

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
CONNECTICUT DEVELOPMENT AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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October 20, 2006

**AUDITORS' REPORT  
CONNECTICUT DEVELOPMENT AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, 2005.

**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, 2005, 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:

- Michael A. Cantor, Esq.
- L. Scott Frantz, Chairman
- Laura T. Grondin
- Dennis Hrabchak
- Jeffrey Kospore
- Richard T. Mulready, Vice Chairman
- Jack Orchulli

In addition to the Board members listed above, Anthony J. Campanelli, Robert J. Kane, Steve Maloney and Scott H. Smith 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 until his resignation 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 \$173,549 and two loans in the amount of \$511,000 were issued for the fiscal year ended June 30, 2005.

**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, 2005, the CDA's bonds payable amounted to \$38,640,000.

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, 2005, were \$893,867,496.

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 \$18,400,095 and \$16,114,649 for the 2003-2004 and 2004-2005 fiscal years, respectively. Operating expenses for the same periods amounted to \$22,476,063 and \$19,739,230. The Operating Fund's respective net income/(loss), exclusive of unrealized holding gains/losses, amounted to \$(4,075,968) and \$(3,624,581) 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, payroll and related fringe benefits were the single largest line-item expenditure category. Payroll and related charges for the 2003-2004 and 2004-2005 fiscal years were \$3,408,362 and \$3,408,432, 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). There were no defaulted loans absorbed by the Insurance Program Fund from the Umbrella Fund during the 2004-2005 fiscal year.

**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, 2004 and 2005, loans totaling \$12,032,797 and \$9,291,988, respectively, were insured as follows:

	<u>2004</u>	<u>2005</u>
Loans by other lending institutions	\$6,353,750	\$6,467,307
Umbrella Program Loans	5,679,047	2,824,681

**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:

<b>Fiscal Year Ended</b> <b><u>June 30,</u></b>	<b>Number of Entities</b> <b><u>Receiving Assistance</u></b>	<b>Assistance</b> <b><u>Provided</u></b>
2004	12	\$2,910,709
2005	10	3,441,556

**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:

<b>Fiscal Year Ended</b> <b><u>June 30,</u></b>	<b>Number of Entities</b> <b><u>Receiving Assistance</u></b>	<b>Assistance</b> <b><u>Provided</u></b>
	<b><u>Loan Guarantees:</u></b>	
2004	0	\$0
2005	0	0
	<b><u>Direct Loans:</u></b>	
2004	1	\$ 307,900
2005	1	2,802,010
	<b><u>Equity Investments:</u></b>	
2004	1	\$1,628,170
2005	2	9,871,830

**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, \$16,360,008 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:

<b>Fiscal Year Ended <u>June 30,</u></b>	<b><u>Number of Entities Receiving Assistance</u></b>	<b><u>Assistance Provided</u></b>
2004	1	\$250,000
2005	0	0

**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 participant 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:

<b>Fiscal Year Ended <u>June 30,</u></b>	<b><u>Number of Entities Receiving Assistance</u></b>	<b><u>Assistance Provided</u></b>
2004	25	\$547,208
2005	25	855,600



**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, 2004 and 2005:

Revenues:	<b><u>2004</u></b>	<b><u>2005</u></b>
Civic Center revenues	\$14,880,566	\$13,513,993
Interest	6,057,601	4,740,000
Investment income	718,871	1,427,025
Other	<u>916,986</u>	<u>1,349,767</u>
Total Revenues	<u>22,574,024</u>	<u>21,030,785</u>
Expenses:		
Civic Center expenses	17,956,534	17,138,574
Interest	2,341,513	1,576,259
Payroll and fringe benefits	3,408,362	3,408,432
Other	<u>2,018,964</u>	<u>1,869,449</u>
Total Expenses	<u>25,725,373</u>	<u>23,992,714</u>
<b>Net Income (Loss):</b>	<b><u>(\$3,151,349)</u></b>	<b><u>(\$2,961,929)</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, 2004 and 2005.

<b><u>Fiscal Year</u></b> <b><u>Ended June 30,</u></b>	<b><u>Direct Loans</u></b> <b><u>Written-off</u></b>	<b><u>Guarantees</u></b> <b><u>Paid</u></b>	<b><u>Loans</u></b> <b><u>Recovered</u></b>	<b><u>Guarantees</u></b> <b><u>Recovered</u></b>
2004	\$2,867,195	\$1,117,910	\$144,341	\$957,233
2005	1,044,352	213,819	205,402	38,094

## 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, 2005, 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 and, in the 2006 legislative session, the CDA had discussions with the Connecticut General Assembly’s Commerce Committee to clarify Section 32-11a(c) of the General Statutes. The Authority will continue to work with the Commerce Committee to seek 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.

*Condition:* Our review of time and attendance records for ten employees disclosed that three employees did not take at least five vacation days as a full week.

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

*Cause:* The Authority did not follow the vacation leave policies in the Employee Handbook.

*Recommendation:* The Authority should institute procedures to ensure that the Employee Handbook is followed. (See Recommendation 2.)

*Agency Response:* “The CDA agrees with this finding. The Human Resources (HR) department at CDA monitors this and all personnel policies. In fiscal year 2006, the CDA’s HR department required all employees to review the employee handbook and acknowledge such review in writing.”

**Separation and Severance Payments:**

*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 allows employees to be compensated for accumulated but unused vacation leave upon retirement or resignation. Upon retirement, employees may receive payment for one quarter of unused sick leave up to a maximum of sixty days.

*Condition:* Our review of termination payments disclosed the following.

- Two employees were underpaid for unused leave time upon retirement. One employee was underpaid for vacation and sick

leave by \$570 and \$100, respectively, and another was underpaid for vacation and sick leave by \$821 and \$105, respectively.

- One employee was not paid for unused vacation leave upon her resignation. The amount owed to the employee was \$1,510.

Our review also disclosed that a formal severance policy with written guidelines and procedures has not yet been established. No severance payments were made during the audit period.

*Effect:* Employees were not paid the correct amounts owed. In addition, the lack of a formal policy governing severance payments could lead to the appearance of favoritism, discrimination or other inconsistencies.

*Cause:* When calculating the unused leave time balances, the Authority did not include the accruals earned for the final month worked by the two retired employees. The employee that resigned from CDA transferred to another quasi-public agency and the CDA believed that the employee's unused vacation leave balance would be transferred. It was subsequently determined that the employee's new employer would not accept the transfer of her vacation balance.

Although the Authority has drafted a severance policy, it has not been presented to the Board of Directors.

*Recommendation:* The Authority should strengthen internal controls regarding the processing of separation payments and should establish written policies and procedures relative to the severance process. (See Recommendation 3.)

*Agency Response:* "The CDA agrees with this finding and notes that no severance payments have been paid by the CDA since 1998. The CDA has a draft severance policy for Board action, consistent with the recently released "Report and Mandatory Minimum Procedures for Compensation and Benefit Management at Connecticut's Quasi-Public Agencies." CDA expects to bring this policy to the Board of Directors for approval in July of 2006."

**Expenditures:**

*Criteria:* The Authority's Finance Policies and Procedures Manual requires that the requestor of goods or services approve the vendor's invoice prior to payment.

*Condition:* Our review of twenty-five expenditure transactions disclosed that in seven transactions there was no documentation indicating that the requestor or other appropriate staff approved the vendor's invoice prior to payment.

*Effect:* Internal control is weakened when established written procedures are not followed.

*Cause:* The cause could not be determined.

*Recommendation:* The Authority should implement procedures to ensure that its written procedures pertaining to invoice approvals are followed. (See Recommendation 4.)

*Agency Response:* “The CDA agrees with this finding that the individual invoices did not have an approval signature on the specific invoice. All the referenced invoices relate to office equipment (fax machines, copiers, and one pager) and range between \$15 and \$650. In all instances, the processed invoices were approved with signature by the controller, reviewed by the SVP of Finance, and the checks were signed by the Executive Director. Going forward, in addition to these procedures, the CDA will also sign the original invoice.”

*Auditor’s Concluding Comment:*

Although the checks were signed, without proper signatures on the invoices, there is no evidence that the invoices were reviewed for proper rates. In all of the instances noted, there was no current contract or agreement on hand to support the monthly payment amount, thus making the requestor’s signature an important element of internal controls.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- 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. This recommendation is being repeated. (See Recommendation 1.)
- The Authority should institute procedures to ensure that the Employee Handbook is followed or should revise the Employee Handbook to reflect current personnel practices. This recommendation is being repeated in part. (See Recommendation 2.)
- 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. This recommendation is not being repeated. There were no sales and use tax waiver refund checks received during the audit period.

### *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, 2005, 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.**

Comment:

Our review of time and attendance records for ten employees disclosed that three employees did not take at least five vacation days as a full week.

- 3. The Authority should strengthen internal controls regarding the processing of separation payments and should establish written policies and procedures relative to the severance process.**

Comment:

Our review disclosed errors in the calculation of termination payments for two employees and one employee was not paid for accrued vacation time upon separation. Our review

also disclosed that a formal severance policy with written guidelines and procedures has not yet been established. No severance payments were made during the audit period.

- 4. The Authority should implement procedures to ensure that its written procedures pertaining to invoice approvals are followed.**

Comment:

Our review of twenty-five expenditure transactions disclosed that in seven transactions there was no documentation indicating that the requestor or other appropriate staff approved the vendor's invoice prior to payment.



## **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, 2005. 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, 2005, 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, noncompliance with vacation policies in the Authority's Employee Handbook, non-compliance

with termination payment policies in the Authority's Employee Handbook, and lack of approval on vendor invoices.

### **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