of Engineering and Highway Operations of the Department of Transportation require all costs charged to a project to be applicable to that project.

Condition: The Bridge Maintenance Section of District 1 included charges for materials that were either not used, or only a portion of which was used on a Federally billed project. A ladder, small tools, office supplies, and employee's meals were improperly charged to Federal programs. The Department's Internal Audit Unit reviewed the expenditures for ten Federally reimbursed projects. For the 203 transactions tested, exceptions were identified in 101 of them.

This matter was reported to the Auditors of Public Accounts, the Governor, and the State Comptroller in a memorandum on March 5, 2002.

Effect: The Department billed the Federal program for unallowed costs. The sampled transactions totaled $484,872, of which $42,096 were identified as questionable charges.

Cause: Record keeping for small items, such as supplies, tools, and materials from the Department's central stores did not receive the same attention from management as major project expenditures.

Conclusion: The Department's Bureau of Engineering and Highway Operations has responded to the findings and has implemented corrective action. Training has been provided to bridge maintenance personnel on the proper method of completing project record keeping forms, which was followed by the introduction of monthly examinations of project records. The questionable charges identified were investigated, and any charges made in error were journal vouchered from the system. Because the Department appears to have settled this matter appropriately, we are not making a recommendation.

Vehicle Fleet Operations - Underutilized Vehicles:

Our audit reviewed the utilization of vehicles leased from the State motor pool and kept on hand at the Newington headquarters and at district offices for daily use. We are including a finding as follows:

Criteria: The retention of State-owned vehicles for Department business should be made in the most cost effective manner. It is accepted practice that when needed for a limited number of days each month, it is more economical to reimburse employees for the use of their personal vehicles, rather than incur monthly leasing charges by retaining State motor pool vehicles.

Condition: Our review conducted a sample of the State motor pool vehicles leased by the Department. We identified 29 vehicles, retained on monthly leases for an entire year, that were used only an average of 7.4 days and 427 miles each month. The Department pays the Department of Administrative Services - Fleet Operations a charge of $281 to $365 per month depending on the size of the vehicle.

During the time we were conducting our review (April 2003), the Department of Administrative Services contacted all State agencies informing them of a fleet mileage study designed to eliminate underutilized vehicles. The goal of the study was a potential 20 percent reduction in the State fleet. A complete examination was made of all vehicles that were used an average of less than 1000 miles per month; as a result, a total of 106 vehicles were identified. The Department responded to that inquiry by justifying the retention of 60 of these vehicles and by agreeing to return 46 to the Department of Administrative Services.

Our audit reviewed the Department's justification for retaining the remaining 60 vehicles and found 9 that were assigned to managers on the basis that those persons could possibly be required to respond to emergencies during non-business hours. Our review of the past usage of these vehicles found that most of these vehicles were never used for this purpose; and the vehicles were assigned to individuals that did not have duties that directly affected the safety of the public. In general, much of the use was for home to office travel. If in the unusual event that such a response is required, affected employees could always be reimbursed for the use of their personal vehicle.

Effect: The Department has paid for the use of State fleet vehicles when it would be more cost effective to reimburse employees for the use of their personal vehicles. We estimate that for the 46 vehicles identified by the Department of Administrative Services as underutilized and designated to be returned, and for the 9 vehicles cited above that were assigned to managers, approximately $500,000 could be saved each year by eliminating State vehicles and instead, reimbursing employees for the equivalent mileage.

Cause: In the past, the Department did not employ a more critical review of its leased vehicles to identify surplus vehicles that could be returned to the State fleet.

Conclusion: In June 2003, the Department returned the 46 vehicles cited above to the Department of Administrative Services motor pool. Department officials stated that they would continue to examine the assignment and utilization of State-owned vehicles.

Vehicle Fleet Operations - Mileage Reports:

Our audit reviewed the submission of monthly mileage reports for those vehicles owned by the Department and the vehicles leased from the State motor pool. We are including a finding as follows:

Criteria: According to the Department of Administrative Services - *General Letter 115 - Policy for the Use of State Owned Motor Vehicles*, monthly usage reports for State-owned vehicles are to be completed in every detail as specified. These reports shall be forwarded to the Director of Fleet Operations by the 15th of the following month, and shall be certified by the operator as true and correct and certified by the agency head as travel essential to the agency's official business. Drivers of Department owned vehicles are required to prepare an Equipment Rental Report and submit that report to the Office of Finance, Bureau of Finance and Administration.

General Letter 115 also states that all State-owned motor vehicles shall be identified in a manner prescribed by the Director of Fleet Operations.

At the time of our review (April 2003) the Department had 131 of its own vehicles and 88 State motor pool vehicles that were garaged at employees' homes.

Condition: Our review identified two motorcycles used in the Department's motorcycle safety program that were registered for road use and stored at the Department's Newington headquarters. These motorcycles were not marked as State vehicles and were used for travel throughout the State. We found that monthly mileage reports were never prepared for either of these vehicles.

In addition, our review found other State vehicles assigned to Bradley International Airport for which monthly mileage reports were not properly prepared. The reports were for vehicles garaged at employees' homes and did not detail the miles driven each day, or the total miles driven for the month.

Effect: The Department is not in compliance with the Department of Administrative Services directive.

Cause: The Department did not maintain controls and procedures to ensure that monthly mileage reports were prepared and submitted. In addition, it was believed that vehicles "owned" by Bradley International Airport were exempt from the requirement.

Recommendation: The Department should require that the operators of all State-owned vehicles prepare and submit complete monthly mileage reports. (See Recommendation 16.)

Agency Response: "The Department's Office of Property and Facilities Services has control over the fleet that the Department rents from the Department of Administrative Services (DAS). All procedures have been followed properly for those vehicles. The Department will re-emphasize the importance of timely submissions of monthly mileage reports by the operators of all State-owned vehicles to the various Bureau Heads, and will address the issue of mileage sheets for vehicles assigned to Bradley International Airport.

It should also be noted, that the motorcycles used in the Department's motorcycle safety program were, in fact, registered and plated properly. It is not customary for motorcycle size plates to be presented in the 2-x format."

Property Inventory Records:

Our review of the Department's expenditure records identified newly purchased equipment that was either recorded on the property inventory records at an incorrect value or not recorded at all.

Criteria: Section 4-36 of the General Statutes provides that each State department shall establish and keep an inventory account in the form prescribed by the Comptroller, of all property, real or personal, owned by the State.

The *State of Connecticut - Property Control Manual* issued by the State Comptroller requires State agencies to maintain a property control system that includes the acquisition costs of personal property. Agencies are to annually report all property owned by their respective agency, including acquisition costs, on an annual property report to the State Comptroller.

Condition: The Department's purchase of ten rail cars was recorded on the Department's inventory records at amounts less than their actual costs.

A purchase of computer hardware was not recorded on the Department's inventory records.

Effect: The Department's inventory records were understated by $18,329 for the rail cars and $97,001 for the computer hardware. The ten rail cars and the computer hardware were received prior to the submission of the Department's annual property report to the Comptroller; therefore, that report was understated by $111,664, a total that reflects the first year depreciated value of the rail cars.

Cause: When purchases of property are made, the unit initiating the purchase is responsible for forwarding a copy of the purchase order to the Property and Facilities Management Unit. They rely on the amounts included on the purchase order to record the original costs of property.

The Property and Facilities Management Unit received the purchase order for the rail cars, but when the purchase was amended, increasing the cost of the rail cars, the Bureau of Public Transportation did not forward a copy of the amendment to the Property and Facilities Unit.

Relative to the purchase of the computer hardware, personnel from the Property and Facilities Management Unit stated that they did not know if the equipment in question needed to be tagged and added to the inventory records or if the equipment increased the value of existing equipment. At the time of our review (April 2003) the issue was not resolved.

Recommendation: The Department's annual property report to the Comptroller should accurately report the acquisition costs of all included property. (See Recommendation 17.)

Agency Response: "The Auditors identified two issues, the first of which included ten rail cars purchased by the Department's Bureau of Public Transportation being placed on the Department's inventory at the incorrect value. A purchase order amendment increased the value of the cars that the Department's Office of Property and Facilities was not made aware of. As a result, the Department's Office of Information Systems developed a new Asset Management Information System (AMIS). This system links directly to the Department's Financial Management Information System (FMIS) so that the Office of Property and Facilities is immediately informed of all purchase orders and purchase order amendments that result in additions or changes to our inventory. The scenario identified by the auditors is a perfect example of the kind of situation the new system would preclude from happening. The new system is expected to go live during the summer of 2003. We do not know what impact CORE-CT will have on this system; it may negate the benefits the new AMIS system offers if CORE-CT cannot integrate the information properly.

The second issue is that computer related purchases were not recorded on the Department's inventory records. The purchase in question was related to server hardware and a server rack. The Department's Office of Information Systems inventories its server equipment under the rack in which it resides. Due to layoffs in the Office of Information Systems and the extended absence of key personnel that deal directly with this equipment, Office of

Information Systems' personnel were unable to determine under exactly which rack inventory number to assign some of the equipment that was purchased. Subsequent to the return of key personnel, the equipment was coded in the appropriate location and the values added to the proper inventory tag."

Issuing of Plans and Specifications, and Book, Map and Plan Sales:

The Department maintains two sales operations at its annex at Pascone Place in Newington. One office is for the distribution of plans and specifications to prospective bidders for new projects. The other office is for the sale of extra plans and specifications of projects for which bidding is completed and construction is to start, as well as the sale of books and maps.

Criteria: The *State of Connecticut Accounting Manual*, issued by the State Comptroller, provides that, where feasible, accountability reports that compare the moneys actually recorded with the moneys that should have been accounted for should be prepared.

For economy and efficiency, proper business practice would promote the consolidation of near duplicate administrative functions.

Condition: Our review found that in the office issuing plans to prospective bidders, no accountability report was prepared to account for the total receipts collected and to reconcile that total to the expected revenues resulting from the total number of plans issued. Such reports are currently prepared for the map, book, and plan sales.

Effect: Without accountability reports, control over the number of plans and specifications issued is lessened. By not combining the efforts of the personnel from both sales operations, the duties of cash collection and recording are not segregated, lessening the internal controls over both operations. Also, additional costs may be incurred, due to a duplication of effort.

Cause: Although both operations are located near one another, the two offices were originally established as separate entities; book and map sales are part of the Property and Facilities Unit of the Bureau of Administration and Finance and the distribution of plans and specifications is part of the Contracts Unit of the same Bureau. There was no effort to combine the functions.

Recommendation: The Department should require accountability reports for the distribution of project plans and specifications. It should also consider combining the administration of these transactions with the map, book, and plan sales. (See Recommendation 18.)

Agency Response: "The audit report states that "no accountability report was prepared for the total receipts collected and to reconcile that total to the expected revenues resulting from the total number of plans issued." The Department's Contract Section does have procedures to account for the number of plans and specifications that are actually sold to the contractors, and this information is maintained daily. When checks for plans and specifications are received from the mailroom, a staff member from the Contract Section signs for receipt of the check. The cost of the plans and specifications are then broken down into account types and forwarded to the Accounts Unit to be deposited.

All of the plans and specifications that are reproduced are not sold solely to contractors; therefore, it is not feasible to reconcile that amount to the expected revenues. Plans and specifications are also reserved from the number reproduced for each project for DOT personnel, DBE contractors, and the low bidder.

An accountability report outlining plans and specifications will be developed and maintained on a monthly basis. We will also review the feasibility of combining the plan sales operation with printing services (map, book, and plan sales)."

STATEWIDE SINGLE AUDIT FINDINGS:

We have conducted Single Audits of the State of Connecticut's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal years ended June 30, 2001 and 2002. Our examination of the Department of Transportation's financial records for the fiscal year ended June 30, 2002, disclosed audit findings that were not required to be reported to the Federal government. These findings were immaterial instances of noncompliance with Federal requirements, as well as certain matters involving the Department of Transportation's internal controls over compliance with Federal requirements. The two audit findings are described below:

Davis-Bacon Act - Quarterly Wage Checks:

Background: Under the Davis-Bacon Act, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 that are financed by Federal financial assistance, must be paid wages no less than those established for the locality of the project (prevailing wage rates) by the Department of Labor. The Department bills and receives reimbursements from the Federal Highway Administration and Federal Transit Administration.

Criteria: In order to enforce compliance with the Davis-Bacon Act, the Department had established a policy, for projects under $5,000,000, that required construction inspectors to perform one monthly wage check on prime contractor employees and one monthly wage check on employees of each subcontractor actively working on the project. For projects over $5,000,000, monthly wage checks are required on two employees for the prime contractor and one monthly wage check on employees of each subcontractor. Wage checks are not required for those employees whose wage rates have already been tested. In addition, construction inspectors are to verify that contractors and subcontractors furnish certified copies of payrolls to the Department.

To document this testing, the Department has developed a set of procedures and forms that construction offices are required to use.

Condition: Our audit at one District Office of the Office of Construction, Bureau of Engineering and Highway Operations found, as with previous audits, some errors in the preparation of the Monthly Wage Check Summary Reports and Monthly Wage Check Compliance Review Forms. The monthly wage checks were being made. However, the number of wage checks reported on these documents did not always match each other, or the number of wage checks (CON-131 Form) we found on file. We considered this to be either a clerical problem or an issue of timing differences.

The Department issued a memorandum on August 6, 2002, that discontinued the use of Monthly Wage Check Compliance Review Forms, and implemented a revised Monthly Wage Check Summary Report. Our previous and current audits disclosed that the Compliance Review Forms were not properly prepared, and in some cases construction personnel were instructed not to prepare them at all. Because the Monthly Wage Check Summary Report requires the review and signature of the Project Engineer, which is a supervisory internal control, we considered their proper preparation to be essential.

Our audit at the Department's Office of Rail in the Bureau of Public Transportation found that the Monthly Wage Check Summary Reports were never prepared for the New Haven rail yard project. For the Milford Station project, we discovered that they were prepared shortly before our arrival. Our discussions with Department officials disclosed that the construction personnel were instructed not to prepare these reports. It was not until the memorandum that implemented the revised procedure was brought to its attention, and our audit review, that the Office of Rail began to prepare the Monthly Wage Check Summary Reports. We also found the reports prepared for the Milford Station project were not signed as reviewed by a project engineer.

Effect: Although conditions have improved, the Department is not completely complying with its policies and procedures. Consequently, there is less assurance that the controls in place that ensure the Department's contractors comply with the Davis-Bacon Act are effective.

The number of projects that did not have the Project Payroll / Wage Check Monthly Summaries and Labor Wage Check Compliance Review Forms properly completed is indicative of a condition that may be systemic to all of the Department's construction projects.

Cause: Department procedures were not followed. Officials at the Department's District Offices indicated that they have instructed construction inspection personnel on the proper completion of the forms.

Conclusion: The Department has implemented corrective action; therefore, we are not making a recommendation on this matter.

Procurement, Suspension and Debarment:

Background: The Department solicits bids and enters into contractual agreements with various vendors for transit related construction projects and equipment that are partially funded by the Federal Transit Administration (FTA).

Criteria: According to the *Office of Management and Budget - A-133 Compliance Supplement*, “No funds may be obligated by FTA for a grantee project unless all steel, iron or manufactured products used in the project are produced in the United States.” According to the *Code of Federal Regulations - 49 Part 661.13(b)*, “The grantee shall include in its bid specification for procurement within the scope of these regulations an appropriate notice of the Buy America provision. Such specifications shall require, as a condition of responsiveness, that the bidder or offeror submit with the bid a completed Buy America certificate.”

Condition: Our audit found that the Department has not been obtaining certification from each bidder in accordance with the Buy America requirement. Out of a total of 17 FTA projects sampled and tested, we found 15 projects that did not have the Buy America certification included as part of the bid. Our audit noted, however, that such certification was included in all contract documents after the bids were complete and the contract awarded.

Effect: By failing to require bidders to provide certification, contract bids are not valid. Therefore, most FTA participating projects containing steel, iron and/or manufactured products have not been in complete compliance with the requirements; although the Department did monitor compliance after the contract was awarded and construction started.

Cause: Department officials believed that they were following the Buy America compliance requirement by having the language in every contract. They stated that they were unaware that they had to obtain certification as part of the bid process.

Conclusion: After being notified of our finding, the Department immediately agreed to require the appropriate certification from bidders; therefore we are not making a recommendation on this matter.

Reporting Under Section 4-33a Connecticut General Statutes:

Under provisions of Section 4-33a of the General Statutes, in a letter dated August 1, 2001, the Department of Transportation notified the Auditors of Public Accounts and the State Comptroller of the falsification of timesheets by an employee at the Winchester stores facility. At the same time the Governor was also notified of this matter. The investigation identified 61 occasions from May 1999 to April 2001 in which the employee, with the knowledge of his supervisor, coded more hours on his time sheet than he actually worked. The total time involved was over 105 hours. The Department conducted a fact-finding process and subsequently took disciplinary action by suspending the employee and the supervisor. However, we do note that restitution was not required from the employee.

In a letter dated March 5, 2002, the Department of Transportation notified the Auditors of Public Accounts, the State Comptroller and the Governor of an investigation of the abuse of State time and resources by seven members of the District 1 Construction Office. The investigation identified the misuse of Internet resources on a computer supplied by the construction contractor, the failure to properly review and sign inspection reports, inspection reports that were signed by someone other than the preparer, and unsupported claims for overtime hours and mileage payments. The Department conducted a fact-finding process, and as a result, three employees received written warnings, three employees were suspended from three to thirty days, and one employee was terminated.

In a letter dated October 28, 2002, the Department of Transportation notified the Auditors of Public Accounts and the State Comptroller of an investigation of the abuse of State time by members of the Groton Airport Police. At the same time the Governor was also notified of this matter. The investigation identified four officers that while on duty, were not available for passenger screenings but were conducting personal business instead. The Department conducted a fact-finding process that resulted in one officer receiving a written warning and three officers being terminated. The three terminated employees have filed grievances in accordance with the procedures established by the collective bargaining agreement, and at the conclusion of our fieldwork (June 2003), their cases were not settled.

Because the Department appears to have settled these matters appropriately, we will not make a recommendation pertaining to them at this time.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Sixteen recommendations were presented in our previous report. The Department has implemented corrective action for four of those recommendations, two recommendations were otherwise not repeated and one recommendation is repeated as part of our Statewide Single Audit report. Nine recommendations are restated and repeated in this report. The following is a summary of the prior recommendations and the action taken by the Department:

- The Department should seek legislation to amend Section 13b-376 of the General Statutes to restructure the membership of the Operation Lifesaver Committee - Our follow-up review found that the Department has made all possible efforts to improve the operation of the Committee. The recommended legislation has not been enacted. We are considering the Recommendation to be implemented.

- Revisions should be made to the Maintenance Management System to realize its potential to be a useful and effective tool for planning, budgeting, control and reporting purposes - Our follow-up review found that some improvements in accuracy and reporting were made. However, certain reporting errors and data inconsistencies were still found. In addition, our original concerns regarding the cost of operating this system in relation to its effectiveness remain. The Recommendation is repeated in a modified form. (See Recommendation 1.)

- The Department should complete the inventory of surplus real property that is currently in progress. That inventory should include all property that has not been made part of the highway infrastructure. The Department should also implement statutory, policy, and procedural changes that would expedite the process for identifying and disposing of surplus property - Our follow-up review found that the Department has significantly reduced its holdings of surplus property. We also found that the Department has not completed the process of compiling a complete inventory of all surplus property, and in particular, all marketable property. The Department has not implemented the recommended statutory or policy changes to streamline the process of disposing of surplus property. It has considered such changes as unnecessary. We are repeating the Recommendation in a modified form. (See Recommendation 2.)

- The Department should develop an active program to extend the use of Value Engineering studies to those highway design projects for which it is not already Federally mandated - Our follow-up review found there has been no increase in the number of projects in which Value Engineering studies are applied. Department officials indicated that they did not have the resources to implement changes, and existing design practices were effective. We are repeating the Recommendation. (See Recommendation 3.)

- The Department of Transportation should improve its inspection and design procedures so that it could avoid the need for construction orders to the greatest extent possible. In addition, when such construction orders are necessary, the most competitive prices for added items should be obtained - Our follow-up review found that the Department has been implementing improvements in its procedures. However, our review of a sample of four projects found a significant number of construction orders that had an error in project plans, or project plans that did not match actual field conditions, cited as the cause. Our current review also noted construction orders that were not processed within the 90-day requirement established by the

Department. The Recommendation is repeated in a modified form. (See Recommendation 4.)

- Petty cash fund travel advances should be settled promptly - Our current audit found that conditions have improved. However, a significant percentage of travel advances are not promptly settled. The Recommendation is repeated. (See Recommendation 6.)

- The Department should identify, record in its inventory, and report to the State Comptroller, all real property that was not made part of the infrastructure - As noted above, the Department is still in the process of compiling a complete inventory of all it surplus property; our current audit also found that all recent purchases of real property were correctly recorded and reported. Department officials have also indicated that property purchased for current or future projects will be recorded and reported, and a change of status entered when the project was completed. We consider the Recommendation implemented.

- Disaster planning for the electronic data processing system should be improved - Our current audit found that there is still no formal agreement ensuring backup site use. Also, the Department's applications still have not been tested on the backup system. The Department of Transportation's information systems workforce has been transitioned into the Department of Information and Technology, which is the provider of information services for all State agencies. It is the responsibility of the Department of Information and Technology to provide disaster recovery capability for the Department of Transportation's data resources. Therefore, we are not repeating the Recommendation. However, we note that it is still the responsibility of the management of the Department of Transportation to ensure that its provider of information system services ensures adequate data security.

- The Department of Transportation should develop a unified computerized information system for the management of transit grant agreements and addenda - Our current audit found that the recommended system has not been implemented. We are repeating the Recommendation. (See Recommendation 7.)

- The Department should review its policies and procedures pertaining to the collection of receivables due from municipalities and collect or resolve these receivables in a timely fashion - Our current review found that, with the exception of $111,674 due from the City of Waterbury, the long-standing receivables noted in our previous audit were collected. We consider the Recommendation implemented.

- The Department should improve its controls and procedures to ensure a more complete review of telephone calling reports - Our current audit found that the Department does not require its managers to periodically review the calling reports for telephones assigned to their units. In addition, we found that the reports for State issued calling cards were not reviewed, resulting in active calling cards being left in the possession of employees that have left the Department. We are repeating the Recommendation. (See Recommendation 10.)

- The Department should calculate a gasoline additive rate that includes all overhead costs and prior year under recoveries - Our current audit found that the newly calculated rate would include prior year under or over recoveries when enough historical data is collected. The Department has again stated that, because the system received outside funding, it will not include the depreciation of the automated fuel system in its calculation. We are not repeating the Recommendation.

- The Department should execute an agreement with the Department of Public Safety for the police services at Bradley International Airport - Our current audit found a continued need for an agreement that specified services rendered and budgeted costs. We are repeating the Recommendation. (See Recommendation 12.)

- The Department should use more care in the calculations of State service time to avoid longevity overpayments - Our current audit again found minor clerical errors in the calculation of service time. Although only one overpayment resulted from these errors, we are repeating the Recommendation. We also note that the Department is not willing to adjust the records of and recover overpayments from those employees identified in our previous audit that received credit for leap year days. (See Recommendation 13.)

- The Department should put in place monitoring controls to provide reasonable assurance that prevailing wage rates are paid on rail construction projects covered by the Davis-Bacon Act - This finding is repeated and is included in the *State of Connecticut - Statewide Single Audit Report for the Fiscal Year Ended June 30, 2002*.

- The Department should ensure that its District Offices are properly documenting the required wage checks for each project - Our current review found that some deficiencies continued to occur in the documenting of these checks. However, because the Department has implemented corrective action, we are considering the Recommendation implemented.

Current Audit Recommendations:

1. **A decision should be made to either eliminate the Maintenance Management System, or modify it to either reduce the cost of its operation, or make it more accurate and effective as a monitoring, planning, and budgeting tool.**

   Comment:

   Our current audit again found significant variances that were attributed to reporting errors.

2. **The Department should complete the identification and inventory of surplus real property.**

   Comment:

   A follow-up review of our October 1999 - *Performance Audit Report of Surplus Real Property and Real Property Control Systems - Department of Transportation* found that the Department has not fully implemented the recommendation that such an inventory be established.

3. **The Department should develop an active program to extend the use of Value Engineering studies to those highway design projects for which it is not already Federally mandated.**

   Comment:

   > We still believe that the application of Value Engineering to Federal-aid projects is a productive investment. It has only been required for those Federal-aid projects with a cost of over $25,000,000. An expanded Value Engineering program would include Federal-aid projects that cost below that level; and if initial program studies prove to be cost effective, the program could then be expanded to State funded projects.

4. **The Department of Transportation should improve its inspection and design procedures so that it could avoid the need for construction orders to the greatest extent possible. It should also ensure that construction orders receive final approval within 90 days of initiation.**

   Comment:

   > Although the size and complexity of the Department's construction projects may frequently require the need for construction orders, our review identified some that indicated errors in site reviews and project plans. The Department should continue its efforts to improve site inspection and planning procedures.

5. **The Department should revise its polices on the administration of aviation and rail construction projects to establish routine intermediate record reviews.**

   Comment:

   > The Bureau of Engineering and Highway Operations has maintained a staff of headquarters records examiners to ensure that highway project records are maintained in conformance with current policies and procedures. This important control should be extended to all of the Department's construction projects.

6. **Petty cash fund travel advances should be settled promptly.**

   Comment:

   > The settlement of some travel advances continued to exceed the number of days allowed by the State Accounting Manual.

7. **The Department of Transportation's Bureau of Public Transportation and Bureau of Finance and Administration should jointly develop a single unified information system for grant management of transit agreements, budget addenda, and audit reports.**

   Comment:

   This system should be designed to incorporate proper controls to completely track the progress of all agreements, from initiation through close out. It should identify all items that are currently open and provide for an aging schedule that allows the older agreements to be finalized first. At any given time the system should be able to determine the inventory of outstanding items and this number should be communicated periodically to management.

8. **The Department of Transportation should establish and implement a reasonable timetable for project close out and the billing and collection of receivables due from transit grants.**

   Comment:

   Our review found an unreasonable amount of time was allowed to lapse between the time project activities conclude and when the project is actually closed out. The collection of money due to the State and final project close out in the Department's accounting records are not promptly performed.

9. **The Department of Transportation should comply with the provisions of Section 3-7 of the General Statutes in the compromise of disputed claims.**

   Comment:

   The Department of Transportation did not have the authority to modify the repayment terms of an agreement and compromise the collection of an $814,800 receivable from the New Haven Parking Authority without the consent of the Attorney General and the Governor.

10. **The Department should improve its controls and procedures to ensure a more complete review of telephone calling reports and calling cards.**

    Comment:

    The Department does not require its unit managers to periodically review the telephone calls billed to their units. In addition, there is no control to ensure that employees leaving the Department turn in their State issued calling cards.

11. **The Department should establish administrative controls and monitoring over its Internet resources.**

    Comment:

    The Department's computer system is not equipped with the necessary blocking and monitoring software to limit and monitor access to Internet sites that are not related to Department operations.

12. **The Department should execute an agreement with the Department of Public Safety for the police services at Bradley International Airport.**

    Comment:

    The Department has used the services of the Department of Public Safety at Bradley International Airport for many years without the benefit of a formal agreement.

13. **The Department should use more care in the calculations of State service time to avoid longevity overpayments.**

    Comment:

    The overstatement of eligible service time resulted in employees receiving longevity payments, and/or increases to longevity payments before they were eligible.

14. **The Department should ensure that conditions preventing the timely completion of audit reports for the Bradley International Airport Parking Fund are resolved, and that the reports are promptly submitted, reviewed, and accepted.**

    Comment:

    Our review found that as of June 2003, the Department had not yet received final audited financial reports for the Bradley International Airport Parking Fund for the fiscal years ended June 30, 2001 and 2002. The final audited financial report for the fiscal year ended June 30, 2000, was not received until June 2002, and, as of June 2003, has not been accepted.

15. **The Department of Transportation should revise its controls and procedures to ensure that all Federal grant receivables are promptly billed and collected.**

    Comment:

    Our review found various errors in the Federal billing units of the Bureaus of Finance and Administration and Aviation and Ports. In the Bureau of Aviation and Ports we found several construction projects that were not promptly billed to the Federal Aviation Administration. In the Bureau of Finance and Administration we found that a $1,348,429 receivable from the Federal Transit Administration had been recorded as billed and received, but neither had actually been done.

16. **The Department should ensure that the operators of all State-owned vehicles prepare and submit complete monthly mileage reports.**

    Comment:

    Our review found a number of vehicles in which monthly mileage reports were either not prepared, or were not complete.

17. **The Department's annual property report to the Comptroller should accurately report the acquisition costs of all included property.**

    Comment:

    Ten newly purchased rail cars were recorded on the Department's inventory records at amounts less than their actual costs. In addition, a purchase of computer hardware was not recorded on the Department's inventory records.

18. **The Department should require accountability reports for the distribution of project plans and specifications. It should also consider combining the administration of these transactions with the map, book, and plan sales.**

    Comment:

    Our review found that no accountability report was prepared to account for the total receipts collected and to reconcile that total to the expected revenues resulting from the total number of plans issued.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Transportation for the fiscal years ended June 30, 2001 and 2002. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Transportation for the fiscal years ended June 30, 2001 and 2002, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

Compliance:

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

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: There was an inadequate system for the management of grants to transit districts and private carriers, there were poor controls in the Department's Federal billing units, and there were inadequate reviews of the recording of the value of newly purchased property onto the property control records, and of the calculations made of the service time for employees.

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

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

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

CONCLUSION

We wish to express our appreciation for the cooperation and courtesy extended to our representatives by the officials and staff of the Department of Transportation during this examination.

Matthew Rugens
Administrative Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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