

STATE OF CONNECTICUT

**AUDITORS' REPORT
CAPITAL CITY ECONOMIC DEVELOPMENT AUTHORITY
FISCAL YEARS ENDED JUNE 30, 2004 AND 2005**

AUDITORS OF PUBLIC ACCOUNTS
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Table of Contents

INTRODUCTION.....1
 Scope of Audit1

COMMENTS.....2
 Foreword.....2
 Board of Directors and Administrative Officials.....2
 Recent State Legislation3

RESUMÉ OF OPERATIONS3

CONDITION OF RECORDS.....6
 Attendance and Voting Practices at Board Meetings6
 Monitoring and Reporting of Convention Center Expenses.....7

RECOMMENDATIONS.....10

CERTIFICATION11

CONCLUSION13

March 8, 2007

AUDITORS' REPORT
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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 1-122 and Section 32-605, subsection (c), of the General Statutes, for the fiscal years ended June 30, 2004 and 2005.

SCOPE OF AUDIT:

This audit was primarily limited to performing tests of the Capital City Economic Development Authority's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority has complied with its regulations concerning the following areas:

- Affirmative action
- Personnel practices
- Purchases of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

We also considered the Capital City Economic Development Authority's internal control over its financial operations and its compliance with requirements that could have a material or significant effect on the Authority's financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority's financial operations and compliance with certain provisions of laws, regulations contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included the five areas identified above.

Our audit included a review of a representative sample of the Authority's activities during the fiscal years in the five areas identified above and a review of such other areas as we considered

necessary. The financial statement audit of the Capital City Economic Development Authority, for the fiscal years indicated above, were conducted by the Authority's independent public accountants.

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 jointly 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 chairperson shall be designated by the Governor. Effective June 26, 2003, in accordance with Public Act 03-150, one member of the Board shall be a Hartford resident, other than an elected or appointed official of that city, recommended by the mayor of Hartford.

The purpose of CCEDA is to stimulate new investment in Connecticut, to attract and service large conventions, tradeshows, 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, 2005, were as follows:

William McCue, Chair
DeDe DeRosa
Joseph Gianni
Mary Ann Hanley
Anthony March
Miguel Jose Matos
Rodney Powell

The Chief Executive Officer (Executive Director) of the Authority is appointed by the Board. Charles P. Sheehan was appointed on February 21, 2003, and served until his resignation on April 1, 2005. He was succeeded on that date by Annette Sanderson, who 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 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.
- Public Act 03-1, Section 28, of the June 30, 2003 Special Session transferred up to \$4,200,000 to CCEDA from the Office of Policy and Management's 2003 fiscal year appropriation for payment in lieu of taxes for new manufacturing machinery. These funds were to be used for marketing and management expenses incurred during the fiscal year 2004 prior to the opening of the Convention Center.
- Public Act 03-1, Section 141, of the June 30, 2003 Special Session eliminated the distribution to the Authority of the room occupancy tax on Hartford hotel rooms, as authorized by Section 32-305 of the General Statutes. The tax became a revenue to the General Fund.
- Public Act 03-6, Section 60, of the June 30, 2003 Special Session expanded the authority of CCEDA to include the ability to acquire land for the convention center facilities, the related hotel, and other infrastructure improvements, by lease.
- Public Act 04-2, Section 40, of the May 11, 2004 Special Session transferred up to \$2,500,000 to CCEDA for the 2005 fiscal year from the fiscal year 2004 personal services appropriation of the Office of Policy and Management. Said Section also transferred \$200,000 from justice assistance grants appropriated to the Office of Policy and Management to CCEDA. These funds were to be used for marketing and management expenses incurred during the fiscal year 2005 prior to the opening of the Convention Center.
- Public Act 04-2, Section 51, of the May 11, 2004 Special Session provides for CCEDA and the Office of Policy and Management to enter into a memorandum of understanding with the Connecticut Center for Science and Exploration so that CCEDA may provide financial management and construction management services assistance.

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, 2004 and 2005, CCEDA received funding of \$712,500 each year. Unexpended balances are carried forward. In addition, CCEDA receives funding

Auditors of Public Accounts

through OPM to be utilized for specific development costs related to Capital City Projects, as mentioned previously.

CCEDA is authorized to issue bonds, notes and other obligations. As of June 30, 2005, the Authority was authorized to issue bonds and other obligations up to \$122,500,000. Obligations of the Authority are not deemed to constitute debt of the State or any other political subdivision. During the 2005 fiscal year, the Authority issued Parking and Energy Fee Revenue bonds in the amount of \$72,500,000.

Based on the Authority's audited financial statements, below is a summary of the financial operations of the Authority for the years under review with 2003 fiscal year figures shown for comparative purposes:

	<u>Fiscal Year Ended June 30</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues:	\$	\$	\$
State grants:			
Operating grant	712,500	712,500	712,500
Room occupancy tax			1,076,278
Convention center grants	2,805,813	4,200,000	
Interest income	1,057,427	10,685	11,275
Special program grants		17,000	140,000
Adriaen's Landing revenues	355,302		
Other income	<u>60,000</u>	<u> </u>	<u> </u>
Total revenues	<u>\$4,991,042</u>	<u>\$4,940,185</u>	<u>\$1,940,053</u>
Expenses:			
Authority operations	873,286	842,201	818,215
Occupancy tax distributions			1,093,373
Special program grants		17,000	140,000
Development costs	3,829,362	1,949,820	
Adriaen's Landing expenses	1,289,338		
Interest expenses	<u>2,793,794</u>	<u> </u>	<u> </u>
Total expenses	<u>\$8,785,780</u>	<u>\$2,809,021</u>	<u>\$2,051,588</u>
Change in net assets	(3,794,738)	2,131,164	(111,535)
Net assets, beginning of year	2,772,208	641,044	752,579
Capital contributed by State	<u>165,412,129</u>	<u> </u>	<u> </u>
Net assets, end of year	<u>\$164,389,599</u>	<u>\$2,772,208</u>	<u>\$641,044</u>

Revenue as compared to the previous year increased during the audited period as a result of grants made to the Authority by other State agencies in accordance with Public Act 03-1 of the June 30, 2003 Special Session and Public Act 04-2 of the May 11, 2004 Special Session. Interest income increased during the 2005 fiscal year due to the aforementioned bond issuances. Revenue from Adriaen's Landing resulted from the opening of the Convention Center in June 2005. The distribution of the room occupancy tax was eliminated as the result of Section 141 of Public Act 03-1 of the June 30 2003 Special Session.

Expenses increased during the 2005 fiscal year as a result of the opening of the Convention Center and the interest expenses associated with the bond issuance. Development costs consisted of marketing and management costs incurred prior to the actual opening of the Convention Center.

Contributed capital consists of the value of State expenditures made on behalf of the Convention Center facilities (net of Authority expenditures of \$54,904,758), which were turned over to the Authority by the State on May 31, 2005. The State of Connecticut expended \$110,836,000 and \$45,176,000 during the 2003-2004 and 2004-2005 fiscal years, respectively, for construction of the Convention Center and the related garages and necessary site work. In accordance with Section 32-655a of the General Statutes, representatives of the Office of Policy and Management (OPM) 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.

Attendance and Voting Practices at Board Meetings:

Criteria: Governing bodies such as boards of directors are usually most effective when they have a full complement of members appointed and in attendance at meetings.

Section 32-601 of the General Statutes states that any Authority Board member failing to attend three consecutive meetings, or failing to attend fifty percent of all meetings held during a calendar year, shall be deemed to have resigned from the Board.

Section 1-225 of the General Statutes requires that meetings of governmental agencies be open to the public and the votes recorded in the public records.

Condition: Prior to October 2004, CCEDA failed to have a full complement of appointed Board members.

A review of Board members' attendance for the period July 2003 through March 2006 revealed that four of the seven members were absent from meetings in such a manner as to have been deemed to have resigned. Four members had failed to attend three or more consecutive meetings on at least one occasion, and two of those had missed more than 50 percent of the meetings held during calendar years 2004 or 2005. This condition existed despite CCEDA's utilization of conference calling for many of its meetings, which was designed to facilitate attendance.

Minutes of Board meetings indicated that meetings without quorums present were sometimes adjourned with votes "held open" to permit members not in attendance to vote later in the day.

Effect: Boards that do not have a full complement of participating members may experience difficulty in obtaining quorums and may not benefit from the intended representation of various groups' opinions and objectives.

The practice of holding open votes at Board meetings would require members of the public wishing to witness the vote to remain at a meeting until the vote could be recorded. This would appear to be burdensome on both the Authority and the members of the public.

Cause: CCEDA did not track the attendance of Board members with the objective of invoking the provisions of Section 32-601 and has not been quick to remove Board members because it regarded vacancies to be less desirable than having Board members that are willing to contribute but have difficulty attending meetings.

CCEDA held open an occasional vote by Board members in order to achieve a quorum and conduct necessary business. The impact of freedom of information laws did not appear to be a consideration in these instances.

Recommendation: The Authority should take steps to enforce the attendance provisions of Section 32-601 of the General Statutes and consider ceasing the practice of leaving meetings open for the purpose of carrying out votes. (See Recommendation 1.)

Agency Response: "The Authority has ceased the practice of holding open Board votes. The Authority will continue to closely monitor the attendance records of its Board members."

Monitoring and Reporting of Convention Center Expenses:

Criteria: Section 32-605 of the General Statutes requires the Authority to include in its annual report a listing of all firms and individuals receiving in excess of \$5,000 as payment for services.

CCEDA has entered into contracts with outside entities to manage the Convention Center parking and catering/concessions operations, as well as the general management of the facility. While these operations are managed by outside entities, CCEDA has an interest to require that the contractors ensure that expenses are necessary and kept to a minimum in order to maximize revenue to the Authority. Necessary provisions have been included in the agreements.

Condition: Annual reports prepared by the Authority have included lists of vendors receiving in excess of \$5,000 from Authority operating accounts. CCEDA had not included payments made by Convention Center operators, despite the fact the bank accounts are in the name of the Authority and are regarded as containing Authority funds. Procedures currently in place do not provide for CCEDA to obtain the necessary information from the Convention Center operators to evaluate those transactions for inclusion in its annual reports.

CCEDA monitors monthly activity of the Convention Center operation by relying primarily on financial reports from the operators and required independent audits rather than requiring

detailed payment records.

Our review of payments made by the operators from Authority accounts found a payment in excess of \$5,000 that was made to reimburse a person for vehicle damages, despite contractual language limiting the Authority's exposure to \$500.

Effect:

Compliance with the reporting requirements of Section 32-605 of the General Statutes may not be complete, resulting in a level of disclosure that may be less than intended by the legislature.

Monitoring financial reports from Convention Center operators provides CCEDA with a method of tracking fiscal performance, but will not, by itself, provide the Authority with sufficient information to question the appropriateness of certain transactions or enable the Authority to examine trends. Reliance on the audit process will not necessarily provide timely or detailed information.

Cause:

CCEDA has not regarded the payments made by the Convention Center operators as being covered by the statutory requirement because the vendors were selected and engaged by the contractors rather than CCEDA. While we understand the position of the Authority and the logistical issues involved in obtaining the necessary data, a strict interpretation of the requirements and the interest of full disclosure would suggest that such information should nonetheless be included in the annual reports.

Reliance on monthly financial reports from the operators, as well as annual audits, was regarded as sufficient to provide the necessary information to the Authority.

Recommendation:

The Authority should establish procedures to gather information necessary to review expenditures made by the Convention Center operators and include expenditures made by Convention Center contractors in the annual reports, or consider seeking an opinion from the Office of the Attorney General as to whether the statutory reporting requirements are applicable in these circumstances. (See Recommendation 2.)

Agency Response:

"Under the Convention Center operating agreements, the respective operators have full and independent authority, as independent contractors and not as agents of CCEDA, to provide the required services directly or through subcontractors they select. It is CCEDA's view that these subcontracts are not covered by the reporting requirement of Section 32-605(a)(3) since CCEDA does not select the subcontractor and is not a party to the subcontract. While CCEDA funds, including Convention Center operating revenues, are made available to the operators to make payments

under these subcontracts and CCEDA has rights of approval of the overall Convention Center budget, CCEDA does not determine the amount of or make payments to the subcontractors.”

Auditors’ Concluding

Comment:

Since the reporting requirements are placed on CCEDA, it seems logical to take a strict interpretation that expenditures of CCEDA’s public funds appear to be covered by the requirement.

RECOMMENDATIONS

Our prior audit contained one recommendation. That issue has been adequately addressed. Two recommendations have resulted from our current review.

Prior Audit 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.** We did not note any new instances of this during the period under review. This Recommendation is not repeated.

Current Recommendations:

1. **The Authority should take steps to enforce the attendance provisions of Section 32-601 of the General Statutes and consider ceasing the practice of leaving meetings open for the purpose of carrying out votes.**

Comment:

Board members remained as members despite having been deemed to have resigned in accordance with Section 32-601. Meetings were held open to allow Board members to vote later in the day, after the meeting was essentially adjourned.

2. **The Authority should establish procedures to gather information necessary to review expenditures made by the Convention Center operators and include expenditures made by Convention Center contractors in the annual reports, or consider seeking an opinion from the Office of the Attorney General as to whether the statutory reporting requirements are applicable in these circumstances.**

Comment:

A process was not in place to provide CCEDA with documentation of the expenditures made by the operators so that the Authority could review them. Payments made from Authority funds by Convention Center operators were not included in the amounts listed in annual reports.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the Capital City Economic Development Authority's activities for the fiscal years ended June 30, 2004 and 2005. This audit was primarily limited to performing tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority 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 resources, and to understanding and evaluating the effectiveness of the Authority's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grants applicable to the Authority are complied with. The financial statement audits of the Capital City Economic Development Authority, for the fiscal years indicated above, were conducted by the Authority's independent public accountants.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 Capital City Economic Development Authority complied in all material 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 Capital City Economic Development Authority is the responsibility of the Authority's management.

As part of obtaining reasonable assurance about whether the Capital City Economic Development Authority 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 Authority's financial operations for the fiscal years ended June 30, 2004 and 2005, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our examination included reviewing all or a representative sample of the Authority's activities in those areas and performing such other procedures as we considered necessary in the circumstances.

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

The management of the Capital City Economic Development Authority is responsible for establishing and maintaining effective internal control over its financial operations and compliance with the requirements of laws, regulations, contracts and grants applicable to the Authority. In planning and performing our audit, we considered the Authority’s internal control over its financial operations and its compliance with requirements that could have a material or significant effect on the Authority’s financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority’s financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included, but was not limited to, the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our consideration of the internal control over the Authority’s financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. 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 that would be material in relation to the Authority’s financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Authority being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving internal control over the Capital City Economic Development Authority’s financial operations and/or 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. Users of this report should be aware that our audit does not provide a legal determination of the Capital City Economic Development Authority’s compliance with the provisions of the laws, regulations, contracts and grants included within the scope of this audit.

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