

STATE OF CONNECTICUT

**AUDITORS' REPORT
CAPITAL CITY ECONOMIC DEVELOPMENT AUTHORITY
FISCAL YEARS ENDED JUNE 30, 2001, 2002 AND 2003**

AUDITORS OF PUBLIC ACCOUNTS
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June 14, 2005

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We have made an examination of the books, records and accounts of the Capital City Economic Development Authority (CCEDA), as provided in Section 2-90, as amended, and Section 32-605, subsection (c), of the General Statutes, for the fiscal years ended June 30, 2001, 2002 and 2003.

SCOPE OF AUDIT:

The CCEDA is a quasi-public agency as provided for by Chapter 12 of the General Statutes. In addition to receiving annual financial audits by independent public accounting firms, CCEDA received compliance audits as required by Section 32-605, subsection (c), of the General Statutes. After having reviewed the reports and work of the outside firm and having satisfied ourselves as to the firm's independence, professional reputation, and qualifications, we have relied on those financial and compliance audits, in addition to internal control documentation.

We have limited our examination to such procedures as reviewing selected internal controls and adherence to various statutory compliance requirements. This report on our examination consists of the Comments and Recommendations which follow.

COMMENTS

Foreword:

The Capital City Economic Development Authority, hereinafter referred to as CCEDA or the Authority, was established in 1998 under Title 32, Chapter 588x of the General Statutes. As a quasi-public agency under Section 1-120 of the General Statutes, CCEDA is a body politic and corporate, and an instrumentality of the State of Connecticut. For financial reporting purposes, CCEDA is a component unit of the State and its financial statements are included in the State's Comprehensive Annual Financial Report. The powers of the Authority are vested in a seven-member Board of Directors appointed by the Governor, the Speaker of the House of Representatives, the Majority Leader of the House of Representatives, the Minority Leader of the House of Representatives, the President Pro Tempore of the Senate, the Majority Leader of the Senate and the Minority Leader of the Senate.

The purpose of CCEDA is to stimulate new investment in Connecticut, to attract and service large conventions, tradeshow, conferences etc., to encourage diversification of the State's economy, to strengthen Hartford's role as the region's major business and industry employment center and seat of government, and to encourage residential housing development in downtown Hartford.

With regard to the convention center project, CCEDA is to construct, operate, maintain and market the project.

CCEDA was also created to coordinate the use of all State and municipal planning and financial resources that are available for any Capital City Project, as defined in Section 32-600 of the General Statutes.

Board of Directors and Administrative Officials:

Members of the CCEDA Board of Directors as of June 30, 2003 were as follows:

R. Bartley Halloran, Chair
Mary Ann Hanley
Eileen S. Kraus
Anthony March
Miguel Jose Matos
William McCue
G. Robert O'Brien

The Chief Executive Officer (Executive Director) of the Authority is appointed by the Board. Brendan M. Fox, Jr. was appointed Executive Director on November 13, 1998, and served until March 4, 2003. Charles P. Sheehan was appointed as successor on February 21, 2003, and served through the end of the audited period.

Recent State Legislation:

During the audited period, the General Assembly passed several laws that affected CCEDA. The major ones are summarized below:

- Public Act 02-5, Section 23, of the May Special Session amended Section 32-600 of the General Statutes to include a central heating and cooling plant serving the convention center as part of the “convention center facilities.”
- Public Act 02-5, Section 27, of the May Special Session authorized the CCEDA Board to include loans as one of the purposes for which CCEDA may issue bonds.
- Public Act 02-140, effective July 1, 2002, added service as an employee of the Authority to the definition of “State service” for purposes of the State Employees Retirement Act and authorized inclusion of such employees in the State’s group health insurance plans.
- Public Act 03-150, effective June 26, 2003, provided that one member of the CCEDA Board of Directors shall be a person recommended by the mayor of the City of Hartford who is a city resident but not an elected or appointed official of the City.

RÉSUMÉ OF OPERATIONS:

CCEDA receives annual operating funding from the State as part of the State’s General Fund budget. For the years ended June 30, 2001, 2002 and 2003, CCEDA received funding in excess of \$700,000 each year. Unexpended balances are carried forward. In addition, CCEDA receives funding through DECD and OPM to be utilized for specific development costs related to Capital City Projects.

CCEDA is authorized to issue bonds, notes and other obligations. Obligations of the Authority are not deemed to constitute debt of the State or any other political subdivision. To date, no such obligations have been issued by the Authority.

Based on the Authority’s audited financial statements, below is a summary of the financial operations of the Authority for the years under review:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Operating revenues:	\$	\$	\$
State operational grant	712,500	750,000	750,000
Development costs		1,127,880	4,912,194
Occupancy tax receipts	1,076,278	1,258,534	1,583,500
Special program grant	140,000		
Interest income	<u>11,275</u>	<u>25,317</u>	<u>33,033</u>
Total operating revenues	<u>1,940,053</u>	<u>3,161,731</u>	<u>7,278,727</u>
Operating expenses:			
General administrative costs	818,215	864,461	868,308
Development costs		1,126,913	4,925,472
Occupancy tax distributions	1,093,373	1,146,958	1,400,831
Special program grants	<u>140,000</u>		
Total operating expenses	<u>2,051,588</u>	<u>3,138,332</u>	<u>7,194,611</u>
Change in net assets	(111,535)	23,399	84,116
Net assets, beginning of year	<u>752,579</u>	<u>729,180</u>	<u>645,064</u>
Net assets, end of year	<u>\$ 641,044</u>	<u>\$752,579</u>	<u>\$ 729,180</u>

In accordance with Section 32-305, subsection (b)(1), of the General Statutes, the Authority is entitled to receive 90 percent of the sales tax receipts from hotel and lodging occupancy within Hartford. The Authority has entered into an agreement with the Greater Hartford Convention and Visitors Bureau, Inc. whereby its rights to these amounts are assigned to the Bureau. As a result, distributions of the occupancy tax receipts were made to the Bureau.

The elimination of “development costs” as a revenue and expense resulted from the Authority changing the method by which it accounted for these amounts. Instead of passing these amounts through the books of the Authority, payments were made directly to contractors by the Office of Policy and Management.

Convention center costs amounted to \$23,307,000, \$23,902,000 and \$42,206,000 during the fiscal years under review. In accordance with Section 32-655a of the General Statutes, representatives of the Office of Policy and Management function as the project comptroller, entering into contracts and approving documents for payment. An independent auditing firm has been engaged to provide a review of all expenditures and cost allocations, as well as verifying conformance with the project budget. In addition, the State Comptroller’s Office pre-audits all invoices in excess of \$100.

CONDITION OF RECORDS

Our limited examination of the records of the Capital City Economic Development Authority revealed certain areas requiring attention. These areas are detailed in this section of the report.

Purchases Made Through Construction Contracts:

Criteria: The State of Connecticut has established procurement procedures for various types of services and commodities. These procedures provide for necessary approvals by State agencies and are designed to ensure that costs are reduced through competitive procurements. While CCEDA is statutorily exempt from many of the relevant procurement requirements, the opportunity exists to utilize State contracts if the terms are competitive.

Sufficient controls over equipment inventory should exist in order to ensure that items are properly accounted for during and after the construction project.

Condition: Computer software and cellular telephones were provided to employees of CCEDA and the Adriaens Landing Project Office by the construction manager and invoiced on periodic contractor's invoices.

Personal computers were necessary in order to permit the construction manager to establish the project office. These items were invoiced to the State on monthly project billings, and the State was expected to retain title to these items upon completion of the project.

Effect: There is reduced assurance that the costs incurred by the State are at or below the rates available through available negotiated contract rates. Acquisition of equipment through construction invoices rather than direct purchase increases the risk that items will not be added to the inventory in a timely fashion and/or loss of those items may go undetected.

Cause: Acquisition of the aforementioned items through the construction contract process was seen as more expeditious than utilizing other established procurement procedures.

Recommendation: The Office of Policy and Management and the Capital City Economic Development Authority should take steps to procure goods and services ultimately intended for their own use through established procurement procedures rather than incurring costs through the construction contracts. (See Recommendation 1.)

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Agency Response: "As indicated in the auditors' comments, CCEDA is statutorily exempt from many of the relevant procurement requirements prescribed by the State Comptroller's Office. Although the acquisition methods employed served as a more expeditious way of procuring items that supported the project and project related staff, CCEDA will adhere to the terms and conditions established within the project contract(s), as well as the State Comptroller's property control guidelines as prescribed in Section 4-36 of the Connecticut General Statutes, as they relate to personal property accountability and reporting and has and will continue to maintain detailed subsidiary records for each item in the controlled/capitalized accounts."

RECOMMENDATIONS

Prior Audit Recommendations:

- **The Authority should take steps to ensure that procedures are adopted in accordance with Sections 32-603 and 1-121 of the General Statutes.** This issue has been resolved.
- **The Authority should adopt an investment policy to improve cash management and investment income.** This issue has been resolved.
- **The Authority should ensure that the distribution of the semiannual reports issued under Section 32-604, subsection (d), of the General Statutes is done as required.** This issue has been resolved.
- **Procedures should be established to provide documented approval for employees' salaries.** Sufficient documentation is now available supporting salary changes.
- **The Authority should consider contracting with the Greater Hartford Convention and Visitors Bureau, Inc. at a determinate cost, permitting competitive procurement in the future.** This issue appears to have been resolved.

Current Recommendations:

1. **The Office of Policy and Management and the Capital City Economic Development Authority should take steps to procure goods and services ultimately intended for their own use through established procurement procedures rather than incurring costs through the construction contracts.**

Comment:

Costs for goods and services were incurred through the construction contract billings rather than procuring those items directly.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the staff of the Capital City Economic Development Authority during the course of our examination.

Kenneth Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts