

STATE OF CONNECTICUT



***AUDITORS' REPORT
CAPITAL CITY ECONOMIC DEVELOPMENT AUTHORITY
FISCAL YEAR ENDED JUNE 30, 2006***

AUDITORS OF PUBLIC ACCOUNTS
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January 4, 2008

**AUDITORS' REPORT
CAPITAL CITY ECONOMIC DEVELOPMENT AUTHORITY
FISCAL YEAR ENDED JUNE 30, 2006**

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 year ended June 30, 2006.

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 year 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 year indicated above, was conducted by the Authority's independent public accountants.

This report on our examination consists of the Comments, Condition of Records, 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 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, 2006, were as follows:

William McCue, Chair
Debra M. Borrero
DeDe DeRosa
Joseph Gianni

Mary Ann Hanley
Anthony March
Rodney Powell

The Chief Executive Officer (Executive Director) of the Authority is appointed by the Board. Annette Sanderson was appointed on April 1, 2005, and served until her resignation on March 1, 2007. She was succeeded on that date by James Abromaitis.

RÉSUMÉ OF OPERATIONS:

CCEDA receives annual operating funding from the State as part of the State's General Fund budget. For the year ended June 30, 2006, CCEDA received funding of \$712,500, consistent with prior years. Unexpended balances are carried forward. In addition, CCEDA receives funding through the Office of Policy and Management (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, 2006, 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. During the 2006 fiscal year, CCEDA issued \$15,000,000 of Series C Parking and Energy Fee Revenue Bonds.

Based on the Authority's audited financial statements, below is a summary of the financial operations of the Authority for the year under review with 2004 and 2005 (restated) fiscal year figures shown for comparative purposes:

	<u>Fiscal Year Ended June 30</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:	\$	\$	\$
State grants:			
Operating grant	712,500	712,500	712,500
Convention center grants	5,500,000	2,805,813	4,200,000
Interest income	441,902	1,057,427	10,685
Special program grants			17,000
Adriaen's Landing revenues	12,896,708	631,570	
Other income	<u>25,000</u>	<u>60,000</u>	<u> </u>
Total revenues	<u>\$19,576,110</u>	<u>\$5,267,310</u>	<u>\$4,940,185</u>

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Expenses:			
Authority operations	765,747	863,563	842,201
Special program grants			17,000
Development costs	2,413,010	3,829,362	1,949,820
Adriaen's Landing expenses	14,113,981	999,126	
Interest expenses	3,466,782	2,793,794	
Depreciation expense	<u>7,694,129</u>	<u>576,203</u>	<u> </u>
Total expenses	<u>\$28,453,649</u>	<u>\$9,062,048</u>	<u>\$2,809,021</u>
Change in net assets	(8,877,539)	(3,794,738)	2,131,164
Net assets, beginning of year	164,389,599	2,772,208	641,044
Capital contributed by State	<u>31,053,924</u>	<u>165,412,129</u>	<u> </u>
Net assets, end of year	<u>\$186,565,984</u>	<u>\$164,389,599</u>	<u>\$2,772,208</u>

Revenue as compared to the previous year increased during the audited period as a result of the opening of the Convention Center.

Expenses increased during the 2006 fiscal year as a result of the opening of the Convention Center and the interest expenses associated with the bond issuances. Development costs were marketing and management costs of the Convention Center and consisted primarily of contractual payments to market downtown Hartford and the region.

Contributed capital consists of the value of State expenditures made during the year on behalf of the Convention Center facilities (net of expenditures of \$21,419,055 that were made from CCEDA's own bond proceeds). The State of Connecticut expended \$19,105,284 during the fiscal year ended June 30, 2006 for construction costs of the Convention Center and related parking infrastructures. In addition, a change was made at the suggestion of the State Comptroller in the method of calculating the capitalized costs.

In accordance with Section 32-655a of the General Statutes, representatives of 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.

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.

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.

This condition was raised in our prior audit, but the Authority didn't have time to address the issue in this fiscal year.

Recommendation: The Authority should establish procedures to gather information necessary to review expenditures made by the Convention Center contractors and include expenditures made by the 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 1.)

Authority Response: "While not necessarily agreeing that it is required by Section 32-605, CCEDA will request information from the Convention Center operators sufficient to include in future CCEDA annual reports a listing of Convention Center subcontractors receiving in excess of \$5,000 as payment for services. It remains CCEDA's view that these subcontracts are not "state contracts" for other purposes. 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. CCEDA does not determine which services will be subcontracted, does not select the subcontractors and is not a party to the subcontracts. While CCEDA funds, including Convention Center operating revenues, are made available to the operators to pay operating expenses, including payments under 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."

Adherence to Authority's Affirmative Action Policies:

Criteria: The Authority's Affirmative Action and equal opportunity policies provide that CCEDA will follow a policy of equal employment opportunity throughout its employment process, including recruitment and hiring.

Condition: During the period of January 2006 through July 2007, CCEDA hired four individuals in addition to an Executive Director. We were informed that the search processes for these positions was not done in an open public forum that would have included advertising in newspapers and internet sites.

Effect: The failure to open the recruitment process to the general public reduces the available pool of qualified candidates and increases the risk that favoritism can occur.

Cause: The Authority informed us that the demands of the opening of the Convention Center and the vacancies at CCEDA made the expected recruitment process infeasible.

Recommendation: The Capital City Economic Development Authority should take steps to make the recruitment and hiring processes more open in order to generate a larger candidate pool and increase affirmative action opportunities. (See Recommendation 2.)

Authority Response: "The Authority accepts this recommendation as valid and has taken steps to make its recruitment and hiring processes more open in order to generate a larger candidate pool and increase affirmative action opportunities.

During the period of January 2006 through the present, the Authority hired five individuals, four of whom were chosen through a limited public search. The four individuals, who filled three vacated positions, were chosen due to their experience with the Project and their pre-existing knowledge of the Authority, its procedures and personnel. Such employee turnover combined with the time constraints and demands associated with the opening of the Convention Center and the development of Front Street, as well as, the organization of an office relocation made continuity a priority and made recruitment through an extended process infeasible. Accordingly, the four individuals were chosen after a limited public search due to their special knowledge and experience with the project. The remaining individual was hired through a more extensive process, which included advertising in newspapers and internet sites."

Verification of Parking Requirements Prior to Approving Funding:

Criteria: Section 32-606, subsection (c), of the General Statutes initially required the City of Hartford to establish a municipal parking authority prior to CCEDA adopting any statement recommending funding for any capital city project. Said Section also required that all municipally-owned or operated parking facilities, as defined in Section 7-202 of the General Statutes, be transferred or scheduled to be transferred, in a legally binding way, to the parking authority.

Condition: CCEDA did not have a process in place to periodically confirm that the City of Hartford had complied with any statutory requirements, including the transfer of the rights of all municipal parking facilities to the Hartford Parking Authority (HPA).

Recent news accounts (February 2007) described the existence of downtown parking facilities owned by the City of Hartford for which management rights were not given to the HPA. In a report issued on June 28, 2007, the City of Hartford's Internal Auditor identified two city-owned properties being used for surface parking that were apparently outside of the control of the HPA. One of these lots was estimated to have been used for parking since 1993, while the City purchased the other lot in June 2006.

Effect: The legislative intent to place all municipal parking facilities under the control of the parking authority was not verified. Thus, CCEDA's authority to adopt statements recommending funding for any capital city projects was questionable.

Cause: CCEDA had apparently not considered the impact of Section 32-606, subsection (c), after its initial passage. At the same time, the City of Hartford appeared to be in noncompliance with said Section because the City's Office of Corporation Counsel deemed the City's Municipal Code to exclude the parking lots in question. However, those facilities appear to fit the definition of "parking facilities" as used in Section 7-202 of the General Statutes.

Recommendation: The Capital City Economic Development Authority should institute procedures to periodically confirm that the City of Hartford is in compliance with all statutory requirements, including those relating to the operation of the City's parking facilities, prior to approving funding recommendations for applicable projects. (See Recommendation 3.)

Authority Response: "The Authority accepts the recommendation that procedures be instituted to confirm periodically that the City of Hartford has satisfied the conditions set forth in Section 32-606(c) of the

General Statutes dealing with the transfer of parking facilities to the Hartford Parking Authority. Prior to the issuance of its first capital city economic development statement, the Authority determined that the City of Hartford had created a municipal parking authority and had transferred, or pursuant to the ordinance creating the Hartford Parking Authority had made provision to transfer, the City's parking facilities to the Hartford Parking Authority. The Authority is aware of recent reports that certain surface parking lots have not in fact been transferred to the Hartford Parking Authority and representatives of the Authority are in contact with the City of Hartford with respect to this issue and the further assurances the Authority will require in order to confirm the ongoing satisfaction of the conditions of Section 32-606(c). The Authority will not issue any further capital city economic development statements until such assurances are received."

RECOMMENDATIONS

Our prior audit contained two recommendations. One issue has been adequately addressed. The second issue is repeated. Two additional recommendations have resulted from our current review.

Prior Audit 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. This recommendation has been adequately addressed.
- 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. This recommendation is being repeated. (See Recommendation 1.)

Current Recommendations:

- 1. The Authority should establish procedures to gather information necessary to review expenditures made by the Convention Center contractors and include expenditures made by the 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.

- 2. The Capital City Economic Development Authority should take steps to make the recruitment and hiring processes more open in order to generate a larger candidate pool and increase affirmative action opportunities.**

Comment:

From January 2006 through July 2007, CCEDA filled four vacancies without exhibiting equal opportunity practices by going through an open recruitment process.

- 3. The Capital City Economic Development Authority should institute procedures to periodically confirm that the City of Hartford is in compliance with all statutory requirements, including those relating to the operation of the City's parking facilities, prior to approving funding recommendations for applicable projects.**

Comment:

The Authority was unable to produce evidence that the City of Hartford had complied on an ongoing basis with the provisions of Section 32-606, subsection (c), of the General Statutes, which requires that all parking facilities be under the oversight of the municipal parking authority.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 and Section 1-122 and Section 32-605, subsection (c), of the General Statutes, we have conducted an audit of the Capital City Economic Development Authority's activities for the fiscal year ended June 30, 2006. 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 year indicated above, were conducted by the Authority's independent public accountants.

We conducted our audit in accordance with the requirements of Section 2-90 and Sections 1-122 and 32-605 of the General Statutes. In doing so, we planned and performed 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 year ended June 30, 2006, 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 the following instances of noncompliance which are further described in the accompanying "Condition of Records" and "Recommendations" sections of this

report: the Authority's failure to comply with the reporting requirements of Section 32-605 of the General Statutes, the lack of adherence to established affirmative action policies, and the failure to periodically confirm that the City of Hartford is complying with parking facility provisions of Section 32-606, subsection (c).

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.

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