



## State of Connecticut

### HOUSE OF REPRESENTATIVES STATE CAPITOL

**REPRESENTATIVE GAIL LAVIELLE**  
ONE HUNDRED FORTY-THIRD ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING, ROOM 4200  
300 CAPITOL AVENUE  
HARTFORD, CT 06106-1591

CAPITOL: (860) 240-8700  
TOLL FREE: (800) 842-1423  
Gail.Lavielle@housegop.ct.gov

**RANKING MEMBER**  
EDUCATION COMMITTEE

**MEMBER**  
APPROPRIATIONS COMMITTEE  
TRANSPORTATION COMMITTEE

### Testimony in Support of HB 5660

#### An Act Concerning the Proper Use of Economic Development Financial Assistance

#### Commerce Committee

February 26, 2015

Good morning, Chairs Hartley and Perone, Ranking Members Frantz and Camillo, and distinguished members of the Commerce Committee. Thank you for this opportunity to testify in support of HB 5660, An Act Concerning the Proper Use of Economic Development Financial Assistance.

This bill would extend requirements already in place for certain types of projects (referred to in CGS section 32-455 as "threshold" projects) to all agreements with businesses that receive economic development financial assistance from the state.

A November 2014 report by the state Auditors of Public Accounts found that DECD recipients were not returning excess funds to the DECD in a timely manner, and that excess funds distributed were in certain cases being used for activities outside the original scope of approved projects.

I refer the Committee to pages 9-11 of the Auditors' report:  
[http://www.cga.ct.gov/apa/reports/Economic%20and%20Community%20Development,%20Department%20of\\_20141125\\_FY2011,2012.pdf](http://www.cga.ct.gov/apa/reports/Economic%20and%20Community%20Development,%20Department%20of_20141125_FY2011,2012.pdf).

The intent of HB 5660 is to:

- Require businesses that do not use all of the funds they receive for an originally approved purpose to make a formal application to the state that must be approved before they can use the remaining funds for another purpose.
- Require businesses to return to the state any unused funds not pending additional approvals within a specified amount of time (for example, one year) following the completion of any projects for which they have been approved.

This would help state agencies manage available funds and ensure the appropriate and transparent use of taxpayer dollars. It will also help assess the return on the investment of taxpayer dollars in business expansion and job creation.

I thank the Committee for its consideration of this proposal.

## CONDITION OF RECORDS

Our testing of the Department of Economic and Community Development's records noted the following reportable matters.

### Cash Management

*Background:* DECD disburses grant funds for housing and economic development programs. Assistance agreements between the department and clients require that the clients submit audit reports to the department. After DECD reviews the audit reports and is satisfied with the accuracy of the total grant expenditures, it issues a Certificate of Approved Program Costs and State Funding. The certificates summarize department payments to the client for the specific project, total client expenditures, any adjustments and the amount due to or from DECD. DECD then bills the client for any amounts due.

*Criteria:* Cash management procedures should ensure that payments to clients are based on immediate needs and refunds of overpayments are received as soon as possible.

*Condition:* In our prior audit, we noted that DECD's cash management procedures appear in need of improvement. During the audited period, the department issued 297 Certificates of Approved Program Costs and State Funding that reflected amounts due to DECD totaling \$1,293,995.

The length of time that clients held unexpended state funds before returning them to DECD seems excessive. For the 15 projects we reviewed, the time between DECD's last payment and receipt of a refund was less than one year for three projects, one to two years for eight projects, two to three years for one project, and more than three years for one project. The amounts of the two refunds due over two and three years were \$48,786 and \$17,910, respectively.

*Effect:* DECD clients received funding in excess of their needs and are not returning those excess funds to the department in a timely manner.

*Cause:* The department has not ensured that clients only receive amounts necessary to meet the cash needs of the funded project or that refunds of overpayments were received in a timely manner.

The assistance agreements are worded so that the client only owes refunds to DECD after the certificate is issued. The client does not have the responsibility for refunding at the end of the budget period or

upon project completion.

We were informed that instead of receiving a return of funds, it is much easier for the department to allow the grantees to hold the funds, and suggest to the grantees that they may want to expand the funded project with those DECD funds or use the DECD funds for another project. This circumvents the established procedures for processing applications and review of payments to clients.

*Recommendation:* The Department of Economic and Community Development should improve its cash management procedures by only disbursing funds for immediate needs and reducing the time to receive refunds of overpayments. Re-wording assistance agreements should be considered to require earlier refunds. (See Recommendation 1.)

*Agency Response:* "The Department does not agree with this finding.

DECD funds a variety of projects that include multi-million dollar construction developments, downtown infrastructure improvements, acquisition of machinery and equipment, training and other activities. These projects can take several months and even years to complete. In order to meet the scheduling requirements of our funding recipients, there are many cases when DECD will advance funds based on an applicant's project schedule in order to ensure timely payments to vendors and to maintain project schedules. When funds are advanced to a client for a short term, they are based on the eligible expenditures being funded by a particular program. A second advance will not be approved by the Department until the client has provided documentation to the Department that initial advance has been expended or certain milestones are reached.

There are certain programs that require an applicant to match state financing with other sources of funds that may be provided to a project over the entire budget period, which in some cases can take longer to expend. In those cases, however, DECD cannot perform a financial closeout of the project until it is completed, and at that time would determine if funds were due back to DECD.

With regards to remaining project funds, DECD does consider requests to reallocate remaining funds from a project for activities that are related to the original scope of a project. However, DECD would not have its funding recipients retain funds for a new project that has not been reviewed or approved. Any new project would require review and appropriate approvals, which could include bond commission.

The Department recognizes the fact of the time involved to receive the return of funds by clients identified by the Auditors as lengthy. The Department also recognizes that there are no established legal or regulatory requirements that unused State funds must be returned within a certain time period. Therefore “timely” becomes a matter of interpretation or circumstance. However, the Department ensures that funds owed to the State are returned. The Department believes that its cash management system provides reasonable assurance that excessive funds are not disbursed to a client and that a client provides a refund to the State as soon as practicable depending on the needs of the project.”

*Auditors’ Concluding  
Comments:*

We consider a period of over one year to over three years to be excessive for the refund of monies owed to the state. Twelve project overpayments of the 15 (80%) reviewed were not refunded to the state until over one year later.

**Monitoring of Unused Bond Allocations**

- Background:* DECD finances a variety of economic, housing and community development projects using state bond funds approved by the State Bond Commission. The State Bond Commission requires that all unused balances from prior approvals be returned to the unallotted balance under the fund and section of origin once a project is completed or cancelled.
- Criteria:* Written policies and procedures for bond-funded projects should include procedures to monitor unexpended balances from bond-funded projects that are completed or cancelled.
- Condition:* In our three prior audits, we found that the department had not implemented formal policies and procedures to address the administration of unexpended balances on bond-financed projects. Our current review revealed that this condition continued.
- Effect:* The lack of written procedures for monitoring unexpended balances on bond-funded projects lessens the department’s assurance that unused bond funds are being returned to their original funding source in a timely manner.
- Cause:* DECD had drafted policies and procedures but they were never approved by the current commissioner.
- Recommendation:* The Department of Economic and Community Development should