

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
CAPITAL CITY ECONOMIC DEVELOPMENT AUTHORITY  
FISCAL YEAR ENDED JUNE 30, 2007*

**AUDITORS OF PUBLIC ACCOUNTS**  
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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October 30, 2009

**AUDITORS' REPORT**  
**CAPITAL CITY ECONOMIC DEVELOPMENT AUTHORITY**  
**FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007.

**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, 2007, were as follows:

William McCue, Chair  
Margaret Buchanan  
Luis Caban  
Joseph Gianni

Mary Ann Hanley  
Anthony March  
Rodney Powell

The Chief Executive Officer (Executive Director) of the Authority is appointed by the Board. James Abromaitis was appointed on March 2, 2007 upon the resignation of Annette Sanderson effective on March 1, 2007.

**RÉSUMÉ OF OPERATIONS:**

CCEDA receives annual operating funding from the State as part of the State's General Fund budget. For the fiscal year ended June 30, 2007, CCEDA received funding of \$1,000,000, as compared to \$712,500 in the two prior fiscal 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, 2007, 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 2005 and 2006 (restated) fiscal year figures shown for comparative purposes:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:	\$	\$	\$
State grants:			
Operating grant	1,000,000	712,500	712,500
Convention center grants	6,900,000	5,500,000	2,805,813
Interest income	551,152	442,162	1,057,427
Adriaen's Landing revenues	14,030,471	12,896,708	631,570
Other income	<u>20,000</u>	<u>25,000</u>	<u>60,000</u>
Total Revenues	<u>\$22,501,623</u>	<u>\$19,576,370</u>	<u>\$5,267,310</u>
Expenses:			
Authority operations	878,242	765,747	863,563
Adriaen's Landing expenses	17,622,577	16,527,251	4,828,488
Interest expense	3,532,926	3,466,782	2,793,794
Depreciation expense	<u>8,130,111</u>	<u>7,694,129</u>	<u>576,203</u>
Total Expenses	<u>\$30,163,856</u>	<u>\$28,453,909</u>	<u>\$9,062,048</u>

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Change in net assets	(7,662,233)	(8,877,539)	(3,794,738)
Net assets, beginning of year	186,565,984	164,389,599	2,772,208
Capital contributed by State	<u>9,287,804</u>	<u>31,053,924</u>	<u>165,412,129</u>
Net assets, end of year	<b><u>\$188,191,555</u></b>	<b><u>\$186,565,984</u></b>	<b><u>\$164,389,599</u></b>

Revenue as compared to the previous years increased as a result of increases of \$1,687,500 in State grants and \$1,100,000 in revenues from Convention Center operations. The increase in Adriaen's Landing expenses was primarily attributable to increased Convention Center operating costs.

Contributed capital consists of the value of State expenditures made during the year on behalf of the Convention Center facilities (net of expenditures of \$1,370,450 that were made from CCEDA's own bond proceeds). The State of Connecticut expended \$9,287,804 during the fiscal year ended June 30, 2007 for construction costs of the Convention Center and related parking infrastructures.

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 an area requiring attention. This area is detailed in this section of the report.

### **Procurement Process:**

*Criteria:* Sound business practices generally call for entering into contracts for the procurement of services in order to verify the services provided and the corresponding charges.

Guidelines established by the Authority require written contracts and competitive procurement for purchases that exceed \$20,000 in annual charges.

In its contract with the parking management company, CCEDA has required that the manager obtain competitive bids from at least three qualified parties for most of the services that it chooses to subcontract.

Related-party transactions, while not necessarily improper, deserve a higher level of scrutiny than typical arms-length transactions due to the risks involved.

*Condition:* The Convention Center's parking manager contracted for snow removal services and expended approximately \$26,000 and \$51,000 during the years ended June 30, 2007 and 2008. This same contractor was engaged by the parking management company to provide necessary snowplowing services on behalf of the Authority. This was done without the benefit of competitive bidding, despite the fact that services billed to the Authority itself exceeded the \$20,000 threshold.

The maintenance company shares common ownership with the parking manager. The Authority's Board was aware of the common interest in these companies and approved the use of this contractor based on the submission of three comparative rates. One of the three rates submitted by the parking manager was from the related maintenance company, and one of the other rates was obtained by comparing existing State-contracted rates instead of using a competitive bidding process. The third rate was a quote obtained from an out-of-town contractor.

*Effect:* The absence of competitive bidding increases the risk that the best pricing may not be achieved. The fact that the pricing comparison was being done by a party related to one of the proposers further increases this risk.

*Cause:* The Authority determined that the use of the existing contractor was in the best interest of the Authority because the parking manager had the authority to contract on behalf of the Authority for all parking matters, including snow removal, and it was deemed optimal to have one contractor perform all snow removal duties.

*Recommendation:* The Authority should examine its purchasing practices, as well as those that relate to the contracted management companies, to confirm that the processes currently in place conform to promulgated policies. (See Recommendation 1.)

*Authority Response:* “The Authority has examined its purchasing practices, as well as those that relate to the contracted management companies, and has reaffirmed its commitment to direct its managers via written communication to use processes that conform to promulgated policies. CCEDA’s parking manager utilized a State of CT Department of Administrative Service contract as a basis for comparison. The manager believed the State contracting process was already competitively bid and therefore, thought prices and vendors on that document were considered qualified. The contract document showed multiple vendors with multiple hourly prices. Ultimately, CCEDA believes it did receive the best price because the Hartford –based snow removal contractor the parking manager used was the least expensive per hour than all other prices it gathered and compared including the more than 16 vendors shown on the DAS contract. It should be noted that under its operating agreement, the parking manager has 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. Since the Authority itself was billed a portion of the total expense provided by the contract, the Authority understands the interpretation in this unique instance.”

## RECOMMENDATIONS

Our prior audit contained three recommendations. None of these issues are being repeated. One recommendation has resulted from our current review.

*Prior Audit 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. This recommendation has been adequately addressed.
- 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. This recommendation has been adequately addressed.
- 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. The Authority is awaiting action by the City of Hartford to resolve this issue.

*Current Recommendations:*

1. **The Authority should examine its purchasing practices, as well as those of the contracted management companies, to confirm that the processes currently in place conform to promulgated policies.**

Comment:

The Authority engaged a contractor without the benefit of competitive bidding process, despite knowing that the contractor and the parking management company shared common ownership.

## 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, 2007. This audit was primarily limited to performing tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, 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, grant agreements 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 grant agreements applicable to the Authority are complied with. 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.

We conducted our audit in accordance with the requirements of Section 2-90 and Section 1-122 and Section 32-605, subsection (c), 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 grant agreements and to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Internal Control over Financial Operations and Compliance:**

In planning and performing our audit, we considered the Capital City Economic Development Authority's internal control over its financial operations and its compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Authority's financial operations and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Authority's 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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to properly initiate, authorize, record, process, or report financial data reliably consistent with management's direction, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that

noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Authority's financial operations will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over the Authority's financial operations, and compliance with requirements would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Authority's financial operations and compliance with requirements that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Capital City Economic Development Authority complied with laws, regulations, contracts and grant agreements, 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, 2007, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 material or significant instances of noncompliance. However, we noted certain matters which we reported to Authority management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Capital City Economic Development Authority's response to the finding identified in our audit is described in the accompanying "Condition of Records" section of this report. We did not audit the Authority's response and, accordingly, we express no opinion on it.

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 Authority's compliance with the provisions of the laws, regulations, contracts and grant agreements 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