



STATE OF CONNECTICUT  
STATE DEPARTMENT OF EDUCATION



October 30, 2007

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New Haven School  
Construction Program

TO: Brian Mahoney, CFO  
Division of Finance & Internal Operations

FROM: Raymond Inzero, Chief  
Office of Internal Audit

SUBJECT: **Final Audit Report – New Haven  
High School in the Community Project No. 093-274 P/EA**

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Attached is the final audit report for the above-mentioned school construction project. This audit was performed pursuant to Section 10-287 of the Connecticut General Statutes.

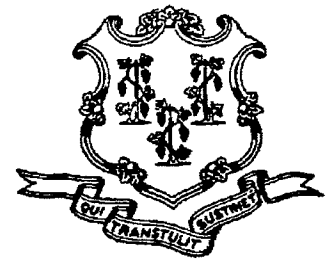
The LEA disagrees with Finding #1 – Ineligible Building and Site Purchase Costs contained in this report. In a letter dated June 26, 2007 from Superintendent Mayo, the LEA presented information in support of the acquisition cost for this property of **\$2,200,000**. We reviewed this information with the department's Division of Legal and Governmental Affairs and the Bureau of School Facilities. Based upon their evaluation of the information presented by the LEA including review of the appraisals, mortgage data, project history and related data; it was concluded that the "As Is Value" appraisal of **\$700,000** by Michaud is valid for this property. The **\$2,200,000** purchase price exceeds this appraised value by **\$1,500,000**. Based upon these circumstances, Finding #1 remains within this final audit report.

RI:r  
Attachments

cc: Vicki Bailey  
Carolina Cudemus  
Karen Flanagan  
Richard LeMay  
Patricia Luke  
Robert Lynn  
Reginald Mayo  
Juanita Mazych  
Mark K. McQuillan  
Tom Roger  
Larry Rusconi  
Stanley Stuart  
David Wedge

**State of Connecticut  
Department of Education**

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# **AUDIT OF SCHOOL CONSTRUCTION GRANT**

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New Haven  
High School in the Community  
Project Number 093-274 P/EA

## Audit Report

***Prepared By***

***The Office of Internal Audit***

***October 30, 2007***

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# PART 1 - PURPOSE AND SCOPE OF AUDIT

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## Introduction

The High School in the Community (HSC) is an interdistrict magnet high school (grades 9-12) located on Water Street in New Haven. HSC had an enrollment of 323 students as of the 2005-06 Strategic School Profile. This school is a faculty run school and has no principal. The HSC school building project was completed in March 2001 and involved the purchase and renovation of an existing building site. Total project costs amounted to approximately \$6 million. This is a 100% State-funded building project.

This school construction project was enabled by Public Act No. 94-2, which states in part, "(a) The town and City of New Haven shall be eligible to receive current payments of scheduled estimated eligible project costs for the purchase, alteration or construction of a new building for the regional magnet high school in the Community, . . . . (c) In no event shall the total payments pursuant to this section exceed the amount authorized for this project pursuant to subsection (a) of section 179 of this act. The commissioner shall provide for a final audit of all project expenditures and may require repayment of any ineligible expenditure."

## Background

Chapter 173 of the Connecticut General Statutes (C.G.S.) provides the authority under which school construction grants are governed. This chapter also defines the role of the State Department of Education (SDE) in the application and monitoring of these grants. Within the SDE are various operating units that play a role in the processing of these grants including, but not limited to the following:

- Finance and Internal Operation (FIO) — The Bureau of School Facilities (BSF), which has assigned responsibility for implementation of the provisions of C.G.S. Chapter 173. Their role includes architectural plan review to ensure compliance with applicable codes, determining general eligibility of costs, as well as, assisting districts in the grant application process, reviewing project data, budget projections, etc.
- The Office of Internal Audit (OIA) which has assigned responsibility for performing audits of school construction grants in accordance with the provisions of C.G.S. Section 10-287(a) which states, in part,

"...final payment shall not be made prior to an audit conducted by the State Board of Education for each project for which a final calculation was not made prior to July 31, 1983."

## Purpose of Audit

To ensure that State grant funds associated with the school construction grant for the High School in the Community – Project No. 093-274 P/EA were expended in accordance with applicable statutes, regulations, and other grant requirements.

## Scope of Audit

Our examination included reviewing, on a test basis, records and documentation maintained at the LEA to support expenditures reported on the EDO-49F dated March 19, 2001. The audit included an analysis of ineligible/limited eligible items as warranted.

The audit was performed in accordance with generally accepted government auditing standards as issued by the Comptroller General of the United States, and included such tests of the accounting records and such other tests as were considered necessary under the circumstances.

Due to the age of this project, the LEA was not able to provide evidence that contracts associated with this school construction project were competitively bid in accordance with section 10-287 (b) of the C.G.S. Since the scope of our audit was limited in this regard, we do not express an opinion concerning the LEA's compliance with this bidding requirement.

## PART 2 - SUMMARY STATEMENT

### Overall Audit Results

As further detailed in Part 3 — Findings and Recommendations of this report, the audit recommends that the SDE - FIO make the following revisions to the reported project line items as summarized in Table I below:

**TABLE I  
SUMMARY OF AUDIT ADJUSTMENTS  
HIGH SCHOOL IN THE COMMUNITY — PROJECT NO. 093-274 P/EA**

ITEM DESCRIPTION	PER LEA	PER AUDIT	AUDIT ADJUSTMENT AMOUNT	GRANT IMPACT	FINDING #
Eligible Purchase Cost	\$2,200,000	\$700,000	(\$1,500,000)	Negative	1
Ineligible Costs	\$0	\$242,096	\$242,096	Negative	2
Other Funding	\$0	\$21,109	\$21,109	Negative	3

The recommendations contained in this report will negatively impact the construction grant payment for this project by approximately **\$1,757,076**. The reimbursement rate for this project is **100 %**.

**TABLE II  
SUMMARY OF GRANT PAYMENTS  
AND ESTIMATED BALANCE DUE LEA/SDE  
HIGH SCHOOL IN THE COMMUNITY — PROJECT NO. 093-274 P/EA**

<u>DESCRIPTION</u>	<u>AMOUNT PER AUDIT</u>
Estimated School Building Grant	\$4,242,834
Progress Payments to Date	<u>\$5,999,910</u>
Estimated Balance Due SDE	<u>(\$1,757,076)</u>

This project was paid as noted in the Table II above, cash grant payments made to the LEA amount to **\$5,999,910**. Based on our audit, the estimated grant amount for this project is **\$4,242,834**. As a result, the LEA owes the SDE approximately **\$1,757,076**.

## **PART 3 – FINDINGS AND RECOMMENDATIONS**

### **High School In The Community – Project No. 093-274 P/EA**

#### **FINDING NUMBER 1 – Ineligible Building and Site Purchase Costs**

This project was originally initiated as a “turn-key” school construction project. The LEA planned to purchase the renovated school building after all renovation work was completed. The nature of the project subsequently changed into a traditional purchase of the building and site and the LEA contracting to renovate to the building.

School Construction Regulations Section 10-287c-13 states, in part,

. . . the purchase price of the building may be negotiated, but the eligible cost of the purchase of the building and site may not exceed the appraised value of the building and its site. . .

Our examination revealed that the LEA obtained an independent appraisal of the building and site that identified an “As Is Value” of **\$700,000** prior to renovations. The LEA paid **\$2,200,000** for this building and site prior to any renovations. According to the above-noted regulations, the purchase price may not exceed the appraised value of **\$700,000**. Therefore, the balance paid by the LEA in excess of the appraisal value, namely **\$1,500,000**, is considered ineligible for grant reimbursement.

#### **RECOMMENDATION**

We recommend that project costs should be reduced by **\$1,500,000** from **\$2,200,000** to **\$700,000** to reflect purchase costs in excess of the appraised value of the property.

This finding will have a negative grant impact.

## FINDING NUMBER 2 – Ineligible Costs

Our audit revealed that the LEA under-reported “Ineligible Costs” by **\$242,096** as detailed in Table A below:

**TABLE A**  
**SUMMARY OF INELIGIBLE COSTS AND AUDIT ADJUSTMENTS**  
**HIGH SCHOOL IN THE COMMUNITY — PROJECT NO. 093-274 P/EA**

ITEM DESCRIPTION	PER LEA	PER AUDIT	AUDIT ADJUSTMENT AMOUNT	EXPLANATORY NOTES
Ineligible Change Orders	0	\$146,947	\$146,947	A
Ineligible - Other Use of Property	0	\$88,549	\$88,549	B
Unsupported Contract Amount	<u>0</u>	<u>\$6,600</u>	<u>\$6,600</u>	C
Total	<u>\$0</u>	<u>\$242,096</u>	<u>\$242,096</u>	

### Explanatory Notes

- A. These items represent unsubmitted/unapproved change order amounts.
- B. This represents a portion of the property which is being used for other than High School purposes. These costs were prorated based upon square footage.
- C. This represents unsubstantiated expenditures over and above the final invoice obtained and is most likely a change order amount.

## RECOMMENDATION

The reported “Ineligible Costs” should be increased by **\$242,096** from **\$0** to **\$242,096**.

This adjustment will have a negative grant impact.

## FINDING NUMBER 3 – Other Funding

The LEA did not report any amount for “Other Funding”. Our review of correspondence revealed that the LEA received rebates for the CL&P Energy Incentive Program in the amount of **\$21,109**.

## RECOMMENDATION

We recommend that “Other Funding Amount” be increased from **\$0** to **\$21,109**.

This adjustment will have a negative grant impact.

We would like to thank Dr. Reginald Mayo, Ms. Juanita Mazyck, Daniel Haim, Susan Weisselberg and Carolina Cudemus for their assistance during the course of our audit.