

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF ECONOMIC AND
COMMUNITY DEVELOPMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

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

TABLE OF CONTENTS

INTRODUCTION	1
COMMENTS	1
FOREWORD.....	1
RÉSUMÉ OF OPERATIONS.....	1
General Fund.....	1
Receipts.....	1
Expenditures.....	2
Special Revenue Funds.....	3
Receipts.....	3
Expenditures.....	3
Capital Project Funds.....	3
Debt Service Fund.....	4
Fiduciary Fund.....	4
Pending Receipts.....	4
CONDITION OF RECORDS	5
Equipment.....	5
GAAP Reporting.....	6
Federal Receivables.....	7
Insurance Coverage.....	8
Personal Service Agreements.....	9
Financial Assistance Deadlines.....	10
State Advance Funding.....	11
Accounts Receivable.....	13
Accountability Directive.....	16
State Surplus Property.....	16
RECOMMENDATIONS	19
CERTIFICATION	22
CONCLUSION	24

November 14, 2001

AUDITORS' REPORT
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000

We have examined the financial records of the Department of Economic and Community Development for the fiscal years ended June 30, 1999 and 2000. This report on that examination consists of the Comments, Recommendations and Certification that follow.

This audit examination of the Department of Economic and Community Development, hereinafter referred to as the DECD, has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating internal control structure policies and procedures established to ensure such compliance. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies.

COMMENTS

FOREWORD:

The DECD operates under the provisions of Title 8, Chapters 127b, 127c, 128, 130, 131, 133, 135, 136, 137c, 137d, 138b, 138c, 138e through 138k and Title 32, Chapter 578 of the General Statutes. The DECD administers programs and policies to promote business, housing, and community development and is responsible for all aspects of policies and programs for the preservation and improvement of housing and neighborhoods, business assistance and development. James F. Abromaitis served as Commissioner of the DECD during the audited period.

RÉSUMÉ OF OPERATIONS:

General Fund Receipts:

General Fund receipts consisted primarily of Federal contributions. Receipts for the fiscal years ended June 30, 1999 and 2000 totaled \$49,524,153 and \$40,527,797, respectively. Receipts for the two fiscal years examined and the prior fiscal year are summarized below:

Fiscal Year Ended June 30,

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Federal Contributions	\$35,826,345	\$35,003,632	\$29,776,336
Restricted Contributions, Other	5,610,022	5,802,610	6,136,810
Loans	9,306,426	7,391,997	2,436,149
Other Revenue	173,264	16,148	10,194
Refunds of Expenditures	<u>995,740</u>	<u>1,309,766</u>	<u>2,168,308</u>
Total General Fund Receipts	<u>\$ 51,911,797</u>	<u>\$ 49,524,153</u>	<u>\$ 40,527,797</u>

There was a net decrease in the receipts of \$2,387,644 for the 1998-1999 fiscal year and a net decrease of \$8,996,356 for the 1999-2000 fiscal year. The decrease in receipts during the 1998-1999 fiscal year was primarily due to a decrease in various loan payments. The decrease in the 1999-2000 fiscal year was caused primarily by a further decrease in various loan payments and a decrease in Federal contributions for both the Section 8 New Construction/Substantial Rehabilitation Program and the Community Services Block Grants Program. The increase in refund of expenditures was due to more projects being completed resulting in refunds of project funds not required.

General Fund Expenditures:

A summary of General Fund expenditures during the audit period and of the preceding fiscal year follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Budgeted Accounts:			
Personal services	\$4,867,997	\$5,749,942	\$6,056,200
Other expenditures	2,984,074	2,913,650	2,786,724
Payments in lieu of taxes	2,900,000	2,869,879	2,900,000
Congregate facilities	2,607,005	2,854,563	2,890,876
Tax abatement	2,243,120	2,243,276	2,243,276
Industry Cluster Initiative		2,817,073	1,941,598
Entrepreneurial centers	215,000	215,000	215,000
All other	<u>1,598,514</u>	<u>2,127,738</u>	<u>2,326,041</u>
Total Budgeted Accounts	<u>17,415,710</u>	<u>21,791,121</u>	<u>21,359,715</u>
Restricted Accounts:			
Federal	27,057,525	30,722,833	37,179,403
Other than federal	<u>6,824,528</u>	<u>5,158,848</u>	<u>6,152,721</u>
Total Restricted Accounts	<u>33,882,053</u>	<u>35,881,681</u>	<u>43,332,124</u>
Total Expenditures	<u>\$51,297,763</u>	<u>\$57,672,802</u>	<u>\$64,691,839</u>

During the 1998-1999 fiscal year the increase in total expenditures was primarily due to the start of the Industry Cluster Initiative and an increase in the Federal Small Cities Program. The increase in total expenditures during the 1999-2000 fiscal year was primarily due to an increase of expenditures for the Federal HOME Program.

Special Revenue Funds Receipts:

Special Revenue Funds receipts for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Principal on loans	\$ 6,267,276	\$ 7,728,742	\$7,372,806
Rental housing service charge	2,124,870	1,093,397	926,715
Loan agreement interest	1,321,823	1,339,578	1,136,892
Housing loans	1,359,747	1,105,601	825,142
Refunds of expenditures	2,151,724	3,761,346	1,694,357
Federal and Other Grants Restricted		375,700	
Sale of Property			34,735
Miscellaneous recoveries	<u>6,000</u>		
Total Receipts	<u>\$13,231,440</u>	<u>\$15,404,364</u>	<u>\$11,990,647</u>

The major changes in receipts during the 1998-1999 fiscal year were increases in refunds of expenditures and the collection of principal on loans. The decrease in receipts during the 1999-2000 fiscal year can be attributed to a significant decrease in refunds of expenditures.

Special Revenue Funds Expenditures:

A summary of Special Revenue Funds expenditures during the audit period and of the preceding fiscal year follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Loans	\$18,641,195	\$13,922,385	\$9,466,011
Grants	66,788,194	50,363,778	56,270,075
Administration	<u>7,687,445</u>	<u>5,476,641</u>	<u>5,653,810</u>
Total Expenditures	<u>\$93,116,834</u>	<u>\$69,762,804</u>	<u>\$71,389,896</u>

The net decrease in expenditures between the 1997-1998 and 1998-1999 fiscal years was caused primarily by the decrease in expenditures for the Regional Economic Development program and the Housing Assistance Bond Funds. The Regional Economic Development program decreased from a total of \$12,310,659 in the 1997-1998 fiscal year to \$3,182,132 in the 1998-1999 fiscal year. The Housing Assistance Bond Funds expenditures decreased from a total of \$26,006,605 in the 1997-1998 fiscal year to \$13,909,933 in the 1998-1999 fiscal years.

Capital Project Funds:

In accordance with Section 8-80, subsection (e), of the General Statutes, debt service payment on bonds issued in accordance with Section 8-80 are to be paid first from income

Auditors of Public Accounts

retained in the Rental Housing Fund (3012). If such retained income is not sufficient, the difference is to be paid from the General Fund. Funds advanced by the General Fund for this purpose were \$13,174,0100 and \$10,830,424 for the 1998-1999 and 1999-2000 fiscal years, respectively. Advances are to be repaid by the Rental Housing Fund (3012).

Total expenditures for the Capital Project Funds were \$39,738,614 and \$55,323,894 for the 1998-1999 and 1999-2000 fiscal years, respectively. The increase was primarily due to the increase of Urban Act Grants.

Debt service interest paid for the Rental Housing Fund (3012) totaled \$6,700,318 and \$5,623,673 for the 1998-1999 and 1999-2000 fiscal years, respectively.

Debt Service Fund:

The Rental Housing Fund B accumulates principal payments received on outstanding rental housing loans and the proceeds from Moderate Rental Sales and Moderate Rental Rehabilitation programs. The fund is also used to offset debt service obligations incurred as a result of bonds sold for moderate rental housing projects and moderate rental cost housing, as provided in Sections 8-69 through 8-81 of the General Statutes. The major source of revenue for this fund is interest collections received on outstanding rental housing loans. Revenue totaled \$2,706,335 and \$2,599,519 during the 1998-1999 and 1999-2000 fiscal years, respectively.

Fiduciary Fund:

Pending Receipts Fund:

Deposits to the State's Pending Receipts Fund consisted of receipts held in suspense until determination of final disposition. The balance in the Pending Receipts Fund was \$509,299 and \$125,995 as of June 30, 1999 and 2000, respectively.

CONDITION OF RECORDS

Our review of the records of the Department of Economic and Community Development revealed the following areas that warrant comment.

Equipment:

Criteria: Section 4-36 of the General Statutes provides, in part, that each State department shall establish and keep an inventory account in the form prescribed by the Comptroller. The Comptroller, through the State of Connecticut's Property Control Manual, sets forth requirements regarding inventory procedures and records.

Condition: The Department maintains separate inventory records for computer related equipment and for all other types of equipment. The computer equipment inventory appeared to be properly maintained; however, it did contain items of less than \$1,000. We were unable to determine whether these items were included on the Department's CO-59 Report to the State Comptroller's Office for the fiscal year ended June 30, 2000.

We were unable to reconcile the balance at June 30, 2000, of capitalized furnishings and equipment as reported on the Department's CO-59 to that of the total on the Department's inventory records.

The "other equipment" inventory list was not current and did not contain information such as model and serial number, vendor name, and location as required by the State of Connecticut's Property Control Manual.

Effect: The weakness in internal controls over the Department's equipment resulted in incomplete and inaccurate inventory records.

Cause: Controls were not in place to ensure that the inventory records were current and maintained in accordance with the State of Connecticut's Property Control Manual.

Recommendation: The Department should update its inventory records and the inventory records should be maintained in accordance with the State of Connecticut's Property Control Manual. (See Recommendation 1.)

Agency's Response: "The Department has since met with the Auditors of Public Accounts to offer for their review a suggested change in the beginning balance of Inventory. Reconciliation has been impossible since DED and DOH merged because of duplications and omissions that were carried forward each year. In the course of the past year we have taken a complete inventory which will

give us an accurate beginning balance. We are communicating this revised balance to the Comptroller's office. It is our expectation that the next comparison of the total inventory to the CO-59 will lead to reconciliation.”

GAAP Reporting:

Criteria: The State Comptroller requires State agencies to prepare Generally Accepted Accounting Principles (GAAP) reports at the end of each fiscal year in accordance with State Accounting Manual (SAM) procedures.

Condition: Our review of the GAAP report for the 1999-2000 fiscal year revealed that some of the required report documents were incorrect. The forms for receivables were understated by \$16,912, the commitments and retainages form was understated by \$100,000, and the accumulated sick leave hours for both the less than three years of service category and the three or more years service category were overstated by 2,152 hours and 34,925 hours, respectively. Without adjustments the State Comptroller would overstate the accruals of compensated absences by \$255,465 in the State's Comprehensive Annual Financial Report. Various immaterial errors were also found on other GAAP reports.

Effect: The GAAP report submitted to the Comptroller was incorrect and was used to support the Comptroller's Annual Financial Report.

Cause: The receivables were understated due to a clerical error when reporting the amount on the GAAP forms. The commitments and retainages were understated because the Department failed to include one project on the GAAP forms. The incorrect reporting of sick leave balances was due to the Department using numbers from the wrong column on its' year end compensated absence report.

Recommendation: The Agency should improve its efforts to correctly prepare the fiscal GAAP reports as required by the Comptroller. (See Recommendation 2.)

Agency Response: “The GAAP finding has been part of several state entities audited by the Auditors of Public Accounts. This finding has been included in 15 audits pertaining to 13 state entities covering the period of July 1, 1994 through June 30, 2000. This finding has been reported 7 times during the period of July 1, 1998 through June 30, 2000. This indicates that state entities continue to have difficulties in complying with GAAP requirements. The Department requests that the Auditors of Public Accounts provide assistance to ensure that future GAAP reports are properly

completed. The Department will continue its efforts to avoid human error.”

Auditors’ Concluding Comment:

It is the Agency’s responsibility to properly complete the GAAP forms. If the Agency requires assistance it should obtain such through the Office of the State Comptroller.

Federal Receivables:

Criteria: Good business practice dictates that grants receivable due from the Federal government should be collected in a timely manner. When receivables are outstanding for an extended period of time appropriate actions should be taken to collect or remove the receivables from the records.

Condition: As of June 30, 2000, the Comptroller’s Federal Receivables Trial Balance contained three receivables totaling \$60,288 that had been outstanding for over nine years and one receivable for \$142,991 that has been outstanding for at least five years.

The DECD has begun to resolve these receivables. As of May 25, 2001, one receivable for \$4,800 was written off as uncollectible. For two other receivables totaling \$55,488 the Department has been in contact with the Federal governmental agency involved to resolve the issue.

Effect: If receivable amounts are not resolved in a timely manner it greatly diminishes the probability the Agency will ever collect the receivable from the Federal government.

Cause: In the past the Agency had not addressed the collection of all the overdue receivables. Because of the age of the receivables it is difficult for the Agency to determine if the receivables are valid or were caused by recording errors made years ago.

Recommendation: The DECD should continue its effort to either collect or otherwise resolve Federal receivables that currently remain outstanding. (See Recommendation 3.)

Agency Response: “The Department has since collected on a portion of the outstanding Federal receivables, and continues efforts to collect the remainder. There was one recording error and we continue to work on resolving it. For example, the one receivable of \$142,991 has been corrected according to the Comptroller’s office, and will not appear as a receivable. Of the other three that total \$60,288, we have received word from the EDA that the largest one (approximately \$40,000) will be paid. The results of these efforts

are preferable to what would have been the result of a write-off, despite the lengthy wait involved.”

Insurance Coverage:

Criteria: It is sound business practice to ensure that property included in collateralized loans is properly insured to protect the financial interests of the lender.

Condition: The DECD implemented a system for tracking the required insurance coverage. However, we found in our review of 25 projects there were 18 or (76 percent) that were without current insurance policies on file at the Department.

During the 1999 and 2000 fiscal years, 174 written requests for insurance certificates were solicited, resulting in the receipt of 60 certificates.

Effect: Since the policies are not up to date, the Department cannot be assured that all collateralized loans are properly insured. Without monitoring and follow-up when the State does not receive current insurance policies it may be at risk that its interests are not always appropriately protected.

Cause: Although the DECD has developed a system to track projects to ensure that the insurance policies necessary are on file it is not up to date in obtaining the required policies for open projects.

Recommendation: The DECD should continue its efforts to fully implement control procedures to ensure that collateralized economic development loans are properly insured to protect the interests of the State. (See Recommendation 4.)

Agency Response: “We have and will continue to implement control procedures to ensure that our economic development investments are protected. The assistance agreement between the Department and the company provides that protection. However, in most cases, the Department is in second or third position. Senior lien holders also require insurance, therefore, it is highly unlikely that the properties are uninsured despite a lack of response.

While we will continue to pursue insurance coverage, our risk assessment dictates that this is a lower priority than other compliance issues. It is important to note, of the 25 files reviewed by the Auditors for expired insurance certificates, one company (Allied Signal) was out of business. Five more companies have submitted current certificates. The Department is currently sending additional letters, most of them 2nd and 3rd requests to the remaining companies. We continue to track over 200 clients annually.”

Personal Service Agreements:

Criteria: In accordance with Sections 4-214, 4-215 and 4-216 of the General Statutes, personal service agreements shall be executed and based on a competitive bidding process, when possible, when the cost is not more than \$20,000 and for a term not more than one year. When the cost exceeds \$20,000 or the term of the agreement exceeds one year, a competitive bidding process must be used unless a waiver is obtained from the Secretary of the Office of Policy and Management (OPM).

Condition: We noted that of the 53 personal service agreements that we reviewed the Department obtained OPM waivers from the competitive process for 26 (49 percent) of the agreements.

Effect: Those DECD personal service agreements were not obtained through a competitive bidding process, which can limit the opportunity for other contractors to do business with the agency. The use of a competitive bidding process may result in a lower cost and may also provide originally unknown new sources for services.

Cause: The apparent relative ease with which the DECD can obtain a waiver from the competitive bidding process from OPM is a major contributing factor. Since a waiver is rarely if ever denied by OPM, the obtaining of a waiver from competitive bidding requires less effort and time by the Agency.

Recommendation: The Agency should make an effort to seek competitive bids rather than routinely obtaining waivers from OPM. (See Recommendation 5.)

Agency Response: “We continue to believe a "finding" is not warranted against the Department. Most importantly, all personal service agreements processed by the Department adhered to the requirements established in the Office of Policy and Management's (OPM) Personal Service Agreements manual. This was confirmed by the Auditors of Public Accounts review, since no instances of noncompliance pertaining to any requirement governing the use of personal service agreements was reported to the Department.

Furthermore, during this report period, 27 of 53 PSA's were competitively bid, up from 10 cited in the previous audit. Again, the use of bid waivers by the Department is within the guidelines established by OPM for personal service agreements. OPM must approve any waivers of competitive bidding requested by the Department. The Department is in compliance with the requirements established in sections 4-214, 4-215, and 4-216 of the Connecticut General Statutes. OPM's waiver process is intended to insure that the intent of the statutes is not undermined.”

Auditor's Concluding Comments:

We are not suggesting that the Department was not following procedures to obtain waivers, but that it may be beneficial to the State if competitive bids were sought. When waivers are routinely obtained the intent of the regulatory Statutes is undermined.

As part of our review we looked at the nature of the work specified in the personal service agreements for those that received waivers. For many of those there was nothing unique in the agreement that precluded the Department from opening them through competitive bidding.

Financial Assistance Deadlines:

Criteria: In accordance with Section 32-5b of the General Statutes, the DECD shall adopt regulations establishing deadlines for the approval or disapproval of applications for financial assistance.

Condition: The Department has not adopted regulations establishing deadlines for the approval or disapproval of applications for financial assistance.

Effect: Applications may not be processed in a timely manner.

Cause: The Department believes that the deadlines are impracticable. The DECD decided to pursue a legislative change that would repeal the requirement to adopt regulations establishing deadlines for the approval or disapproval of applications during the 2001 Legislative Session, however, it did not pass the Legislature during the 2000-2001 Session.

Recommendation: The Department should adopt regulations in accordance with Section 32-5b of the General Statutes or continue its effort to have the Statutes changed. (See Recommendation 6.)

Agency Response: "The Department has explored a number of options for implementing the provisions of Section 32-5b. However, there are a variety of factors that impact the establishment of a deadline for approval or disapproval of financial assistance. The statute does not take into consideration the overall process required to approve or disapprove financial assistance. First the Department is relying on the client to provide in a timely manner application materials required to conduct the appropriate level of due diligence. Next the project must be approved by the Bond Commission. DECD does not determine when a project will be included in the agenda for review by the Bond Commission. Upon Bond Commission approval the Attorney General enters the process by selecting an

outside counsel to represent the State or review and approve the assistance agreement prepared by the Department depending upon the program providing the funding. Also, the process may be lengthened by the time taken by the client's attorney to review the assistance agreement and schedule a closing.

Due to the aforementioned variables in the process the establishment of a deadline for approval or disapproval of financial assistance cannot be projected as intended by the existing statute. It is DECD's intent to pursue repeal or significant modification of the statute. DECD is currently working with members of the General Assembly to amend the legislation in the next session to reflect the actual process. In the meantime it will continue its efforts to implement the statute as presently written."

State Advance Funding:

Background:

The DECD receives funds from the Federal Department of Housing and Urban Development for the Home Investment Partnership (HOME) Program. The DECD may use these funds for the acquisition, rehabilitation, and new construction of housing and tenant-based rental assistance. Payments of the HOME program expenditures are initially made from the State's General Fund. After the DECD reviews and certifies that the project has paid the invoice, a drawdown from the Federal Government is made and the General Fund is reimbursed.

Criteria:

Reimbursements from Federal programs should be made in a timely manner so that the State does not finance the Federal program for an extended period of time.

Condition:

During our audit of the HOME program we noted that as of June 30, 2000, there was a total of \$1,414,078 in State funded disbursements that had not been submitted to the Federal Government for reimbursement.

On or about April 1, 2000, the Federal Department of Housing and Urban Development (HUD) placed the DECD into active status on the Integrated Disbursement and Information System (IDIS). From that date forward the DECD was required to make its drawdowns for the HOME program using this system.

According to the Department, of the \$1,414,078 outstanding on June 30, 2000, \$973,022 was due to problems with IDIS. These problems prevented the DECD from making drawdowns for State advances to various projects. However, we noted that included in the \$973,022, was \$194,681 of payments made by the DECD from the State's General Fund anywhere from five months to almost three years prior to the conversion to IDIS. We were also

informed by Departmental personnel that the \$461,262 of unreimbursed administrative expenses attributed to IDIS problems, was due to the fact that the Department itself had not set up the required information on IDIS that would enable the Department to make the drawdown of these expenses.

Effect: If Federal moneys are not drawdown in a timely manner the State's General Fund funds the program, often for substantial periods of time.

Cause: The Department experienced difficulties with drawdowns when it converted to the Federal Integrated Disbursement and Information System. For the remainder of the amount outstanding, according to Department personnel, the necessary paperwork needed to certify the payment had not been submitted by the projects for the DECD to request a drawdown from the HOME Program.

Recommendation: The DECD should minimize the amount of time the State is advancing funds to the HOME program by requiring projects to submit certification of payments in a timely manner. The DECD should also continue efforts to resolve problems with the Integrated Disbursement and Information System (IDIS) that prevent drawdowns. (See Recommendation 7.)

Agency Response: "The auditors do not take into account that the Department did indeed request the needed documents to make drawdowns, but we have not always received them from grant recipients in as timely manner as we would wish. Our responsibility in this area consists of shortening the amount of time between advance funding and drawdown of Federal funds. We have demonstrated clear and significant progress in this area over the last year and a half, despite continuous problems with HUD's Integrated Disbursement and Information System (IDIS) that is shared by all states.

As of October 26, 2001 only \$29,018 remains to be reimbursed to the State."

Auditor's Concluding Comments:

Our review determined that of the nineteen payments listed by the Department that had not been drawdown as of June 30, 2000, there were 7 payments made with State money prior to December 31, 1999 and one payment each in January 2000 and February 2000. As noted above the Department was not placed on active status in IDIS until about April 1, 2000. It appears that prior to this April 1, 2000 date the Department would have had the necessary time to request the needed documents from the projects and make the drawdowns.

Accounts Receivable:

Background:

DECD maintains miscellaneous accounts receivable records for receivables resulting from other than loans. As of June 30, 2000, there were 76 accounts with a total balance of \$2,993,242. The accounts were classified as follows: \$2,737,078 in grant refunds; \$217,978 in interest; and \$38,186 in administration and oversight fees.

The grant refunds comprise 91 percent of the total receivables as of June 30, 2000, and represent amounts advanced to clients that were not expended by the clients. After each grant's project has been completed, DECD bills the client for any amount advanced to the client but not expended on the project.

We performed a review of the miscellaneous accounts receivable.

Criteria:

The proper internal control of accounts receivable requires the use of a control account, permanent records and the segregation of incompatible duties. Proper financial reporting requires an aging of receivables, the declaration and write off of uncollectible accounts and the reconciliation of individual receivables to a control account. Proper controls enhance the DECD's ability to provide complete and accurate financial information for Generally Accepted Accounting Principles (GAAP) reporting.

Condition:

Timeliness of Collection Actions:

Outstanding balances were not reviewed, rebilled or written off when necessary.

As of June 30, 2000, there were 76 accounts with a total balance of \$2,993,243. Of that amount, \$482,265 was outstanding for less than one year from the invoice date, \$696,841 was outstanding between one and five years, and \$1,814,137 was outstanding for over five years. The oldest balance dated back to November 1985.

We were informed that during the 1998-1999 and 1999-2000 fiscal years, accounts other than utility subsidies were not billed again if they failed to make payment after an invoice had been sent.

In our test we found that clients held excess funds for an average of six years from the date of the last advance from DECD. The length of time that clients held excess funds ranged from one year to 23 years.

Accuracy of Balances:

DECD advances funds to clients for projects. When the project is complete, the DECD Audit Unit reviews the client's receipts and expenditures on the project and issues a Certificate of Termination

that reflects any excess amount advanced over the amount expended. Although the Audit Unit notifies the Finance and Administration Division to bill the client for that amount, there was no verification that amounts on Certificates of Termination were actually billed and posted to accounts receivable records.

The Agency began using new computer software to account for and bill miscellaneous accounts receivable in the 2000-2001 fiscal year. There was no review done to ensure that all balances on the old system were correctly entered onto the new system. We found a variance of \$138,591 between the June 30, 2000 balances on the old and new systems. This was caused by a duplicate entry, a missing entry and three entries for the wrong amounts.

The Agency billed all outstanding miscellaneous accounts receivable balances in March 2001. We were informed that some clients reported that they had already paid their balances but that because the accounts were so old DECD may not have retained the records necessary to verify the payments. The Agency's records retention schedule only requires that cash receipts records be maintained for the later of three years or until audited. If payments were received and not posted to accounts receivable records, balances may be carried for accounts already paid off.

Accounts were not aged routinely and balances determined to be uncollectible were not written off. This caused an overstatement of the receivable balance.

Other Deficiencies in Records:

- Postings to accounts were not reconciled to Agency cash receipts records.
- A control account was not maintained that totals the individual receivable balances, cash receipts and amounts billed.
- Reconciliations were not performed annually of the beginning receivable balance, the total billed, the total cash received and the ending balance.

Future Projects with Clients:

We were informed that outstanding miscellaneous accounts receivable balances are not considered by management when making future grants or loans to clients with delinquent accounts. We were informed that outstanding loan balances were considered.

For the sample of 25 clients in our test, we found that 16 of them were given 57 additional grants or loans when the accounts receivable records reflected delinquent accounts for those clients.

Managerial Review and Segregation of Duties:

There is no managerial review of the receivable system or balances. Management does not appear to be familiar with the miscellaneous receivables, their source or the accounting system. Management should be familiar with operations and implement and monitor internal control procedures.

One employee is responsible for recording, billing, posting collections, and rebilling. This represents a lack of segregation of duties. If errors or omissions were made by that employee, no other employee would be aware of them.

Generally Accepted Accounting Principles (GAAP) Report
Sixty-eight of the 76 accounts, with a total balance of \$2,755,540 were improperly classified as due from other governments and reported on GAAP Form 3 for June 30, 2000. They should have been reported on GAAP Form 2 as accounts receivable.

Effect: The accuracy of accounts receivable balances and the amounts that could be collected was diminished by the lack of internal controls.

Additional grants or loans were given to applicants who have not paid their balances owed to the DECD.

Cause: Lack of management attention appears to have caused the above conditions.

Recommendation: The DECD should improve internal controls over its miscellaneous accounts receivable by establishing proper records and procedures for the collection of these receivables. Also, management should review miscellaneous accounts receivable balances to determine if applicants are delinquent in paying off outstanding balances before granting new grants or loans. (See Recommendation 8.)

Agency Response: “The Department continues to improve the electronic management system of its receivable accounts. A review and comparison of information contained on the previous system has resulted in rectifying the discrepancies. The Department has increased its generation of delinquency and aging reports and has asked for input from private consultants who have made pro bono recommendations for better utilization of the existing system. Staff who manage the miscellaneous receivables have instituted new controls and reports that improved the management of that part of the Department's receivables.”

Accountability Directive:

Criteria: State Comptroller’s Memorandum No. 96-58 requires that each State agency complete an internal control self-assessment by completing the internal control questionnaire in the Accountability

Directive Number 1 annually by June 30 and that it be kept on file at the agency.

Condition: The DECD has not completed an Accountability Directive Number 1 for the fiscal years ended June 30, 1999 and 2000.

Effect: The DECD is not performing an internal control-self assessment by completing the internal control questionnaire in the Accountability Directive Number 1.

Cause: We were unable to determine why the Accountability Directive Number 1 was not completed.

Recommendation: The Department should complete the Accountability Directive Number 1 annually as required by State Comptroller's Memorandum No. 96-58. (See Recommendation 9.)

Agency Response: "The Internal Control Form has been entirely updated and notification of its completion was made in advance of the June 30th due date."

State Surplus Property:

Criteria: The Department's regulations and policies should contain guidelines to ensure that the surplus property taken from other State agencies is suitable for low or moderate-income housing. Any property found unsuitable should be returned to the originating agency in a timely manner.

A log should be maintained to track surplus property until final disposition.

Condition: The Department does not have any written regulations or policies that contain guidelines pertaining to the suitability of properties taken from other State agencies for low or moderate-income housing.

Although the DECD has set up a temporary surplus property log that is used to track the processing and final disposition of surplus properties submitted to the Department for consideration, the log is not up-to-date. The log contains a listing of 55 properties dating from February of 1997 to November 1999. Of these 55 properties listed, only two provide the complete information pertaining to the processing of these properties and two others have partial information recorded.

Effect: The management of surplus property is inefficient.

Cause: According to Departmental personnel, time has not permitted bringing the new log up to date or for guidelines to be written.

Recommendation: The Department should set guidelines in its regulations and policies to ensure the suitability of properties to be used for low or moderate-income housing. The DECD should also maintain an updated surplus property log for all the properties that it considers for possible use. (See Recommendation 10.)

Agency Response: “The Department has procedures for the Surplus Property program, which were effective January 1993 that embodies the requirements mandated by statutes and regulations governing the Surplus Property program. The statutes, regulations, and DECD Surplus Property Program Procedures stipulate the requirements and criteria to ensure the suitability of properties to be used for low or moderate-income housing. The Department has, however, a new logging and tracing system that is consistent with DECD Surplus Property Program Procedures that adequately provides a clear and complete description of the processing and final disposition of properties offered to the Department. The Department has updated the Surplus Property Program log. The log contains all properties submitted to the Infrastructure and Real Estate Division from 12/31/96 to the present. This new log has been combined with previous logs so that the updated log covers properties submitted to the Department of Housing and the Department of Economic and Community Development from July 1986 to present. There have been 97 submissions and inquires. Of these; 3 were transferred through DECD for development, 2 have been transferred to DECD and are under our custody and control, 7 are under consideration for probable development, 3 are being reviewed to determine potential development, and the remaining 82 were rejected by DECD.”

Auditor’s Concluding Comment:

It should be noted that the Department did not know that it had a procedures manual for the Surplus Property Program until sometime in late May of 2001. We were informed that this manual would be reviewed to determine if it needed to be updated.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Agency should update its inventory records and the inventory records should be maintained in accordance with the State of Connecticut's Property Control Manual. This recommendation is repeated. (See Recommendation 1.)
- The Agency should adhere to the Comptroller's State Accounting Manual (SAM) requirements for the operation of the petty cash account. This recommendation has been implemented.
- The DECD should improve control of cash receipts processed by the Tourism Division in accordance with the SAM. The Agency has improved controls over these receipts. This recommendation will not be repeated.
- The DECD should not grant compensatory time to employees who are ineligible for compensatory time, and the granting of compensatory time should receive prior authorization. Although we did find errors during the audited period the Agency did issue procedures pertaining to the granting of compensatory time near the end of our audited period. These procedures should correct the situation. This recommendation is not repeated.
- The DECD should implement control procedures to ensure that all of the required independent audit reports are received and reviewed by the Agency in a timely manner to provide assurance that the Manufacturing Assistance Act (MAA) funds were appropriately used. This recommendation is addressed in our current performance audit on monitoring at the DECD. See the Performance Audit Report dated July 3, 2001.
- The Agency should continue to develop and implement proper monitoring policies and procedures to ensure that recipients are in compliance with the provisions of the MAA assistance agreements. This recommendation is addressed in our current performance audit on monitoring at the DECD. See the Performance Audit Report dated July 3, 2001.
- The Department should improve its efforts to correctly prepare the fiscal GAAP reports as required by the Comptroller. We found numerous errors in the GAAP reports during our review. This recommendation is repeated. (See Recommendation 2.)
- The DECD should collect or otherwise resolve Federal receivables that are outstanding for an extended period of time. Although the Department is working on this recommendation it is not yet fully implemented. The recommendation is repeated. (See Recommendation 3.)
- The DECD should continue its efforts to implement control procedures to ensure the collateralized economic development loans are properly insured to protect the interests of the State. This recommendation is repeated. (See Recommendation 4.)

- The Department should implement control procedures to ensure that records of the Moderate Rental Sales and Moderate Rental Developer accounts are reconciled with the records of the Comptroller. The Department has complied with this recommendation.
- The Department should use methods other than personal service agreements for obtaining the services of the CERC. We believe that the only effective means of ensuring that moneys given to the CERC are expended for State services would be to eliminate or revise Section 32-4a of the General Statutes. This issue has been addressed in our *2000 Annual Report to the Connecticut General Assembly*. This recommendation will not be repeated in this report.
- The DECD should prepare its report on financial assistance programs to the General Assembly and to the Auditors of Public Accounts in accordance with Section 32-1h of the General Statutes. This recommendation is addressed in the current performance audit of the DECD. See the Performance Audit Report dated July 3, 2001.
- The Department should make an effort to seek competitive bids rather than routinely obtaining waivers from OPM. During our review we found that this practice continued. This recommendation is repeated. (See Recommendation 5.)
- The DECD should adopt regulations in accordance with Section 32-5b of the General Statutes or request that the Statutes be changed. Although the Department requested a change to Section 32-52 it was not passed during the current session. This recommendation is repeated. (See Recommendation 6.)

Performance Audits – Reports Issued November 10 and 12, 1999

- Prior to taking surplus property from other State agencies, the Department Economic and Community Development should ensure that it is suitable for low or moderate-income housing. If after, reasonable measures have been taken, the property is later found unsuitable, it should be returned to the originating agency in a timely manner. (See Recommendation 10.)
- The real property management system over property turned over to the Department of Economic and Community Development by other agencies should be improved. A listing of all properties for which the Department is responsible, whether they are required to be reported to the State's central agencies or not, should be maintained. The DECD has updated its real property management system and is filing the required reports. This recommendation is not repeated.
- The DECD should have one property management system containing accurate records of all the property that the Department controls and uses or intends to use. The Department should ensure that the required reports based on this information are accurate. A formal system is not in place for those properties that were not considered acceptable for housing and for property that is being considered, but not yet in the Department's process. (See Recommendation 10.)

Current Audit Recommendations:

1. **The Department should update its inventory records and the inventory records should be maintained in accordance with the State of Connecticut's Property Control Manual.**

Comment:

The equipment inventory records were not maintained in accordance with the State of Connecticut's Property Control Manual. The records did not contain some required information such as model and serial number, vendor name, and location. Also we were unable to reconcile the Department's inventory listing total with the total recorded on the Department's CO-59, Fixed Assets/Property Inventory Report.

2. **The Department should improve its efforts to correctly prepare the fiscal Generally Accepted Accounting Principle reports as required by the Comptroller.**

Comment:

We found numerous errors on the GAAP forms that were submitted to the Office of the State Comptroller.

3. **The DECD should continue its effort to either collect or otherwise resolve Federal receivables that currently remain outstanding.**

Comment:

There remains a few Federal receivables that have not been fully resolved.

4. **The DECD should continue its efforts to fully implement control procedures to ensure that collateralized economic development loans are properly insured to protect the interests of the State.**

Comment:

We found that although the Department has established control procedures they have not yet been fully implemented.

5. **The Department should make an effort to seek competitive bids rather than routinely obtaining waivers from OPM.**

Comment:

Waivers from competitive bidding were routinely obtained from OPM for personal service agreements that could have been obtained using the bidding process.

- 6. The Department should adopt regulations in accordance with Section 32-5b of the General Statutes or request that the Statutes be changed.**

Comment:

The Department has not adopted regulations establishing deadlines for the approval or disapproval of applications for financial assistance.

- 7. The DECD should minimize the amount of time the State is advancing funds to the HOME program by requiring projects to submit required documentation for drawdowns in a timely manner. The Department should also continue its efforts to resolve problems with the Integrated Disbursement and Information System that prevent drawdowns.**

Comment:

As of June 30, 2000, we noted that \$1,414,078 of State advanced funding had not been submitted to the Federal Government for reimbursement.

- 8. The DECD should improve internal controls over its miscellaneous accounts receivable by establishing proper records and procedures for the collection of these receivables. Also, management should review miscellaneous accounts receivable balances to determine if applicants are delinquent in paying off outstanding balances before granting new grants or loans.**

Comment:

Our review of the miscellaneous accounts receivable records revealed that the Department has not established proper internal controls over these records. As of June 30, 2000, there were 76 accounts with a total balance of \$2,993,243. Of that amount \$2,510,978 has been outstanding for more than one year.

- 9. The Department should complete the Accountability Directive Number 1 annually as required by the State Comptroller's Memorandum No. 96-58.**

Comment:

The DECD has not completed an internal control assessment for fiscal years 1998-1999 and 1999-2000.

- 10. The Department should set guidelines in its regulations and policies to ensure the suitability of properties to be used for low or moderate-income housing. The DECD should also maintain an up-dated surplus property log for all the properties that it considers for possible use.**

Comment:

The DECD did not have written guidelines to ensure that the surplus property taken from other State agencies is suitable for low or moderate-income housing. The log maintained by the DECD is not up-dated for all of the properties listed.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Economic and Community Development for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Economic and Community Development for the fiscal years ended June 30, 1999 and 2000 are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Economic and Community Development complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the 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 Department of Economic and Community Development is the responsibility of the Department of Economic and Community Development's management.

As part of obtaining reasonable assurance about whether the Agency 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 Agency's financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Economic and Community Development is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations,

contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Economic and Community Development's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: weakness in internal controls over the Department's inventory and GAAP reporting records, and the lack of controls over the Department's miscellaneous accounts receivable records.

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 or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable condition to be a material or significant weakness: the lack of controls over the miscellaneous accounts receivable account.

We also noted other matters involving internal control over the Agency's financial operations and over 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.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Department of Economic and Community Development during this examination.

Patricia A. Wilson
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts