

**ON-SITE SCHOOL CONSTRUCTION AUDIT
AUDIT REPORT
FINDINGS ACCEPTANCE/NON-ACCEPTANCE**

DATE: June 26, 2007

TO: Raymond Inzero, Chief
Office of Internal Audit
State Department of Education
FAX: (860) 713-7003

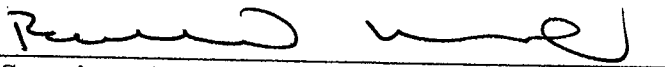
RE: **New Haven High School in the Community
Project No. 093-274 P/EA**

I have reviewed the draft report dated June 12, 2007 for the above referenced project and the findings and recommendations contained therein.

- I concur with the findings and recommendations contained in the report.
- I concur with the findings and recommendations contained in the report except for the following listed item(s).

PLEASE NOTE THAT EACH ITEM LISTED BELOW MUST BE ACCOMPANIED BY DOCUMENTATION. REVISIONS TO THE DRAFT AUDIT REPORT CANNOT BE CONSIDERED WITHOUT DOCUMENTATION IN SUPPORT OF THE DISTRICT'S POSITION.

Finding #1



Superintendent of Schools

New Haven Public Schools

June 26, 2007

Reginald Mayo, Ph.D
Superintendent



Mr. Raymond Inzero
Chief, Office of Internal Audit
State Department of Education
P.O. Box 2219
Hartford, Connecticut 06145

Re: Draft Audit Report
High School in the Community
Project No. 093-0274

Dear Mr. Inzero:

We are in receipt of the draft audit of High School in the Community (HSC), Project No. 093-0274. My staff has reviewed the report and the findings and recommendations contained therein.

As noted on the accompanying draft report findings acceptance/non-acceptance form, we concur with those findings and recommendations except for Finding Number 1, Ineligible Building and Site Purchase Costs. At this time, we would like to schedule an exit conference to further discuss our position and present our additional documentation. A brief statement of our position follows:

The independent appraisal reviewed by the auditor was conducted by Michaud Company. It was dated October 10, 1994 and the value was projected under market conditions prevailing as of September 27, 1994, the date of inspection by the appraiser. The appraisal estimates the value of the property as of July 1, 1995, which is the date that the property was expected to be sold to the City of New Haven upon completion of the improvements to the property. The appraisal indicated a value as of July 1, 1995 of \$3,900,000. The appraisal allocated this value between the estimated costs of the improvements of \$3,200,000 and the "As Is Value" of the property of \$700,000 (see page 65 of appraisal).

The appraisal contained certain General Assumptions (see page 67 of appraisal). One such assumption was that the property was appraised free and clear of any and all liens or encumbrances unless otherwise stated (General Assumption Number 2).

Administrative Offices
Gateway Center
54 Meadow St.
New Haven, CT 06519
Tel. (203) 946-8888
Fax. (203) 946-7300



The appraisal notes that the property is encumbered by mortgages to Connecticut National Bank and to the Joel Cohn Revocable Trust (see page 2 of appraisal). However, no indication of the amount of such encumbrances is indicated, and the encumbrances were not included in calculating the value of the property on an "As Is Value" or after construction of the improvements.

The City of New Haven School District entered into a Purchase and Construction Contract with Knollwood Washington LLC dated as of February 15, 1995 for the purchase of the property by the School District (the "Agreement"). Section 1.4 of the Agreement provides that the seller represents and covenants that prior to its submission of its first payment requisition for the improvements to the project, all persons or entities holding mortgages on the property shall not have a combined outstanding balance on such mortgages in excess of \$2,200,000. The Agreement was subsequently amended by Amendment Number 2, dated March 31, 1995. Section 1.4 was revised to specify the mortgagees and the amount of the mortgages on the property prior to the seller's submission of its first payment requisition. These mortgages are summarized as follows:

1. The Chase Manhattan Bank of Connecticut, N.A. - \$1,200,000 (first mortgage).
2. Trustees of the Betsy Henley-Cohn Irrevocable Insurance Trust Indenture I - \$400,000 (second mortgage).
3. The Chase Manhattan Bank of Connecticut, N.A. - \$250,000 (third mortgage).

This amendment reaffirmed that the seller could not have a combined outstanding balance on all such prior mortgages in excess of \$2,200,000.

The Agreement indicates that mortgages would be outstanding on the property prior to renovation of the project and conveyance of the renovated property. Mortgagees generally do not allow owners of property, particularly non-residential property, to borrow money against property unless there is value inherent in the underlying property. As of March 31, 1995, the seller acknowledged that there was \$1,850,000 of mortgages outstanding on the property. This indicates that the value of the property was worth at least \$1,850,000 as of that date. However, the Agreement and subsequent amendment indicate that the mortgages could increase to \$2,200,000. This indicates that the value of the property was actually \$2,200,000, as third-party lenders were willing to loan that total amount of money against the property.

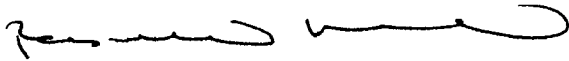
As a separate analysis, the Blue Ribbon Appraisals Company prepared an appraisal of the final project. This appraisal indicated that the final project value was \$6,500,000. This appraisal was not available to the auditor during his examination. School District personnel are attempting to locate a copy of the appraisal and will provide a copy, once it has been located, to the auditor. The variation in the Michaud and Blue Ribbon appraisals was explained in a December 1, 1994 letter to David Wedge (copy attached). Both appraisals were referenced when the State Bond Commission approved \$5,500,000 of funding for the project on December 9, 1994 (see attached copy of Item No. 74 from the December 9, 1994 State Bond Commission agenda). As part of this approval, the Bond Commission approved the acquisition cost of \$2,200,000, after considering the original appraisal and the Blue Ribbon appraisal.

Finally, as the project was being considered and completed during late 1994 and early 1995, Mr. Robert Brewer, Chief of the Bureau of Grants Processing Services for the State Facilities Unit was kept informed of the progress of the project and the expected acquisition cost of \$2,200,000 for the property. (See copies attached)

Based on this analysis and the additional information provided, we respectfully request that the full \$2,200,000 acquisition value of the property be accepted as proper value for purposes of determining the State grant for the project.

Other than Finding No. 1 noted above, we concur with the draft audit report. I would be happy to provide any additional information that may be necessary. Thank you.

Sincerely,



Dr. Reginald Mayo
Superintendent of Schools

cc: Mark Stapleton
David Wedge
Tom Rogér
Robert Lynn
Carolina Cudemus
Daniel Haim
Larry Rusconi
Bruce Chudwick, Esq.

New Haven Public Schools

Reginald Mayo, Ph.D.
Superintendent

Administrative Offices
Gateway Center
54 Meadow Street
New Haven, CT 06519

1 December 1994

Mr. David Wedge
P.O. Box 2219
Hartford, Connecticut 06145

Dear Mr. Wedge:

I am writing in response to your request for an explanation concerning the wide variation in price between the two appraisals of the property known as 167-175 Water Street, New Haven. This is the proposed site of the new High School in the Community School which is being funded under a 6.1 million grant which has been initially approved in the last legislative session.

In reviewing the two appraisals, there are several issues that surface as to the vast difference (approximately 2 million dollars) in prices:

1. In speaking with representatives from Blue Ribbon Appraisers as to why their appraisal was so much higher than the Michaud Company, they felt it was due in part to how the process was approached. As you will note in the Blue Ribbon appraisal, they did not set a price for the property as it currently exists and then add renovation costs. Rather, they looked at the total project and assigned a value, 6.2 million, for the completed facility.
2. Blue Ribbon appraisers has performed several other appraisals for the New Haven Board of Education. In almost all cases, their appraisal has been within 10-15% of the other appraisals being submitted. As recently as November 1994, Blue Ribbon submitted an appraisal for a 7,000 square foot building that the New Haven Board of Education is considering purchasing that came in at approximately \$575,000. The second appraiser valued the building at \$515,000. This accounts for a 10-15% variation.

Additionally, I find it hard to understand how the proposed H.S.C. site comprising 71,000 square feet and approximately 2.7 acres of land can be valued at \$700,000 while these two latest appraisals for a 7,000 square foot building and approximately a 1/2 acre of land can be valued at approximately \$500,000.

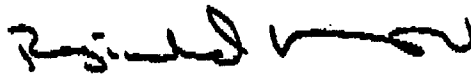
Mr. David Wedge
1 December 1994
page 2

If you review the City of New Haven assessments of the property at 167-175 Water Street it appears the \$700,000 appraisal in no way compares to the \$4,860,000 value placed on the property as of October 1991. This fair market value was assigned to the property by a private firm that re-evaluated all property in the City of New Haven.

In conclusion, I hope you can be supportive of this grant application as it will allow us to relocate the students of H.S.C. to a facility that is large enough to accommodate a larger and more diverse student body. This will be an excellent opportunity to begin the move towards regionalism which has been so highly publicized over the last several months.

If I can be of any further assistance, please feel free to contact me at 787-8888. I look forward to hearing from you.

Sincerely,



Reginald Mayo

RM/kdv

SPECIAL ACT #2, 1994
MAY SPECIAL SESSION
Sec. 178-179

ITEM NO. 74

DEPARTMENT OF EDUCATION

GRANTS-IN-AID TO THE CITY OF NEW HAVEN FOR
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

REQUESTED: An Allocation and Bond
Authorization (to Agency).....\$5,500,000

FROM: Sec. 179 Acct. No. 3089-7001-

Total Authorized	\$6,000,000
Previous Allocations	-0-
Balance Unallocated	<u>\$6,000,000</u>

REASON FOR REQUEST:

These funds are requested to finance a grant-in-aid to the City of New Haven for the acquisition and renovation of a facility located at 167-175 Water Street in New Haven for use as a magnet school as detailed below.

Owner: C & M Associates, Inc.
Description: 2 story office building of 71,374± sq. ft.
on 2.66 acres of land
Appraisals: Blue Ribbon Appraisals \$6,500,000
Michaud Company \$3,900,000

Funds are requested as follows:

Acquisition	\$2,200,000
Architect's Fee	210,000
Equipment	90,000
Construction (Est.)	2,850,000
Site Improvements	<u>150,000</u>
Total, This Request	<u>\$5,500,000</u>

This project is subject to the State Conservation and Development Policies Plan and is either in conformity with the Plan or not addressed therein.

As a result of the new restrictions imposed the 1986 Federal Tax Act, this project has been tentatively classified as "governmental".

ITEM 74
12/9/94

New Haven Public Schools

Reginald Mayo, Ph.D.
Superintendent

Administrative Offices
Gateway Center
54 Meadow Street
New Haven, CT 06519

February 15, 1995

Mr. Robert Brewer
Chief Bureau of Grants Processing Services
P.O. Box 2219
Hartford, CT 06514-2219

Dear Mr. Brewer:

On January 19, 1995 and January 26, 1995, I wrote you a letter requesting a revision to the cash flow payments for Magnet Schools State Project No. 093-274.

In further negotiations with the seller we have determined that it is more feasible to proceed according to the original cash flow projections which was forwarded to you on December 1, 1994.

I have attached a copy of the original request.

I sincerely appreciate your patience and understanding regarding this matter.

Sincerely,



Reginald Mayo
Superintendent of Schools

RM/eg
Attachment:

cc: Frank Altieri
Peter Villano
Al Rogers

CONNECTICUT STATE DEPARTMENT OF EDUCATION
 School Facilities Unit
 Request for Magnet School Funding

Name & Address of Facility: 167-172 Water St.
New Haven, CT 06511

School District Name: New Haven
 State Project No.: 093274

Construction / Activity	Start	End	Amount Requested
Developing final plans and specifications			
Architectural, Legal & Demolition	02	95	440,833.00
Structural, Steel Masonry, Mechanical, Electrical, General, Site Development, Roof, Carpentry, Finish	03	95	991,770.00
Mechanical, Electrical, General, Ext/Int Glass, Doors	04	95	817,741.00
Mechanical, Electrical, General, Doors, Carpentry, Finish	05	95	490,079.00
Mechanical, Electrical, General, Hardware, Finish, Equipment	06	95	315,321.00
Mechanical, Electrical, Equipment, General, Finish	07	95	244,258.00
Acquisition	09	95	2,500,000.00

Total Pending Requested:

5,500,000.00

Total Magnet School Funding Authorized:

6,000,000

- Advance funding for architectural design fees may not exceed 5% of the total authorization.
- Total expenditures may not exceed total authorization.

[Signature]
 Signature of Superintendent of Schools

12/1/94
 Date

See reverse side for instructions.

CONNECTICUT STATE DEPARTMENT OF EDUCATION
 School Facilities Unit
 Magnet School Preliminary Estimated Use of Funds

ATTACHMENT 3

Name & Address of Facility: 167-172 Water St.
New Haven, CT 06511

School District Name: New Haven
 State Project No.: 093274

Please provide the names, titles, and phone numbers of the following contact persons:

Financial Contact: _____
 Programmatic Contact: _____
 Construction Contact: _____

	Anticipated Completion Date	Budgeted Costs
SITE ACQUISITION (Complete applicable information)		
Town owned - no acquisition costs	_____	N/A
Leased site and facility	_____	_____
Leased site -- facility to be constructed	_____	_____
Site to be purchased	_____	2,200,000.00
CONSTRUCTION STEPS		
Architectural and Engineering Fees	2/28/95	210,000.00
Attorney/Legal Fees	2/28/95	50,000.00
Site Preparation and Development	3/31/95	75,000.00
DEMOLITION	2/28/95	150,000.00
Structural Steel and Misc. Work	4/30/95	42,000.00
Masonry	3/31/95	35,000.00
Roofing and Sheet Metal	4/30/95	165,000.00
Exterior and Interior Glazing	4/30/95	34,400.00
Hollow Metal Doors and Frames	5/31/95	63,000.00
Carpentry and Mill Work	4/30/95	375,750.00
Finish Hardware	5/30/95	8,400.00
Site Improvements	_____	_____
Interior Finish	7/31/95	337,450.00
Furnishing and Equipment	7/31/95	90,000.00
Other: Mechanical	7/31/95	692,000.00
Other: Electrical	7/31/95	697,000.00
Other: General Conditions	4/30/95	275,000.00
Other: Equipment	_____	500,000
Other: _____	_____	_____
TOTAL:		5,500,000.00
		6,000,000

[Signature]
 Signature of Superintendent of Schools

12/1/94
 Date

N/A
 Signature of Project Architect (Not required for 3% advance)

 Date

See reverse side for instructions.

New Haven Public Schools

Reginald Mayo, Ph.D.
Superintendent

Administrative Offices
Gateway Center
54 Meadow Street
New Haven, CT 06519

March 6, 1995

Mr. Robert Brewer, Chief
Bureau of Grants Processing Services
P.O. Box 2219
Hartford, CT 06514-2219

*file
HSC*

Dear Mr. Brewer:

I have revised attachments B and C to reflect the Bond Authorization of \$6 million for High School in the Community Project #093-274.

Further, I have included the cost for furnishings and equipment. If you have any questions, please contact Frank Altieri at 946-8900.

Thank you for your assistance.

Sincerely,



Reginald Mayo
Superintendent of Schools

RM/eg
Attachment:

cc: Frank Altieri
Peter Villano
Al Rogers

CONNECTICUT STATE DEPARTMENT OF EDUCATION
School Facilities Unit
Magnet School Preliminary Estimated Use of Funds

ATTACHMENT B
REVISED


Name & Address of Facility: 167-172 Water Street
New Haven, CT 06511

School District Name: New Haven
 State Project No.: 093-274

Please provide the names, titles, and phone numbers of the following contact persons:

Financial Contact: _____
 Programmatic Contact: _____
 Construction Contact: _____

	Anticipated Completion Date	Budgeted Costs
SITE ACQUISITION (Complete applicable information)		
Town owned - no acquisition costs	_____	N/A
Leased site and facility	_____	_____
Leased site - facility to be constructed	_____	_____
Site to be purchased	_____	2,200,000
CONSTRUCTION STEPS		
Architectural and Engineering Fees	2/28/95	210,000
Attorney/Legal Fees	2/28/95	50,000
Site Preparation and Development	3/31/95	75,000
Foundations Demolition	2/28/95	150,000
Structural Steel and Misc. Iron.	4/30/95	42,000
Masonry	3/31/95	35,000
Roofing and Sheet Metal	4/30/95	165,000
Exterior and Interior Glazing	4/30/95	34,400
Hollow Metal Doors and Frames	5/31/95	63,000
Carpentry and Mill Work	4/30/95	375,750
Finish Hardware	5/30/95	8,400
Site Improvements	_____	_____
Interior Finishes	7/31/95	337,450
Furnishing and Equipping	7/31/95	90,000
Other: Mechanical	7/31/95	692,000
Other: Electrical	7/31/95	697,000
Other: General Conditions	4/30/95	275,000
Other: Equipment	_____	500,000
Other: _____	_____	_____
TOTAL:		6,000,000


 Signature of Superintendent of Schools

3-6-95
 Date

N/A

 Signature of Project Assistant (Not required for 5% advance)

 Date

See reverse side for instructions.

CONNECTICUT STATE DEPARTMENT OF EDUCATION
School Facilities Unit
Request for Magnet School Funding

ATTACHMENT C

REVISED

Name & Address of Facility: 167 - 172 Water St.
New Haven, CT 06511

School District Name: New Haven
 State Project No.: 093-274

Construction / Activity	Date Required (month / year)	Amount Requested
Developing final plans and specifications	_____ / _____	_____
Architectural Legal &)	02 / 95	440,833
Demolition)	_____ / _____	_____
Structural Steel Masonry)	03 / 95	991,770
Mechanical, Electrical)	_____ / _____	_____
General, Site Development)	_____ / _____	_____
Roof, Carpentry Finish)	_____ / _____	_____
_____	_____ / _____	_____
Mechanical, Electrical)	_____ / _____	_____
General, Ext/Int Glass)	04 / 95	817,741
Doors)	_____ / _____	_____
_____	_____ / _____	_____
Mechanical, Electrical)	_____ / _____	_____
General, Doors)	05 / 95	490,079
Carpentry Finish)	_____ / _____	_____
_____	_____ / _____	_____
Mechanical, Electrical)	06 / 95	315,321
General, Hardware, Finish)	_____ / _____	_____
Equipment	_____ / _____	500,000
Mechanical, Electrical)	_____ / _____	_____
Equipment, General)	07 / 95	244,256
Furniture)	_____ / _____	_____
Acquisition	09 / 95	2,200,000
_____	_____ / _____	_____
Total Funding Requested:		<u>6,000,000</u>
Total Magnet School Funding Authorization:		<u>6,000,000</u>

* Advance funding for architectural design fees may not exceed 5% of the total authorization.
 ** Total expenditures may not exceed total authorization.

Raymond [Signature]
 Signature of Superintendent of Schools

3-6-95
 Date

See reverse side for instructions.