

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
CONNECTICUT DEVELOPMENT AUTHORITY  
FOR THE FISCAL YEARS ENDED JUNE 30, 2000, and 2001**

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

## Table of Contents

---

<b>INTRODUCTION</b> .....	1
Scope of Audit .....	1
<b>COMMENTS</b> .....	2
Foreword.....	2
Board of Directors and Administrative Officials.....	2
Recent State Legislation .....	2
Independent Audits .....	3
Connecticut Redevelopment Authority.....	3
<b>RÉSUMÉ OF OPERATIONS</b> .....	3
General Operating Fund.....	4
Umbrella Program Fund .....	4
Insurance Program Fund.....	4
Growth Fund.....	5
Connecticut Works Fund .....	5
Connecticut Works Guarantee Fund.....	6
Connecticut Capital Access Fund .....	6
Business Environmental Clean-Up Revolving Loan Fund.....	7
Environmental Assistance Revolving Loan Fund.....	7
Job Training Fund.....	7
Summary of Revenues, Expenses and Net Income .....	8
Summary of Loan Write-offs and Guarantee Claims Paid .....	8
<b>CONDITION OF RECORDS</b> .....	9
Credit Card Expenditures.....	9
CDA Payment of Governor’s Regional Offices Cost.....	10
Severance Payments to Employees.....	11
Loan Documentation.....	11
Disaster Recovery Plan.....	13
<b>RECOMMENDATIONS</b> .....	14
<b>CONCLUSION</b> .....	16

March 27, 2003

**AUDITORS' REPORT  
CONNECTICUT DEVELOPMENT AUTHORITY  
FOR THE FISCAL YEARS ENDED JUNE 30, 2000, and 2001**

We have made an examination of the books, records and accounts of the Connecticut Development Authority (CDA), as provided in Section 2-90, as amended, and Section 32-11a of the General Statutes, for the fiscal years ended June 30, 2000 and 2001.

**SCOPE OF AUDIT:**

The CDA is a quasi-public agency as provided for by Chapter 12 of the General Statutes. In addition to receiving annual financial audits by independent public accounting firms, the Authority received compliance audits, as required by Section 1-122 of the General Statutes. After having reviewed the reports and work of the outside firm and having satisfied ourselves as to the firm's independence, professional reputation, and qualifications, we have relied on those financial and compliance audits, in addition to internal control documentation. Comments in the independent auditor's reports are presented under the heading "Independent Audits" in this report. Financial statements of the CDA are included in its annual reports for the fiscal years ended June 30, 2000 and 2001.

In accordance with Section 7 of Public Act 98-253, codified as Section 32-11a, subsection (l), of the General Statutes, the CDA has the authority to create subsidiaries to carry out the remediation, development, and financing of contaminated property within the State. As a result, the CDA established the Connecticut Redevelopment Authority, Inc. (CRA). The CRA was incorporated as a non-stock corporation on May 17, 1999, as a subsidiary of the Connecticut Development Authority. We will report on the activities of the CRA and other subsidiaries in the course of the audit of the CDA.

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

**COMMENTS**

**FOREWORD:**

The Connecticut Development Authority, hereinafter referred to as the CDA or the Authority, operates primarily under the provisions of Title 32, Chapter 579, Sections 32-11a through 32-23yy of the General Statutes. The CDA is a body politic and corporate, constituting a political instrumentality and political subdivision of the State. The Authority's mission is to maintain and create jobs within the State by stimulating industrial and commercial development, primarily through financial assistance to businesses. In addition, the Authority has been responsible for operations at the Hartford Civic Center since September 1993.

**Board of Directors and Administrative Officials:**

Members of the CDA Board of Directors as of June 30, 2001, were as follows:

Ex officio Members:

Denise L. Nappier	- State Treasurer
Marc S. Ryan	- Secretary, Office of Policy and Management
James F. Abromaitis	- Commissioner, Dept. of Economic and Community Development

Appointed Members:

Arthur H. Diedrick, Chairman  
Anthony J. Campanelli  
L. Scott Frantz  
Richmond W. Glover  
Dennis Hrabchak  
Steve Maloney  
Richard T. Mulready  
Scott H. Smith

The chief executive officer (Executive Director) of the Authority is appointed by the Board. Antonio Roberto was appointed as the Executive Director on September 17, 1997, and continued to serve throughout the audited period. Arthur H. Diedrick served as President of the CDA, a paid position, during the audited period.

**Recent State Legislation:**

During the audited period the General Assembly passed the following legislation which affected the CDA:

- Public Act 00-178 which amended Section 32-16, subsection (a), of the General Statutes expanded the authority of the CDA to insure all or a portion of mortgage or loan payments to include information technology projects, effective July 1, 2000.
- Public Act 01-179, effective October 1, 2000, allows the CDA to issue bonds without a special capital reserve fund. The bonds may be payable solely or in part from and secured by the income, proceeds, revenues and property of the project.

**Independent Audits:**

As noted previously, the CDA has been subject to annual audits by independent public accountants (IPAs) covering its financial statements and the compliance matters described in Section 1-122 of the General Statutes. For each of the fiscal years under review, the IPAs issued management letters related to the internal control structure of the CDA. Discussed below are summaries of the management letter findings and implemented resolutions resulting from the IPA's audit for the fiscal year ended June 30, 2000.

In conjunction with the examination of the 1999-2000 financial records, a management letter on the internal control structure was issued. The letter contained two recommendations. The recommendations are summarized below:

- Accounting for Equity Investments-The Authority should record all equity available-for-sale securities at the quoted market value as of the date of the financial statements. This issue has been resolved.
- The Authority should obtain an audit of the Madison Square Garden partnership. The Authority has obtained the audit.

In conjunction with the examination of the 2000-2001 financial records, a management letter on internal controls was issued. The letter contained no recommendations.

**Connecticut Redevelopment Authority:**

As mentioned previously, the Connecticut Redevelopment Authority (CRA) is a quasi-public agency created by the Connecticut Development Authority in accordance with Public Act 98-253 codified as Section 32-11a, subsection (l), of the General Statutes. This subsidiary was created in May 1999 to carry out the remediation, development, and financing of contaminated property within the State. The CDA authorized \$1,500,000 in financial resources to the CRA in May 1999. The expenses associated with the entity during the audited period were administrative in nature and amounted to \$130,846 and \$148,202 for the fiscal years ended June 30, 2000 and June 30, 2001, respectively.

**RÉSUMÉ OF OPERATIONS:**

The Department of Economic and Community Development (DECD) provides the CDA with advance funding to operate certain programs. This advance funding is financed with the proceeds of State bonds. Additional financing is obtained through the collection of various fees. The CDA is also authorized to issue general obligation bonds for certain programs. Pursuant to Section 32-23j, subsection (a), of the General Statutes, those bonds "...shall not be deemed to constitute a debt or liability of the state..." These bonds, except for issues totaling \$30,560,000 associated with the purchase of the assets of the Hartford Whalers, are secured by special capital reserve funds. The CDA is required to maintain, in these funds, a minimum balance at least equal to the greatest principal and interest payments becoming due in the succeeding calendar year. If the CDA is unable to maintain a sufficient balance in the special capital reserve fund, the State's General Fund could be required to restore the special capital reserve fund to its minimum balance if the specific bond indenture calls for such State reimbursement. (No such State

## ***Auditors of Public Accounts***

---

payment was required during the audited period.) As of June 30, 2000 & 2001, the CDA's bonds payable amounted to \$106,110,567 and \$96,230,230 respectively.

In addition, the CDA is authorized under its Self-Sustaining Bond Program to accommodate the financing for specific industrial and certain recreational and utility projects through the issuance of special obligation industrial revenue bonds. These bonds are payable solely from participating companies and are not otherwise a debt or liability of the CDA or the State. Accordingly, the balances and activity of the Self-Sustaining Bond Program are not included in the CDA's financial statements. Total bonds outstanding as of June 30, 2000 and 2001, were \$1,263,923,457 and \$1,153,274,584 respectively.

The CDA maintains the following funds to account for its operations and various programs:

### **General Operating Fund:**

The CDA's operating expenses are recorded in its General Operating Fund and allocated net of Operating Fund revenue to its various programs. In addition, the Operating Fund is used to account for the CDA's operation of the Hartford Civic Center.

Based on the Authority's financial statements, receipts of the Operating Fund totaled \$17,181,062, \$20,733,090 and \$20,680,999 for the 1998-1999, 1999-2000 and 2000-2001 fiscal years, respectively. Operating expenses for the same periods amounted to \$20,085,967, \$23,425,067 and \$23,977,295. The Operating Fund's respective net income/(loss), exclusive of unrealized holding gains/losses, amounted to \$(2,904,905), \$(2,691,977) and \$(3,296,296) for the same periods. The Hartford Civic Center's operations account for 100 percent of the losses.

Exclusive of the costs of running the Civic Center and interest payments, payroll and related fringe benefits were the single largest line-item expenditure category. Payroll and related charges for the 1998-1999, 1999-2000 and 2000-2001 fiscal years were \$3,287,344, \$3,467,970 and \$3,407,808 respectively.

### **Umbrella Program Fund:**

Under the Umbrella Program, the CDA is authorized to issue bonds to provide financial assistance for the acquisition of land, buildings, new machinery, equipment and pollution control facilities. Loans up to \$800,000, with up to a 20-year term, can be made for each approved project. Of this amount, up to \$500,000 can be used for machinery and equipment (term may not exceed ten years) and up to \$800,000 can be used for pollution control facilities (term may not exceed ten years.) Loans in this program are insured under the Insurance Program (discussed later.) During the 1999-2000 and 2000-2001 fiscal years, there were no defaulted loans absorbed by the Insurance Program Fund from the Umbrella Fund.

### **Insurance Program Fund:**

Authorized by Section 32-14 of the General Statutes, the Authority may insure loans made by other lending institutions to companies for the acquisition of industrial land, buildings, machinery, and equipment located within the State. In addition, all of the Authority's Umbrella Program loans are insured under this program.

As of June 30, 1999, 2000 and 2001, loans totaling \$43,278,621, \$35,871,265, and \$28,300,922 respectively, were insured as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Loans by other lending institutions	\$ 6,895,000	\$ 8,409,488	\$ 8,830,196
Umbrella Program loans	21,405,922	27,461,777	34,448,425

**Growth Fund:**

In accordance with Section 32-23v of the General Statutes, the CDA is authorized to issue individual Growth Fund loans up to a maximum of \$4,000,000 with a maximum loan term of 20 years. The program provides financial assistance for any purpose the Authority determines will materially contribute to the economic base of the State by creating or retaining jobs, promoting exports, encouraging innovation or supporting existing activities. Financing may be used to purchase real property, machinery and equipment, or for working capital.

The Authority has established a maximum 90 percent loan-to-value ratio for real property loans and 80 percent loan-to-value ratio for machinery and equipment loans. Working capital loans are limited to a term of up to seven years.

A summary of the Growth Fund's lending activity for the last three years is as follows:

<b>Fiscal Year Ended</b>	<b>Number of Entities</b>	<b>Assistance</b>
<u>June 30,</u>	<u>Receiving Assistance</u>	<u>Provided</u>
1999	34	\$10,364,223
2000	44	8,354,536
2001	43	11,332,856

**Connecticut Works Fund:**

The Connecticut Works Fund, also known as "Fund A", is established in accordance with Section 32-23ii of the General Statutes. The Fund is used for either direct loans or loan guarantees. Eligible projects include most manufacturing-related projects and any project that supports the economic base of the State through jobs, defense diversification, exporting and the development of innovative products or services.

The State has authorized the issuance of up to \$128,000,000 in State bonds allocated to Fund A. Of this amount, \$82,485,000 has been distributed to Fund A. In the event direct loans are uncollectible, the CDA can use any remaining bond funds to reimburse itself for such losses, up to \$15,000,000 per loan, subject to the total allocation limit.

A summary of Fund A's lending activity for the last three years is as follows:

<b>Fiscal Year Ended <u>June 30,</u></b>	<b>Number of Entities <u>Receiving Assistance</u></b>	<b>Guarantee <u>Provided</u></b>
	<u>Loan Guarantees:</u>	
1999	0	-0-
2000	1	\$500,000
2001	1	292,500
	<u>Direct Loans:</u>	
1999	12	\$13,974,369
2000	6	8,387,500
2001	8	16,707,000

**Connecticut Works Guarantee Fund:**

The Connecticut Works Guarantee Fund, also known as "Fund B", is established in accordance with Section 32-261 of the General Statutes. The purpose of Fund B is to provide commitments to guarantee loans made by participating financial institutions. Projects financed by the program are intended to encourage growth and the retention of businesses unable to obtain suitable financing and to stimulate an increase in jobs and tax revenue throughout the State. Eligibility is determined by the due diligence principles set forth in the Connecticut Works Fund.

The State has authorized up to \$39,000,000 in State bonds allocated to Fund B. Of this amount, \$10,000,000 has been distributed. In the event a direct loan is uncollectible by the participating financial institution, the CDA can use any remaining bond funds to reimburse itself for such losses, up to \$10,000,000 per loan subject to the total allocation.

A summary of the Fund B's activity for the last three years is as follows:

<b>Fiscal year Ended <u>June 30,</u></b>	<b>Number of Entities <u>Receiving Assistance</u></b>	<b>Guarantee <u>Provided</u></b>
1999	9	\$ 3,734,225
2000	6	2,413,500
2001	1	123,750

**Connecticut Capital Access Fund:**

In accordance with Section 32-265 of the General Statutes, the Connecticut Capital Access Fund provides portfolio insurance to participating financial institutions to assist them in making loans that are somewhat riskier than conventional loans. These loans are of two types, referred to as Urbank Program loans and Entrepreneurial Program loans. Project eligibility is usually determined by the financial institution making the loan, subject to requirements specified in the participation agreements.

The State has authorized the issuance of up to \$5,000,000 in State bonds allocated to this Fund. Of this amount, \$2,000,000 has been distributed. In addition, any insurance losses associated with this Fund are reimbursable from those bonds up to the \$5,000,000 allocated.

A summary of the Fund's lending activity during the last three fiscal years is as follows:

<b>Fiscal Year Ended</b> <b><u>June 30,</u></b>	<b>Number of Entities</b> <b><u>Receiving Assistance</u></b>	<b>Amount of Assistance</b> <b><u>Provided</u></b>
1999	48	\$ 398,717
2000	25	465,653
2001	44	1,004,088

### **Business Environmental Clean-Up Revolving Loan Fund**

Established in accordance with Section 32-23z of the General Statutes, this Fund provides direct loans to assist businesses in the containment or removal of property contamination. To be eligible, the business must have been established at least one year in the State, have sales of less than \$3,000,000 or less than 150 employees, and be unable to obtain conventional financing. Loan amounts cannot exceed \$200,000.

No loans were made from this fund during the audit period and there is no additional funding available for this program.

### **Environmental Assistance Revolving Loan Fund:**

Established under Section 32-23qq of the General Statutes, the CDA can use the Environmental Assistance Revolving Loan Fund to provide direct loans and guarantees to businesses to assist in financing pollution prevention activities or purchases and costs associated with the installation of stage II vapor recovery systems. To be eligible, an entity must have revenues of less than \$25,000,000, or fewer than 150 employees. There has been no loan or guarantee activity since August 1996.

### **Job Training Fund:**

This Fund was established to account for the Connecticut Job Training Finance Program authorized by Section 32-23uu of the General Statutes. Assistance under this program is provided to manufacturing or economic base businesses seeking to provide educational upgrades to their production workers. Performance grants of up to \$25,000 are available, covering up to 25 percent of the amount borrowed by each business.

Funding for this program is provided by the bond issue authorized under Sections 32-231I and 32-235 of the General Statutes.

<b>Fiscal Year Ended <u>June 30,</u></b>	<b><u>Number of Entities Receiving Assistance</u></b>	<b><u>Amount of Assistance Provided</u></b>
1999	38	\$807,301
2000	31	673,995
2001	28	672,557

**Summary of Revenues, Expenses and Net Income:**

Based on the CDA's audited financial statements, the following is a summary of the revenues, expenses and income of the consolidated operations for the fiscal years ended June 30, 1999, 2000 and 2001.

Revenues:	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>
Civic Center revenues	\$ 13,482,774	\$ 15,554,557	\$14,648,671
Premiums earned	841,166	612,294	566,388
Interest on loans	10,680,171	9,224,365	8,877,159
Investment income	4,592,507	5,450,309	6,023,609
Other	<u>3,164,397</u>	<u>4,310,825</u>	<u>849,322</u>
Total Revenues	<u>32,761,015</u>	<u>35,152,350</u>	<u>30,965,149</u>
Expenses:			
Civic Center expenses	16,387,679	18,246,534	17,944,967
Interest	6,419,869	6,006,570	5,535,348
Payroll and fringe benefits	3,287,344	3,467,970	3,407,808
Other	<u>2,310,009</u>	<u>3,138,184</u>	<u>2,540,914</u>
Total Expenses	<u>28,404,901</u>	<u>30,859,258</u>	<u>29,429,037</u>
<b>Net Income:</b>	<b><u>\$ 4,356,114</u></b>	<b><u>\$ 4,293,092</u></b>	<b><u>\$ 1,536,112</u></b>

**Summary of Loan Write-Offs and Guarantee Claims Paid:**

Based on data in the CDA's internal financial reporting package the following is a summary of the loan amounts written off and guarantee payments made and the written-off loans recovered and written-off guarantees recovered for the fiscal years ended June 30, 1999, 2000 and 2001:

<b><u>Fiscal Year Ended June 30,</u></b>	<b><u>Direct Loans Written off</u></b>	<b><u>Guarantees Paid</u></b>	<b><u>Loans Recovered</u></b>	<b><u>Guarantees Recovered</u></b>
1999	\$2,183,024	\$1,717,623	\$ 445,232	\$ 20,206
2000	554,253	3,856,523	74,994	133,271
2001	979,476	361,685	15,536	68,823

## CONDITION OF RECORDS

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

### **Credit Card Expenditures**

- Criteria:* Good internal control requires that expenditures be supported by sufficient documentation and that the receipt of goods be confirmed prior to payment.
- Condition:* We determined that in some instances the CDA paid credit card bills for an employee's business trips without obtaining and reviewing documentation supporting credit card expenditures. The employee did file memos summarizing the trips; however, the memos lack financial information or expenditure detail.
- Effect:* The lack of a process that requires written confirmation of charges and examination of all documentation supporting credit card expenditures does not afford the desired level of assurance that payments for credit card expenditures are allowed and accurate.
- Cause:* The CDA has been relying on memos summarizing the trips that are filed by the employee using the credit card.
- Recommendation:* The CDA should design and implement an expenditure payment process that requires, review of credit card bills including written confirmation of charges and collection and retention of documentation supporting all expenditures. (See Recommendation 1.)
- Agency Response:* "The CDA agrees with the finding to obtain the supplemental information noted in the few instances where it was applicable. Based on our original and supplemental review of these findings all the expenses appeared to be appropriate. For the findings noted above the CDA did receive a summary from the employee for each expense which explained the purpose of the overnight stay, the company or individual met with, time, date, and destination. The CDA also received an original receipt and statement from the credit card company for each expenditure. These original receipts referenced the vendor, date and amount. This information was reviewed for accuracy and processed for payment. The CDA now requires that along with the original receipt from the credit card company, the employee must also include the original receipt from the vendor."

**CDA Payment of Governor’s Regional Offices Cost**

*Criteria:* Budgetary constraints in the form of authorized appropriations and positions are intended to provide a level of control over agency spending. Section 4-97 of the General Statutes states that no appropriation or part thereof shall be used for any purpose other than that for which it was made.

*Condition:* At the time of our review, March 2002, the Governor’s Bridgeport and Norwich offices continue to be staffed by two CDA employees and one CDA employee respectively. These employees are occupied with work not directly related to CDA activities. Instead, they are engaged in work and initiatives related to the Office of the Governor. In addition, the Authority pays the entire lease for the Governor’s Bridgeport office without any reimbursement from the Office of the Governor. The CDA has recently committed to an additional two years on the Bridgeport office lease.

*Effect:* The costs associated with the operation of the Office of the Governor and the CDA are erroneously stated. In addition, Legislative budgetary control is weakened by the failure to properly allocate expenses to the appropriate State General Fund budgetary account.

*Cause:* The Authority continues to contend that the employee and rent costs associated with the operation of the Governor’s Bridgeport and Norwich Offices and charged to the CDA are legitimate because they contribute to the overall community development in the respective regions.

*Recommendation:* The employee and rent costs associated with the operation of the Governor’s Bridgeport and Norwich offices and charged to the CDA should be properly allocated and charged to the Office of the Governor. (See Recommendation 2.)

*Agency Response:* “The CDA does not agree with this finding. The Governor’s Office assigned the persons in question to the Bridgeport and Norwich regional offices in order to advance CDA’s mandate of facilitating economic development in these hard-pressed areas. In our view, any activity that promotes directly or indirectly economic development in these regions “benefits” the CDA. We believe the State Auditors are taking too narrow a perspective of the CDA’s mission and what is needed to spur economic development in the State. Nevertheless, CDA will work with the Auditors to attempt to devise a system of accounting for the time and effort to these employees that is responsive to the Auditor’s concerns”

*Auditors' Concluding*

*Comment:* This is a repeat recommendation. Previous audit responses from CDA have essentially been the same. However, the condition continues to prevail without evidence of any attempt to devise a system that properly allocates and charges employee and rent costs to the Office of the Governor.

**Severance Payments to Employees**

*Criteria:* In accordance with Section 1-121 of the General Statutes, the Authority has established written policies for most payroll/personnel matters.

*Condition:* Our prior audits have noted inconsistent severance procedures. It was determined, through discussions with Authority management, that a formal severance policy with guidelines and procedures has not yet been established. There were no severance payments made during the fiscal years 2000 and 2001.

*Effect:* The lack of a formal policy governing severance payments could lead to the appearance of favoritism, discrimination or other inconsistencies.

*Cause:* The Authority prefers to have the Board of Directors approve severance payments on an individual basis.

*Recommendation:* The Authority should establish written guidelines and procedures relative to the payment of severance benefits. (See Recommendation 3).

*Agency Response:* "The CDA does not agree with this finding. The CDA's policy is to have all severance packages approved individually by the Board of Directors. No CDA employee received a severance package during the audit period."

*Auditors' Concluding*

*Comment:* This is a repeat recommendation. The Board should ensure consistent treatment by adopting written procedures that include guidelines for eligibility and payment amounts.

**Loan Documentation**

*Criteria:* During the audited period, the Connecticut Development Authority contracted with an outside rating firm, Bennington Partners to perform annual reviews of the Authority's commercial loan portfolios. The Bennington Partners' process of loan file evaluation includes a nine point rating system. This process includes a review of credit, sufficiency of documentation in the

files, analysis of each loan based on information in the file, preliminary grading based on documented information, conference call with management to complete their understanding of the credits, final risk ratings based on file content with oral/written updates, submission of analysis and management letter to the agency, and follow-up as appropriate.

*Condition:* In the November 2001 cyclical review of loans report, prepared by Bennington Partners, it was revealed that there had been “some overall slippage in collection of financial data...”and that “guarantor tax return information lags behind peer statistics”. In addition, Bennington Partners found in their November 2000 review that there had been “some small slippage noted in the receipt of tax returns...” and that “guarantor information lags behind peer statistics.”

*Effect:* Lagging behind peer statistics calls into question the sufficiency of loan documentation. Slippage in collection of financial data could indicate an increasing rate of loan defaults.

*Cause:* It appeared that many of the statistical comparisons reported in the review of loans were comparisons of peer data collection rates to the CDA collection rates. Financial data supplemental to the required financial statements was reported on as well as required financial data.

*Recommendation:* The Authority should improve the collection procedures of key financial data including borrower and guarantor financial statements when processing loan applications. (See Recommendation 4.)

*Agency Response:* “The CDA agrees with this finding in part. The cyclical review of loan reports prepared by Bennington Partners compares the CDA’s collection results of financial data with that of our peers. The results include both required information, which is the financial statements for both the borrower and the entity guaranteeing the loan and non-required information, which is the tax returns for the borrower and the entity guaranteeing the loan. The CDA’s collection rates on required information was on par or exceeded our peers. In fact, Bennington Partners revealed that our collection of financial data on borrowers is “performing significantly above par.” The CDA did lag behind our peer group’s collection rates as it relates to the non-required financial data and we will review and improve our collection efforts as it relates to this data.”

*Auditors’ Concluding Comment:*

The Bennington loan reviewer’s deficiency reports for the November 2001 report noted that in a sample of 126 loans examined, five required borrower financial statements were

missing and ten required guarantor financial statements were missing. CDA should improve the collection procedures of key financial data.

### **Disaster Recovery Plan**

- Background:* The CDA provides financial assistance to businesses in order to stimulate industrial and commercial development. This process requires extensive communication, computerized case tracking systems, case management and assessment by CDA staff.
- Criteria:* A formal written disaster recovery plan should be part of prudent preparations for business resumption in the event of an emergency.
- Condition:* The Authority lacks a formal written disaster recovery plan that addresses all aspects of prompt business resumption including communications, computer system recovery and CDA staff operations.
- Effect:* In the event of an emergency, the Authority would have difficulty and a time delay in resuming business while they formulated a disaster recovery plan.
- Cause:* Apparently, formulating a formal written disaster recovery plan has not been a priority.
- Recommendation:* The Authority should develop, approve and implement a formal written disaster recovery plan that addresses prompt business resumption in the event of an interruption of business. (See Recommendation 5.)
- Agency Response:* “The CDA agrees with this finding in part. The CDA has all critical information stored electronically off-site by a company specializing in the storage of computer tapes. The CDA also maintains a contract with a computer consulting firm that would supply us with the necessary hardware and upload the stored computer tapes should a disaster occur. The CDA will codify these contracts into a written recovery plan.”

## RECOMMENDATIONS

Our prior audit contained eight recommendations, six of which have been adequately resolved. The two remaining recommendations have been repeated or restated to reflect current conditions. The status of those recommendations is presented below:

*Status of Prior Audit Recommendations:*

- The Authority should implement procedures to comply with all of its legislated reporting requirements and expand efforts to obtain information from State agencies in order to verify statistics reported by borrowers. Where questions exist as to the confidentiality of required information, CDA should seek legislative clarification to ensure that the legislative intent is met. This recommendation has been satisfied.
- The cost of CDA employees' time used to provide services to the Governor's Office should be properly allocated. This recommendation is being repeated. (See Recommendation 2.)
- The Authority should establish policies and guidelines relative to the payment of severance benefits. This recommendation is being repeated. (See Recommendation 3.)
- The Authority should review the appropriateness of the appointment of the Chairman to the position of President under Section 32-23e, subdivision (18) of the General Statutes. We determined that Governor Rowland withdrew from Legislative nomination the name of the current President for the position of Chairman and member of the Connecticut Development Authority, effective February 10, 2003. This recommendation is not being repeated.
- Legislation should be sought that would give the Authority a legal basis to include false statement penalties on its documents, similar to banking institutions. This recommendation has been satisfied.
- The Authority should ensure that audit and reporting provisions in the Civic Center operating agreement are fully complied with. This recommendation has been satisfied.
- The Authority should establish written procedures over the bidding process for major Civic Center purchases. In doing so, consideration should be given to requiring publication of invitations to bid. This recommendation has been satisfied.
- CDA should establish policies addressing the extent to which Board members may represent businesses with which they are associated in front of the Authority. This recommendation has been satisfied.

*Current Audit Recommendations:*

- 1. The Authority should design and implement an expenditure payment process that requires, review of credit card bills including written confirmation of charges and collection and retention of documentation supporting all expenditures.**

Comment:

The CDA paid credit card bills for an employee's business trips without requiring submission of detailed lodging, meal and other expenditure documentation.

- 2. The employee and rent costs associated with the operation of the Governor's Bridgeport and Norwich offices and charged to the CDA should be properly allocated and charged to the Office of the Governor.**

Comment:

We continue to note that the Governor's Office receives the benefit of office space and personal services of regional offices without charge. These employee and rent expenses are paid by the CDA.

- 3. The Authority should establish written guidelines and procedures relative to the payment of severance benefits.**

Comment:

We noted the continuing lack of guidelines and procedures relating to such separation payments.

- 4. The Authority should improve the collection procedures of key financial data including borrower and guarantor financial statements when processing loan applications.**

Comment:

The commercial loan file evaluation conducted by an outside rating firm noted instances where required borrower and guarantor financial statements were missing and in conducting peer comparisons of non required financial data, noted that CDA lagged behind peer statistics.

- 5. The Authority should develop, approve and implement a formal written disaster recovery plan that addresses prompt business resumption in the event of an interruption of business.**

Comment:

The Authority lacks a formal written disaster plan. In the event of an emergency a written plan would facilitate the plans implementation.

**CONCLUSION**

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

Josepha M. Brusznicki  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts

jmb/35040-00,01