

STATE OF CONNECTICUT

**AUDITORS' REPORT
CONNECTICUT DEVELOPMENT AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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February 2, 2006

**AUDITORS' REPORT
CONNECTICUT DEVELOPMENT AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

We have examined the books, records and accounts of the Connecticut Development Authority (CDA), as provided in Section 2-90, Section 1-122, and Section 32-11a of the General Statutes, for the fiscal year ended June 30, 2004.

SCOPE OF AUDIT:

This audit was primarily limited to performing tests of the Connecticut 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
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources.

We also considered the Connecticut 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 previously and a review of such other areas as we considered necessary. The financial statement audit of the Connecticut Development Authority, for the fiscal year indicated above, was conducted by the Authority's independent public accountants.

In accordance with 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 Brownfields Redevelopment Authority, Inc. (CBRA). The CBRA 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 Authority's subsidiary in the course of the audit of the CDA.

COMMENTS

FOREWORD:

The Connecticut Development Authority, hereinafter referred to as the CDA or the Authority, is a quasi-public agency as provided for by Chapter 12 of the General Statutes. The CDA is a body politic and corporate, constituting a political instrumentality and political subdivision of the State. The CDA operates primarily under the provisions of Title 32, Chapter 579, Sections 32-11a through 32-23zz of the General Statutes. 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, 2004, 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:

- Anthony J. Campanelli
- L. Scott Frantz, Chairman
- Robert J. Kane
- Dennis Hrabchak
- Steve Maloney
- Richard T. Mulready, Vice Chairman
- Scott H. Smith

In addition to the Board members listed above, Richmond W. Glover served on the Board during the audit period.

The chief executive officer (Executive Director) of the Authority is appointed by the Board. Antonio Roberto served in that capacity throughout the audit period. Arthur H. Diedrick served as President of the CDA, a paid position during the audit period. Mr. Diedrick left his position with the CDA, effective August 1, 2004. Ms. Marie O'Brien currently serves as the President of the Connecticut Development Authority.

Connecticut Brownfields Redevelopment Authority:

As mentioned previously, the Connecticut Brownfields Redevelopment Authority (CBRA) is a quasi-public agency created by the Connecticut Development Authority in accordance with 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 CBRA in May 1999. The administrative expenses associated with the entity amounted to \$191,621 and one loan in the amount of \$209,000 was issued for the fiscal year ended June 30, 2004.

RÉSUMÉ OF OPERATIONS:

The Department of Economic and Community Development (DECD) provides the CDA with advanced funding to operate certain programs. This advanced 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 payment was required during the audited period.) As of June 30, 2004, the CDA's bonds payable amounted to \$42,820,000.

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, 2004, were \$993,186,106.

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 \$17,855,720 and \$18,400,095 for the 2002-2003 and 2003-2004 fiscal years, respectively. Operating expenses for the same periods amounted to \$21,799,916 and \$22,476,063. The Operating Fund's respective net income/(loss), exclusive of unrealized holding gains/losses, amounted to \$(3,944,196) and \$(4,075,968) 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 2002-2003 and 2003-2004 fiscal years were \$3,593,110 and \$3,408,362, respectively.

Umbrella Program Fund:

Under the Umbrella Program, the CDA is authorized to issue bonds to provide financial assistance for the acquisition of industrial 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 2003-2004 fiscal year, \$75,132 in defaulted loans were 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, 2003 and 2004, loans totaling \$16,334,599 and \$12,032,797, respectively, were insured as follows:

	<u>2003</u>	<u>2004</u>
Loans by other lending institutions	\$6,545,000	\$6,353,750
Umbrella Program Loans	9,789,599	5,679,047

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 two years is as follows:

Fiscal Year Ended <u>June 30,</u>	Number of Entities <u>Receiving Assistance</u>	Assistance <u>Provided</u>
2003	26	\$7,444,416
2004	12	2,910,709

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 direct loans, equity investments and 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 \$95,000,000 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 subject to the total allocation limit.

A summary of Fund A’s lending activity for the last two years is as follows:

Fiscal Year Ended <u>June 30,</u>	Number of Entities <u>Receiving Assistance</u>	Assistance <u>Provided</u>
	<u>Loan Guarantees:</u>	
2003	0	\$0
2004	0	0
	<u>Direct Loans:</u>	
2003	6	\$5,992,622
2004	1	307,900
	<u>Equity Investments:</u>	
2003	0	\$0
2004	1	1,628,170

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 the total allocation.

A summary of Fund B’s activity for the last two years is as follows:

Fiscal Year Ended <u>June 30,</u>	<u>Number of Entities Receiving Assistance</u>	<u>Assistance Provided</u>
2003	0	\$ 0
2004	1	250,000

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 participating 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 two fiscal years is as follows:

Fiscal Year Ended <u>June 30,</u>	<u>Number of Entities Receiving Assistance</u>	<u>Assistance Provided</u>
2003	46	\$1,057,725
2004	25	547,208

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 32-23ll and 32-235 of the General Statutes. No assistance was provided from this fund during the audit period.

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, 2003 and 2004:

Revenues:	<u>2003</u>	<u>2004</u>
Civic Center revenues	\$14,013,684	\$14,880,566
Premiums earned	438,942	251,390
Interest on loans	7,108,247	6,057,601
Investment income	2,019,703	1,718,871
Other	<u>1,235,770</u>	<u>665,596</u>
Total Revenues	<u>24,816,346</u>	<u>23,574,024</u>
Expenses:		
Civic Center expenses	17,957,880	18,956,534
Interest	2,589,840	2,341,513
Payroll and fringe benefits	3,593,110	3,408,362
Other	<u>3,546,031</u>	<u>2,018,964</u>
Total Expenses	<u>27,686,861</u>	<u>26,725,373</u>
Net Income (Loss):	<u>(\$2,870,515)</u>	<u>(\$3,151,349)</u>

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, 2003 and 2004.

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Direct Loans</u> <u>Written-off</u>	<u>Guarantees</u> <u>Paid</u>	<u>Loans</u> <u>Recovered</u>	<u>Guarantees</u> <u>Recovered</u>
2003	\$3,737,063	\$84,163	\$151,714	\$307,108
2004	2,867,195	1,117,910	144,341	957,233

CONDITION OF RECORDS

Our review of the records of the Connecticut Development Authority revealed the following areas that warrant comment.

Reporting:

- Criteria:* Section 32-11a(c) of the General Statutes requires that the Authority prepare an annual report which shall include the following information with respect to new and outstanding financial assistance provided by the authority during the twelve-month period ending on June thirtieth for each financial assistance program administered by the authority: (1) a list of the names, addresses and locations of all recipients of such assistance; (2) for each recipient: (A) the business activities, (B) the Standard Industrial Classification Manual codes, (C) the gross revenues during the recipient's most recent fiscal year, (D) the number of employees at the time of application, (E) whether the recipient is a minority or woman-owned business, (F) a summary of the terms and conditions for the assistance, including the type and amount of state financial assistance, job creation or retention requirements, and anticipated wage rates, and (G) the amount of investments from private and other nonstate sources that have been leveraged by the assistance; (3) the economic benefit criteria used in determining which applications have been approved or disapproved; and (4) for each recipient of assistance on or after July 1, 1991, a comparison between the number of jobs to be created, the number of jobs to be retained and the average wage rates for each such category of jobs, as projected in the recipient's application, versus the actual number of jobs created, the actual number of jobs retained and the average wage rates for each such category. The report shall also indicate the actual number of full-time jobs and the actual number of part-time jobs in each such category and the benefit levels for each such subcategory.
- Condition:* Our review of the Authority's annual report for the fiscal year ended June 30, 2004, revealed that the Authority did not report revenue, wage rate and benefit level data separately for each recipient of assistance. The Agency did, however, report the required data in the aggregate.
- Effect:* This represents non-compliance with Section 32-11a(c) of the General Statutes.
- Cause:* Although the information was collected, the Agency did not report it separately for each recipient due to the sensitive nature of the data.
- Recommendation:* The Authority should consider seeking legislation to modify Section 32-11a(c) of the General Statutes or should include the required data in its annual report. (See Recommendation 1.)

Agency Response: “The CDA agrees with this finding. The Authority will consider seeking a legislative modification to allow the sensitive information required to be shown in the aggregate.”

Personnel Policies:

Criteria: In accordance with Section 1-21 of the General Statutes, the Authority has established written procedures for most personnel matters. The Authority’s Employee Handbook requires that all employees use a minimum of ten vacation days per year, five of which must be taken as a full week. In addition, the Employee Handbook states that employees hired prior to January 1, 1997, are allowed to accumulate up to 120 days of vacation and employees hired on or after January 1, 1997, are allowed to accumulate up to thirty days of vacation.

Condition: Our review of time and attendance records for seven randomly selected employees disclosed that five employees did not take at least five vacation days as a full week. Our review also disclosed that one employee was allowed to accumulate vacation time beyond the thirty day maximum allowed for employees hired on or after January 1, 1997.

Effect: This represents non-compliance with the Authority’s policies as documented in the Employee Handbook.

Cause: The Authority has not been following the policies in the Employee Handbook. The Authority’s current practice is to allow employees hired prior to January 1, 1998, rather than January 1, 1997, to accumulate up to 120 vacation days.

Recommendation: The Authority should institute procedures to ensure that the Employee Handbook is followed or should revise the Employee Handbook to reflect current personnel practices. (See Recommendation 2.)

Agency Response: “The CDA agrees with this finding. The CDA will institute a procedure that will require full compliance with the Authority’s employee handbook on an annual basis.”

Sales and Use Tax Waiver Refunds

Background: The Connecticut Development Authority (CDA) may provide State sales and use tax relief on the purchase of tangible personal property for qualifying economic development projects. This relief is provided in the form of a State sales and use tax waiver. If an entity does not meet the stipulated requirements per the sales and use tax waiver grant agreement,

the amount waived must be refunded by the company and payment of this amount must be made to the Department of Revenue Services (DRS).

Criteria: Sound internal control requires that the security over undeposited checks be protected.

Condition: We reviewed all five sales and use tax waiver refunds received during the fiscal year ended June 30, 2004. We found that one check in the amount of \$27,000 that was deposited by the CDA and reissued to DRS in April 2004 was outstanding as of June 2005. Also, one check in the amount of \$637,500 was endorsed by the CDA and forwarded to DRS. The CDA was unable to provide us with documentation that they had followed-up with DRS, prior to our inquiry, to determine if these checks had been received.

Effect: DRS may not receive all sales and use tax waiver refunds collected by the CDA.

Cause: The individual responsible for the sales and use tax waiver program retired and the current staff has been unsuccessful in establishing a contact person at DRS.

Recommendation: The CDA should implement internal control procedures that include verification that checks are received by DRS or should inquire about making deposits directly to a State bank account. (See Recommendation 2.)

Agency Response: “The CDA agrees with this finding. The CDA has established a contact person at DRS and will verify that all checks submitted by the CDA are received by DRS.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Connecticut Development Authority should endeavor to have the two vacancies on its Board filled as soon as possible to optimize the effectiveness of the Board. We noted that action has been taken to address this concern. This recommendation is not being repeated.
- The Connecticut Development Authority should review its written loan award procedures and determine if additional controls such as personal loan guarantees would prove effective in decreasing the loan default rate. The Connecticut Development Authority loan award procedures should be revised to reflect the results of the review. Our review disclosed that the amount of loans written off by the Authority during the 2003-2004 fiscal year decreased as compared to the prior fiscal year. Therefore, this recommendation is being withdrawn.
- The Authority should set policy and establish written procedures relative to the severance process. We noted that action has been taken to address this concern. This recommendation is not being repeated.
- A reporting mechanism should be designed to ensure that the Department of Revenue Services (DRS) is notified of companies granted sales tax waivers by the Connecticut Development Authority. Although the Authority did institute procedures for notifying DRS of companies granted sales tax waivers, our review disclosed that the Authority did not follow up with DRS to ensure that sales tax waiver refund checks were received. Therefore, this recommendation is modified to reflect current conditions. (See Recommendation 3)

Current Audit Recommendations:

- 1. The Authority should consider seeking legislation to modify Section 32-11a(c) of the General Statutes or should include the required data in its annual report.**

Comment:

Our review of the Authority's annual report for the fiscal year ended June 30, 2004, revealed that the Authority did not report revenue, wage rate and benefit level data separately for each recipient of assistance. The Agency did, however, report the required data in the aggregate.

- 2. The Authority should institute procedures to ensure that the Employee Handbook is followed or should revise the Employee Handbook to reflect current personnel practices.**

Comment:

Our review of time and attendance records for seven randomly selected employees disclosed that five employees did not take at least five vacation days as a full week. Our review also disclosed that one employee was allowed to accumulate vacation time beyond the thirty day maximum allowed for employees hired on or after January 1, 1997.

- 3. The CDA should implement internal control procedures that include verification that checks are received by DRS or should inquire about making deposits directly to a State bank account.**

Comment:

We reviewed all five sales and use tax waiver refunds received during the fiscal year ended June 30, 2004. We found that one check in the amount of \$27,000 that was deposited by the CDA and reissued to DRS in April 2004 was outstanding as of June 2005. Also, one check in the amount of \$637,500 was endorsed by the CDA and forwarded to DRS. The CDA was unable to provide us with documentation that they had followed-up with DRS, prior to our inquiry, to determine if these checks had been received.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the Connecticut Development Authority's activities for the fiscal year ended June 30, 2004. This audit was primarily limited to performing tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial resources, and to understanding and evaluating the effectiveness of the Authority's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grants applicable to the Authority are complied with. The financial statement audit of the Connecticut 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 of the General Statutes. In doing so, we planned and performed the audit to obtain reasonable assurance about whether the Connecticut Development Authority complied in all material respects with the provisions of certain laws, regulations, contracts and grants 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.

Compliance

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Connecticut Development Authority is the responsibility of the Authority's management.

As part of obtaining reasonable assurance about whether the Connecticut Development Authority complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Authority's financial operations for the fiscal year ended June 30, 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to the following areas:

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

Our examination included reviewing all or a representative sample of the Authority's activities in those areas and performing such other procedures as we considered necessary in the circumstances. The results of our tests disclosed the following instances of non-compliance, which are further described in the accompanying "Condition of Records" and "Recommendations" sections of this report: omission of data in the annual report; and noncompliance with personnel policies in the Authority's Employee Handbook.

Internal Control

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

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

Our consideration of the internal control over the Authority's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants that would be material in relation to the Authority's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Authority being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving internal control over the Connecticut Development Authority's financial operations and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited. Users of this report should be aware that our audit does not provide a legal determination of the Connecticut Development Authority's compliance with the provisions of the laws, regulations, contracts and grants 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 Connecticut Development Authority during this examination.

Lisa G. Daly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts