

STATE OF CONNECTICUT



*AUDITORS' REPORT
CAPITAL CITY ECONOMIC DEVELOPMENT AUTHORITY
FISCAL YEAR ENDED JUNE 30, 2009 and 2010*

AUDITORS OF PUBLIC ACCOUNTS

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AUDITORS OF PUBLIC ACCOUNTS

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October 17, 2012

**AUDITORS' REPORT
CAPITAL CITY ECONOMIC DEVELOPMENT AUTHORITY
FISCAL YEAR ENDED JUNE 30, 2009 and 2010**

We have made an examination of the books, records and accounts of the Capital City Economic Development Authority (Authority or 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, 2009 and 2010.

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 other areas 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 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. As a quasi-public agency, the Authority's financial information is included as a component unit in the State of Connecticut's Comprehensive Annual Financial Report (CAFR).

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, 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 will 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:

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.

Pursuant to Section 32-601 of the General Statutes, the Authority shall be governed by a board of directors consisting of seven members 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, and include, but not be limited to, members who have expertise in the fields of commercial and residential real estate construction or development and financial matters. One member of the board shall be a person recommended by the mayor of the city of Hartford, who is a resident of said city but not an elected or appointed official of said city.

Members of the CCEDA Board of Directors as of June 30, 2010, were as follows:

William McCue, Chair
Margaret Buchanan
Luis Caban
Joseph Gianni
Mary Ann Hanley
Brendan Lynch
Rodney Powell

The executive director of the Authority is appointed by the board of directors. James Abromaitis served in that capacity throughout the audit period.

Significant State Legislation:

Reserve Fund:

Arena Study – Return of Appropriation \$250,000

In accordance with Public Act 07-5 of the June Special Session, the Capital City Economic Development Authority was provided funding in the amount of \$250,000 from fiscal year 2007, for a study on the feasibility of establishing a new arena in the City of Hartford. Governor Rell's Deficit Mitigation Plan for Fiscal Year 2008-2009 required CCEDA to return the funds to the state. The study has not yet begun and, given the fiscal circumstances, will not be undertaken at this time. The Authority returned the \$255,006 to the state on December 2, 2008. This included the original amount of \$250,000 plus the accumulated interest of \$5,006.

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, 2010, CCEDA received funding of \$440,000, as compared to \$1,027,987 in 2009 and \$1,050,000 in 2008. 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, 2010, 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

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amount of \$72,500,000. During the 2006 fiscal year, CCEDA issued \$15,000,000 of Series C Parking and Energy Fee Revenue Bonds. During the 2009 fiscal year, CCEDA issued \$22,500,000 of Series D Parking and Energy Fee Revenue Bonds.

Pursuant to Section 32-608 of the General Statutes, the Authority and the state have entered into a contract for financial assistance, which the state is obligated to pay the amount equal to the debt service on the Authority's bonds. The state is required to pay up to a maximum of \$9.0 million per fiscal year.

For fiscal years ended 2010 and 2009 respectively, the state paid a total of \$6,952,314 and \$5,697,634 on the Authority's parking and energy revenue bonds debt service. However, the Authority's reimbursement to the state for the contract assistance payments was \$1,778,137 for fiscal year 2010 and \$962,040 for fiscal year 2009.

Based on the Authority's audited financial statements, below is a summary of the financial operations of the Authority as of June 30, 2009 and 2010. We have included the 2008 (restated) fiscal year figures for comparative purposes.

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS:			
Current Assets	\$ 7,825,405	\$ 5,993,897	\$ 5,758,347
Noncurrent Assets:			
Restricted Cash and Cash Equivalent	5,594,181	\$18,842,502	11,426,361
Bond Issuance Cost, Net	1,627,540	1,713,266	1,355,040
Capital Assets, Net	290,117,863	288,523,518	266,649,715
Deferred Outflow of Resources	4,709,456	3,649,036	1,645,757
Total Assets:	<u>\$ 309,874,445</u>	<u>\$ 318,722,219</u>	<u>\$ 286,835,220</u>
Liabilities:			
Current Liabilities	\$ 5,353,978	\$ 4,529,301	\$ 4,258,297
Non-current Liabilities	130,722,696	127,439,647	101,538,794
Total Liabilities	<u>136,076,674</u>	<u>131,968,948</u>	<u>105,797,091</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	162,566,153	163,385,877	165,830,225
Restricted for Capital Project	5,594,181	18,842,502	11,426,361
Unrestricted	5,637,437	4,524,892	3,781,543
Total Net Assets	<u>173,797,771</u>	<u>186,753,271</u>	<u>181,038,129</u>
Total Liabilities and Net Assets	<u>\$ 309,874,445</u>	<u>\$ 318,722,219</u>	<u>\$286,835,220</u>

A statement of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2008 (restated), 2009 and 2010 for comparison purposes, follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues:			
State Grants			
Operating Grant	\$ 440,000	\$ 1,027,987	\$ 1,050,000
Convention Center Project Grants	5,610,000	6,497,013	6,850,000
On-behalf Payments	135,195	126,153	120,670
Adriaen's Landing Facilities	15,486,125	14,689,176	15,473,921
Other Operating Revenue	32,091	0	100,000
Total Operating Revenues	21,703,411	22,340,329	23,594,591
Operating expenses:			
Authority Operating	757,230	999,892	934,971
On-behalf Pension	135,195	126,153	120,670
Adriaen's Landing Facilities	19,486,501	18,247,629	19,061,320
Depreciation Expense	9,233,740	8,237,827	8,148,812
Total Operating Expense	29,612,666	27,611,501	28,265,773
Loss from Operations	(7,909,255)	(5,271,172)	(4,671,182)
Non-operating Revenue (Expense):			
Interest Income	59,859	299,646	352,139
Interest Expense	(5,106,104)	(4,702,143)	(3,614,123)
Non-operating Revenue (Expense), Net	(5,046,245)	(4,402,497)	(3,261,984)
Change in Net Assets before Capital Transfer	(12,955,500)	(9,673,669)	(7,933,166)
Capital contribution – State of CT	0	15,388,811	779,740
Change in Net Assets	(12,955,500)	5,715,142	(7,153,426)
Net Assets, Beginning of Year	186,753,271	181,038,129	188,191,555
Net Assets, End of Year	\$ 173,797,771	\$ 186,753,271	\$ 181,038,129

The Authority revenues mainly derived from appropriations from the State of Connecticut. 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.

The Authority's total operating revenues for fiscal year ended June 30, 2010 and June 30, 2009 were \$21,703,411 and \$22,340,329, respectively. The decrease in revenue is due to the decrease in previous years' state grants and revenues from the 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 \$6,689,510 that were made from CCEDA's own bond proceeds). The State of Connecticut expended \$5,610,000 and \$6,497,013 during the 2008-2009 and 2009-2010 fiscal years, respectively, for construction of the convention center and the related garages and necessary site work.

During the year ended June 30, 2005, the Authority entered into a construction and term loan agreement with the Travelers Indemnity Company (Travelers) in which the Travelers would provide a loan up to \$12.5 million for a parking garage. During fiscal year ended 2008, the Authority entered into an amended and restated term loan agreement with Travelers, at which time the loan in the amount of \$12.5 million was advanced. Repayment of this loan is secured by parking revenues payable by Travelers to the Authority under its parking agreement. The Travelers loan has brought the total Authority issuance of notes, bonds, and other obligations to \$122,500,000. As of June 30, 2010, the Authority has maximized its ability to issue notes, bonds, and other obligations and the outstanding balance on this loan is approximately \$11,645,000.

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.

Subsequent Events:

Change in Personnel:

During the audited period, chief financial officer Lisa Palen resigned on June 17, 2010. Subsequent to June 30, 2010, Joseph Savidge was hired as chief financial officer on July 28, 2010.

New Legislation:

Subsequent to June 30, 2010, Special Act 09-7 Section 165 of the General Statutes, made CCEDA's executive director, James Abromaitis, an Office of Policy and Management employee. In addition to his duty as executive director of CCEDA, he holds the position of comptroller for

the Adriaen's Landing and Rentschler Field projects. However, CCEDA staff were not reclassified as Office of Policy and Management employees.

CCEDA Changes Marketing Strategy

Prior to June 30, 2010, The Authority issued and received request for proposals for sales and marketing services for the convention center. As of July 1, 2010, the Authority has contracted with a new management company to oversee the sales and marketing services for the convention center for the next five years.

CCEDA Reorganization:

On January 19, 2012, Governor Malloy and Catherine Smith, Commissioner of the Department of Economic and Community Development, announced a proposal to create a 13-member Capital Region Development Authority (CRDA) that would replace CCEDA. The purpose of the new public authority is to stimulate new investment and economic growth in the Hartford/East Hartford region. The CRDA will manage Rentschler Field, the convention center and eventually the XL Center. Pursuant to the provisions of Public Act 12-147, CCEDA was reorganized as the Capital Region Development Authority, effective June 15, 2012.

CONDITION OF RECORDS

Our review of the records of the Capital City Economic Development Authority revealed the following areas that warrant comment.

Segregation of Duties:

Criteria: Good internal controls dictate adequate division of responsibilities among those who perform accounting procedures or control activities and those who handle assets.

Condition: During the audited period, we found the same employee who entered payroll amounts in the Authority's payroll system also authorized the processing of the payroll checks. In addition, there was no evidence that management regularly reviewed what was paid to the employees.

Effect: The lack of segregation of duties increases the risk that errors or irregularities may go undetected.

Cause: Due to a small staff of seven, the Authority did not separate the functions of preparing payroll for processing and authorizing the processing of payroll checks.

Recommendation: The Capital City Economic Development Authority should segregate the duties of entering and processing the payroll and have another employee review the payroll. (See Recommendation 1.)

Agency's Response: "We disagree that there is no segregation of duties over our payroll processes, and with the hiring of a new CFO in 2010, our payroll procedures were enhanced with clearer documentation that all payrolls are authorized, processed accurately and completely, and recorded properly in the books and records. Three of the seven employees at CCEDA are involved in the development of payroll, and further, payroll is processed by an outside service. We have separated duties to the extent possible. In advance of this payroll service, CCEDA's Office Manager prepares the payroll order which is reviewed and authorized by the Chief Financial Officer (CFO) before the order is transmitted to the payroll processor. When remittances (i.e., payroll output) are received later from the processor, they are compared by the Accounting Analyst to the payroll order and the previous payroll to validate the accuracy of the payroll generated. In addition, all withholding amounts are checked for reasonableness, and withholding amounts are recalculated, on a limited basis, to ensure withholding amounts and net pay amounts are correct."

*Auditor's Concluding
Comment:*

The Authority did not provide any evidence that supported the payroll had been reviewed and approved by the chief financial officer nor provided evidence that adequate segregation of duties existed.

Accrued Sick-Time Balances:

Criteria: Good internal controls dictate the monitoring of employee paid sick and vacation time to ensure employees do not abuse sick or vacation time.

Condition: We found that the Authority does not maintain a formal recordkeeping of used and accrued sick time. Therefore, sick time is recorded as regular pay.

Effect: Employees appear to have unlimited sick time usage as long as they return to work before the designated day that requires a written excuse from their health care provider.

Cause: The Authority policy grants sick time as needed. Under this policy, sick time is not accrued and sick time use is not limited as long as it is approved by the executive director.

Recommendation: The Capital City Economic Development Authority should revise what appears to be an unlimited sick time usage policy and begin tracking employees' sick time usage. Also, the Authority should establish an accrued sick time procedure. (See Recommendation 2.)

Agency's Response: "While we might agree there may be the appearance of unlimited sick-time, sick-time usage does not go unaccounted for, either by the employee or CCEDA management. If an employee is unable to report to work due to illness or other medical reason, per policy, he or she is obligated to notify his/her supervisor no later than 8:00 a.m. that day. Every day the illness prevents a return to work, the employee is required to notify his/her supervisor. Our current policy (for employee illness and for family illness leave) requires a written excuse by an appropriate health care provider if an absence caused by illness exceeds three (3) days. Further, the employee accounts for sick days on his/her weekly time sheet, which is signed by the employee, the supervisor and the executive director.

Further, there are limitations on paid days permitted for illness. With employee illness, paid days for an excused absence cannot exceed thirty (30) consecutive days without special approval from the executive director (or the chairperson of the CCEDA Board) who consults with the Personnel Committee. With family illness leave, paid days for an excused absence cannot exceed five (5) days in a fiscal year without special approval from the executive director (or chairperson of the CCEDA Board) and the Personnel Committee.

CCEDA is a small organization and, with no sick-time bank, does not payout unused sick time to employees at the end of each year or upon termination. Further, it is important to note that there have been no instances of sick-time abuse. We are currently evaluating our policies on sick time.”

Employee Unearned Vacation Pay:

Criteria: The Authority has procedures in place for granting employees vacation. Good internal control dictates that management reviews employee vacation time to ensure employees do not abuse vacation time and they are paid the salary to which they are entitled.

Condition: We tested the attendance records of the Authority’s seven employees. We found two of the seven employees were paid for vacation time before it was earned.

Effect: Two employees of the Authority were paid for vacation time that was not accrued. Employee #1 (the executive director) was over paid for one day. Employee #2 was over paid for 3 days.

Cause: Employee vacation leave was not monitored by management.

Recommendation: Authority management should review all employee vacation leave to ensure that employee have an adequate amount of leave time before approving employee timesheets. (See Recommendation 3.)

Agency’s Response: “We agree that it would be optimal to ensure employees have accrued vacation time prior to granting leave time; however, the accounting convention to accrue or “earn” vacation pay ratably over the year does not dictate the Authority’s policy over vacation, nor are the circumstances noted in violation of the Authority’s policy.

CCEDA is an extremely complex organization run by 7 employees. As such, vacation timing is critical to ensure employees are afforded time-off necessary to recharge and maintain a high level of productivity while not leaving the Authority short staffed through any time period. Vacation time is approved in advance by each employee’s supervisor based on the workload and anticipated need. It is for this reason that the Authority allows for use of allotted vacation time with an understanding that accruals will balance with time earned by the end of the fiscal year. Supervisors are given the authority to approve vacation in those instances early in the year when the ratable portion of vacation is not yet “earned” or accrued. The preparation of detailed time records and their regular review ensures that vacation time is tracked accurately and all employees either use the proper amount of vacation “earned” or that time earned but not

used is carried over into the next year. Please note that there are no instances of employees taking more vacation time than entitled through the end of the fiscal year. While no abuses have occurred over the history of the Authority, supervisors need to manage staffing levels and conditions as previously stated. The organization will review its policy.”

Purchase of Goods and Services:

Criteria: The Authority’s accounts payable procedures state that the chief financial officer shall review, approve, and initial all payments before the checks are presented to the authorized signers.

Good business practices dictate that contracts should be signed and dated before services are performed.

Condition: During the audited period, we found that 29 out of 40 or 73 percent of expenditure transactions tested were not reviewed and approved before payment was made.

In addition, we noted that individual signatures on original contracts and amended contracts did not include the date they were signed.

Effect: The Authority is not in compliance with its accounts payable procedures.

Cause: The invoices were not approved by the chief financial officer before payment as required under the Authority’s accounts payable procedures. Also, we could not determine if the authorized check signers reviewed the invoices before signing the checks.

Recommendation: The Authority should follow its accounts payable procedures and contract signatures should include the date the contracts were signed to ensure business is not conducted before the contracts are executed. (See Recommendation 4.)

Agency’s Response: “We disagree. The Chief Financial Officer [CFO] is not required to approve all payments [invoices] in certain instances. For example, where the invoice is for a fixed and negotiated contractual monthly fee, our procedures indicate that the Accounting Analyst only has to initial. Despite that fact, since his hiring in July 2010, the CFO, adhering to enhanced internal control procedures, reviews all invoices and initials them before any associated checks are authorized or signed.

In some of our contracts, the signature page does not have a date block because the contract wording is specific on when the contract is to be executed. For example, in the instance noted in this report, the contract has the following wording: “In witness ther[e]of, CCEDA...have caused this agreement to be signed ...as of the day and year first written above.”

We believe, as does our legal counsel, that this is sufficient to indicate the execution date of the contract. However, in the future, as it will perhaps make the execution date easier to locate without going into the body of the contract, we will include a date block on the signature page.”

Auditors’ Concluding

Comments:

The Authority’s accounts payable procedure states that the accounting analyst gives the checks and invoices to the chief financial officer for review, initial and approval. Good business practices dictates payables are reviewed and approved by a supervisor before payment. Therefore, the Authority should not circumvent their accounts payable internal control procedures.

Bank Reconciliation Review Procedures:

Criteria:

Supervisory review of bank reconciliations enhances internal control over cash.

Condition:

The Authority’s bank reconciliation procedures require that all of its accounts and its management company’s bank accounts be reconciled monthly.

Cause:

The Authority’s procedures do not require a supervisor to review and initial the bank accounts’ monthly reconciliation.

Effect:

Without timely and complete supervisory reviews, inadequate reconciliations could go undetected.

Recommendation:

The Capital City Economic Development Authority should improve its supervisory review procedures of bank reconciliations and require such reviews be performed and documented on a monthly basis for each account. (See Recommendation 5.)

Agency’s Response:

“In the past, we agree that there may have been instances where there was no evidence of a review. However, as required by policy, the Chief Financial Officer [CFO] reviews all bank reconciliations for each account each month. The current CFO has evidenced this review with initials since his hiring in July, 2010. Further, it should be noted that no discrepancies were noted. While we agree that, in some cases, evidence of the review was not documented before the current CFO[;] all current reviews have been initialed as reviewed.”

Written Policies:

Criteria:

Section 32-603 of the General Statutes provides that the board of directors of the Authority shall adopt written procedures for various administrative areas.

Condition: It appears that the Authority does not have written procedures for several of the required areas of Section 32-603.

We noted that the Authority did not have written procedures in the following areas:

- Obtaining approval by the board of directors prior to filling vacant staff positions.
- Issuing retiring bonds, notes and other obligations of the authority.
- The use of surplus funds.

Effect: By not following its written procedures, the Authority could have weakened internal controls. Strong internal controls are necessary to ensure the safeguarding of assets, the reliability of financial records, and compliance with laws and regulations.

Cause: The Authority did not consider the need to update written procedures for all of its policies to reflect the Authority's current practices.

Recommendation: The Capital City Economic Development Authority should update all written procedures as required by Section 32-603 of the General Statutes as necessary and should adhere to its written procedures. (See Recommendation 6.)

Agency's Response: "While we agree that our internal policies and procedures address some of the events noted, we also recognize that they may not be in accordance with Section 32-603 of the General Statutes. As noted in the body of your report, the Authority will undergo a transformation, and during that transformation, will review and may revise many of its existing policies, in accordance with Connecticut General Statutes Section 32-603."

RECOMMENDATIONS

Prior Audit Recommendations:

There were no recommendations presented in the prior report that covered the fiscal year ended June 30, 2008.

Current Audit Recommendations:

- 1. The Capital City Economic Development Authority should segregate the duties of entering and processing the payroll and have another employee review the payroll.**

Comment:

Our review disclosed that the same employee who enters payroll amounts in the Authority's payroll system also authorizes the processing of the payroll checks. In addition, there was no evidence that management regularly reviewed the amounts paid to the employees.

- 2. Capital City Economic Development Authority should revise what appears to be an unlimited sick time usage policy and begin tracking employee sick time usage. Also, the Authority should establish an accrued sick time procedure.**

Comment:

Our review disclosed that the Authority does not maintain a formal record of used and accrual sick time. Therefore, sick time appears to be unlimited.

- 3. Authority management should review all employee vacation leave to ensure that employees have an adequate amount of leave time before approving employee timesheets.**

Comment:

Our review disclosed employees were paid for unearned vacation leave.

- 4. The Authority should follow its accounts payable procedures and contract signatures should include the date the contracts were signed to ensure business is not conducted before the contracts are executed.**

Comment:

Our review disclosed that the Authority does not follow its accounts payable procedures and its contracts did not include the date the contracts were signed.

- 5. The Capital City Economic Development Authority should improve its supervisory review procedures of bank reconciliations and require such reviews be performed and documented on a monthly basis for each account.**

Comment:

Our review disclosed that the Authority's bank reconciliations are not reviewed by a supervisor for accuracy and completeness.

- 6. The Capital City Economic Development Authority should update all written procedures required by Section 32-603 of the General Statutes as necessary and should adhere to its written procedures.**

Comment:

Our review disclosed that the Authority does not follow all of its written procedures.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90, Section 1-122, and Section 32-600 through Section 32-617 of the General Statutes, we have conducted an audit of Capital City Economic Development Authority's operations for the fiscal years ended June 30, 2009 and 2010. 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 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 the requirements of Section 2-90 and Section 1-122 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 Compliance:

Management of Capital City Economic Development Authority is responsible for establishing and maintaining effective internal control over its operations. In planning and performing our audit, we considered the Capital City Economic Development Authority's internal control over its operations as a basis for designing our auditing procedures for the purpose of evaluating the Authority's operations and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over operations and compliance. Accordingly, we do not express an opinion.

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 deficiency in internal control 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 and correct unauthorized, illegal, or irregular transactions on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control that

adversely affects the Authority's ability to properly initiate, authorize, record, process, or report data reliably consistent with management's direction, and/or comply with certain provisions of law, regulations, contracts, and grant agreements such that there is a reasonable possibility that material noncompliance with laws, regulations, contracts and grant agreements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over the Authority's operations, and compliance with requirements would not necessarily identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies described in the Condition of Records that we consider to be significant deficiencies which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report as the following items: Recommendation 1 – Segregation of Duties; Recommendation 2 – Accrued Sick-Time Balance; Recommendation 3 – Employee Unearned Vacation Pay; Recommendation 4 – Purchase of Good and Services; Recommendation 5 – Bank Review Procedures. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 operations for the fiscal year ended June 30, 2009 and 2010, 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 operations 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 as the following items: Recommendation 6 – Written Procedures.

The Capital City Economic Development Authority's responses to the findings identified in our audit are 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 and use of Authority management, 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

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Capital City Economic Development Authority during our examination.



Kathrien E. Williams
Associate Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts