

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
DEPARTMENT OF ECONOMIC AND  
COMMUNITY DEVELOPMENT  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2003 AND 2004**

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

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## TABLE OF CONTENTS

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<b>INTRODUCTION</b> .....	1
<b>COMMENTS</b> .....	1
<b>FOREWORD</b> .....	1
Significant Legislation.....	2
Transfer of DECD’s Housing Loan Portfolio.....	2
Transfer of the Tourism and Film Offices from DECD .....	2
<b>RÉSUMÉ OF OPERATIONS</b> .....	2
General Fund.....	2
Receipts.....	2
Expenditures .....	3
Special Revenue Funds .....	3
Receipts.....	4
Expenditures .....	4
Capital Project Funds.....	5
Debt Service Fund.....	5
Fiduciary Fund.....	5
Pending Receipts Fund .....	5
<b>CONDITION OF RECORDS</b> .....	6
Monitoring of a Loan to be Repaid in the Form of Services Provided to Other Entities .....	6
Loans Receivable Accountability Report .....	8
Payroll Expenditures.....	9
Unapproved Write-Off of a Receivable.....	10
Property Control and Equipment .....	11
<b>RECOMMENDATIONS</b> .....	13
<b>INDEPENDENT AUDITORS’ CERTIFICATION</b> .....	16
<b>CONCLUSION</b> .....	18

September 11, 2006

**AUDITORS' REPORT  
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

We have examined the financial records of the Department of Economic and Community Development for the fiscal years ended June 30, 2003 and 2004. 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.

**Significant Legislation:**

Significant legislation concerning the DECD that was passed by the General Assembly, or became effective during the audited period, is presented below:

**Transfer of DECD’s Housing Loan Portfolio** – Public Act 02-5, Section 16, of the May 9, 2002 Special Session, effective July 1, 2002, required the DECD, in consultation with the Connecticut Housing Finance Authority (CHFA), the Office of Policy and Management and the State Treasurer, to arrange for the transfer of DECD’s housing loan portfolio to CHFA. Public Act 02-1, Section 41(b), of the May 9, 2002 Special Session, also effective July 1, 2002, required CHFA to transfer \$85,00,000 to the State’s General Fund for the fiscal year ended June 30, 2003. During the 2002-2003 fiscal year an agreement was executed between those agencies to implement the required loan portfolio and monetary transfers. During the audited period DECD transferred approximately \$203,000,000 in housing loans that it carried on its books to CHFA. The loans were recorded by CHFA at a net realizable value of \$65,000,000.

**Transfer of the Tourism and Film Offices from DECD** – Public Act 03-6, Section 210 (d), of the June 30, 2003 Special Session of the General Assembly, effective from date of passage, August 20, 2003, transferred the Tourism and Film Offices from DECD to the newly formed Connecticut Commission on Arts, Tourism, Culture, History and Film that was established under Section 210 (a) of the Public Act.

**RÉSUMÉ OF OPERATIONS:**

**General Fund Receipts:**

Receipts for the fiscal years ended June 30, 2003 and 2004, totaled \$60,312,664 and \$1,923,707, respectively. Receipts for the audited fiscal years and the prior fiscal year are summarized below:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Federal Contributions	\$ 47,533,760	\$ 45,633,986	\$ -
Restricted Contributions, Other	7,251,651	10,032,552	3,206
Loans	3,208,355	2,960,095	862,524
Refunds of Expenditures	2,716,168	1,677,745	895,968
Tourism Taxes	-	-	222,575
Other Revenue	4,576	8,286	(60,566)
Total General Fund Receipts	<b><u>\$60,714,510</u></b>	<b><u>\$60,312,664</u></b>	<b><u>\$ 1,923,707</u></b>

The significant decrease in Total General Fund Receipts was caused by a change in accounting for Federal contributions and other restricted accounts, which, effective in the 2004 fiscal year, are no longer accounted for in the General Fund. Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of two new Special Revenue Funds relative to grants and restricted accounts, one of which is applicable to DECD’s operations. During the 2003-2004 fiscal year, the State Comptroller established the “Grants and

Restricted Accounts Fund” to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund. During the 2003-2004 fiscal year \$43,941,203 in Federal contributions were deposited to the new Special Revenue Fund referred to above. The decrease in “Restricted Contributions, Other” is also attributed to those receipts being recorded in the new Special Revenue Fund.

**General Fund Expenditures:**

A summary of General Fund expenditures during the audited fiscal years and the preceding fiscal year is presented below:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Budgeted Accounts:			
Personal services	\$ 6,936,609	\$ 6,785,400	\$5,666,479
Other expenditures	2,963,431	1,780,602	1,519,015
Payments in lieu of taxes	2,900,000	2,754,998	2,755,000
Congregate facilities	4,310,008	4,727,166	4,827,752
Tax abatement	2,243,276	2,066,112	2,131,112
Industry Cluster Initiative	2,361,504	1,002,428	40,000
Entrepreneurial centers	215,000	150,000	142,500
All other	<u>1,701,126</u>	<u>2,202,973</u>	<u>2,222,888</u>
Total Budgeted Accounts	<u>23,630,954</u>	<u>21,469,679</u>	<u>19,304,746</u>
Restricted Accounts:			
Federal	47,393,207	45,990,225	-
Other than federal	<u>8,111,811</u>	<u>7,753,272</u>	<u>-</u>
Total Restricted Accounts	<u>55,505,018</u>	<u>53,743,497</u>	<u>-</u>
Total Expenditures	<b><u>\$79,135,972</u></b>	<b><u>\$75,213,176</u></b>	<b><u>\$19,304,746</u></b>

Total expenditures decreased by \$3,922,796 and \$55,908,430, during the fiscal years ended June 30, 2003 and 2004, respectively. The significant decrease in total expenditures for the 2003-2004 fiscal year was attributable to the change in accounting for Federal contributions and other restricted accounts, as previously explained. Expenditures from Federal accounts totaling \$40,989,795 in the 2003-2004 fiscal year were made from the new Special Revenue Fund, and \$3,442,766 were made from restricted accounts other than Federal. Expenditures from budgeted accounts continued to decrease, with the most significant decrease caused by a reduction of agency staff caused by the Early Retirement Incentive Plan offered near the end of the 2003 fiscal year, and a reduction in the amount provided for the Industry Cluster Initiative. DECD continued to run the Industry Cluster Initiative using other available resources.

**Special Revenue Funds:**

In addition to the new Fund that was established to account for Federal and other restricted monies, the Department utilized 11 other Special Revenue funds during the audited period. Those Funds were mainly used for providing financial assistance in the form of grants or loans for economic development and housing projects approved by the State Bond Commission.

**Special Revenue Funds Receipts:**

Receipts from Special Revenue Funds during the audited fiscal years and the preceding fiscal year are summarized below:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Principal on loans	\$ 6,199,263	\$10,970,137	\$ 8,441,768
Rental housing service charge	896,407	919,607	20,269
Loan agreement interest	1,257,715	1,855,380	1,438,067
Housing loans	814,993	-	27,867
Refunds of expenditures	534,138	2,857,057	188,993
Federal Contributions	-	-	43,941,203
Restricted Contributions, Other	460,000	2,500,000	2,138,280
Other	-	-	265,995
Total Receipts	<b><u>\$10,162,516</u></b>	<b><u>\$19,102,181</u></b>	<b><u>\$56,462,442</u></b>

Total receipts increased by \$8,939,665 and \$37,360,261 during the fiscal years ended June 30, 2003 and 2004, respectively. Increases in loan collections and restricted contributions in the 2003 fiscal year accounted for the majority of the increase in that fiscal year. The cause of the increase in the 2004 fiscal year is attributable to the change in accounting for Federal and other restricted accounts, as previously explained. It should be noted however that receipts from "Restricted Contributions, Other" that were previously recorded in the General Fund decreased by some \$10,000,000 in the fiscal year ended June 30, 2004. This decrease was caused by the transfer of the Tourism Office from DECD and a decrease in receipts for the Supportive Housing Pilot Program.

**Special Revenue Funds Expenditures:**

A summary of expenditures from Special Revenue Funds during the audited fiscal years and the preceding fiscal year follows:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Loans	\$ 38,251,393	\$ 14,313,076	\$ 7,058,689
Grants	59,982,170	58,523,489	67,435,219
Federal Accounts			40,989,795
Other Restricted Accounts			3,442,766
Administration	4,076,238	4,148,071	4,293,092
Total Expenditures	<b><u>\$ 102,309,801</u></b>	<b><u>\$ 76,984,636</u></b>	<b><u>\$ 123,219,561</u></b>

Special Revenue Fund expenditures decreased by \$25,325,165 in the fiscal year ended June 30, 2003, and increased by \$46,234,925 in the fiscal year ended June 30, 2004. The overall increase in expenditures in the 2004 fiscal year was attributable to the change in accounting for Federal contributions and other restricted accounts, as previously explained. Decreases in loans to businesses that were provided from the Economic Assistance Bond Fund resulted in the significant decline in Loan expenditures over the audited period. This was partially offset by an

increase in loans made from the Housing Funds administered by DECD. Grant expenditures increased by approximately \$7,500,000 over the audited period. This increase is attributable to an increase of some \$31,000,000 in funds provided for Hartford Downtown Redevelopment, offset in part by decreases in grants made from the Grants to Local Governments and Others Fund (\$12,500,000), the Economic Assistance and Development Funds (\$5,900,000), and the Housing Assistance Bond Fund (\$4,500,000).

**Capital Projects Funds:**

Total expenditures for the Capital Projects Funds were \$66,304,974 and \$45,896,725, for the fiscal years ended June 30, 2003 and 2004, respectively, compared to \$44,488,313 during the 2002 fiscal year. Most of these expenditures were made from the Community Conservation and Development Fund, for urban development projects. The Naugatuck Valley Development Corporation received a significant portion of the monies during the audited period, for the Waterbury redevelopment project.

According to Section 8-80, subsection (e), of the General Statutes, debt service payments on bonds issued in accordance with Section 8-80 are to be paid first from income retained in the Rental Housing Fund. All of the \$80,000,000 in bonds issued for this Fund were retired during the 2002-2003 fiscal year. Further, DECD transferred all of the housing loans that were made from this Fund to CHFA during the audited period, as per the requirements of Public Act 02-5, Section 16, of the May 9, 2002 Special Session, effective July 1, 2002, as previously mentioned.

**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 under Sections 8-69 through 8-81 of the General Statutes. The major source of revenue for this fund is interest collections from outstanding rental housing loans. Revenue totaled \$3,866,789 and \$234,202 for fiscal years ended June 30, 2003 and 2004, respectively. The significant decrease in revenues resulted from the loans being transferred to CHFA, as previously indicated.

**Fiduciary Fund:**

**Pending Receipts Fund:**

Deposits in the Pending Receipts Fund consisted primarily of receipts held in suspense until determination of their final disposition. The balance in the Pending Receipts Fund was \$92,396 as of June 30, 2003, and \$358,125 as of June 30, 2004.

## CONDITION OF RECORDS

Our review of the financial records of the Department of Economic and Community Development revealed certain areas requiring further attention, as discussed below.

### **Monitoring of a Loan to be Repaid in the Form of Services Provided to Other Entities:**

*Background:* DECD provided a \$500,000 loan to a private company in July 1998, which did not require cash repayment, but rather services that were to be provided to Central Connecticut State University (CCSU) and the University of Connecticut (UCONN). The agreement between DECD and the private company states "...The Applicant has entered into agreements with Central Connecticut State University (CCSU) and the University of Connecticut/IMS (UCONN) to repay the Funding in the form of training and access to the Applicant's facility by CCSU and UCONN, all in accordance with Exhibits I and II attached hereto and made a part hereof."

*Criteria:* Monitoring the repayment of loans that are made is an essential component of an adequate system of internal control. It is not a good business practice for the DECD to structure loans to private companies that require repayment to be in the form of services provided to other entities.

*Condition:* Our review disclosed that DECD has no records prior to June 30, 2004, supporting its monitoring of the services required that were to constitute repayment of the loan. Certain of the services that were to be considered as loan repayments included seminars which were to be conducted twice per year for CCSU and UCONN, an initial grant from the company to a Technology Fund in the amount of \$5,000 each for CCSU and UCONN, and concerning UCONN, an annual cash commitment of \$15,000 per year to be made for a Doctoral Research Grant. We found that, as of June 30, 2004, UCONN did receive cash payments totaling \$45,000, but that there is no indication that CCSU received anything. We further note that the agreement requires the company to send bi-annual usage reports to CCSU and UCONN; however, there is no mention of DECD receiving such reports. The yearly reports that DECD was to receive were not sent since the fiscal year ended June 30, 2002. We did note that, subsequent to June 30, 2004, DECD has assigned a project manager to monitor the loan and that DECD has since worked with the company and CCSU concerning this matter. However, the latest correspondence on file at DECD prior to our April 10, 2006, inquiry was dated February 15, 2005. Further, there is nothing on file regarding the services to be provided to UCONN.

*Effect:* The State has not received the services that were agreed to in return for this State loan.

*Cause:* The structure of this loan and the failure to timely assign a DECD project manager to monitor repayment of this loan appears to be the cause.

*Recommendation:* DECD should not make loans to private companies that require repayment to be in the form of services provided to other entities and it should monitor the repayment of the \$500,000 loan it made that included such terms. (See Recommendation 1.)

*Agency Response:* “DECD provided funding to Oxford Industries in 1998 using an unusual and creative approach to repayment. However, this type of funding is not typical and we agree that it is challenging to monitor. This innovative approach was used in order to meet the immediate retention and growth needs of the company as well as strategically support the long-term position of UCONN and CCSU in chemical, polymer and material science academic and technology education.

The State has received some of the services as outlined in the Assistance Agreement. The Company has until June 2008 to fulfill the requirements of the Assistance Agreement.

The project manager assigned to monitor this loan has had several meetings with CCSU in 2005 during which the needs of the business and prospective students were discussed. These meetings resulted in the creation of a summer co-op position. Also, seminars and training were held in the fall of 2005 and spring of 2006 at the company’s New Britain location. The project manager has requested that the company forward copies of the reports to CCSU and DECD to verify not only the services provided but also the value of the services.

CCSU was asked to clearly define its needs going forward so that the company can fulfill the agreement. A meeting will be scheduled with CCSU, the company and DECD to create a plan for 2006 through 2008 in order to fulfill the remaining requirements.

The individual at UCONN responsible for this project has since retired. The University needs to identify a replacement. Once that is accomplished, DECD will schedule a meeting with all parties to obtain previous reports and create a plan to fulfill the agreement by June 2008. From the research conducted recently, it seems that UCONN has fulfilled its requirement. However, we need to obtain the reports to confirm compliance with the MOU.”

**Loans Receivable Accountability Report:**

*Criteria:* A properly designed and implemented internal control system that includes policies and procedures over the preparation of a loan accountability report enables the Department to ensure that year-end account balances reported to the State Comptroller are complete, valid and reliable and that all loans and any adjustments are recorded in the Department's accounting records.

*Condition:* DECD is required to report its balance of loans receivable to the State Comptroller annually. In implementing a prior audit recommendation, DECD prepared a loan accountability report covering the fiscal year ended June 30, 2004, to support the loan activity recorded in DECD's records and the balances that DECD reported to the State Comptroller. Our review of the accountability report disclosed that it included several errors and it was not properly prepared. Errors made included the beginning balances being significantly different from those that were reported in the prior year, an item that was written-off and included as a current year loan balance reduction even though it was not included in the beginning loan balance, and other improper adjustments that were reflected in the current year activity. Concerning the beginning balances, which were reduced from the prior year's reported balance by some \$206,000,000, at the time of our initial inquiry DECD was unable to locate all of the documentation supporting the changed balances and considerable effort was required to get all of the documentation. The majority of the beginning balance reductions were due to DECD's housing loan portfolio being transferred to the Connecticut Housing Finance Authority.

*Effect:* Inaccurate information included in the annual loan accountability reports could result in misleading information being relied upon, as well as increasing the risk of errors made in the records going undetected.

*Cause:* Inconsistent preparation of accountability reports in prior years appears to have contributed to the condition noted in our current audit. Also, several manual adjustments to the loan balance report generated by the computerized loan system must be made in order to prepare the loan accountability report.

*Recommendation:* DECD should institute procedures to ensure that its annual loan accountability reports contain accurate information and that the amounts are supported by the activity recorded in the Department's records. (See Recommendation 2.)

*Agency Response:* "DECD did provide the "considerable effort ... required to get all of the documentation". The Office of Finance and Administration was

assisted by staff re-assigned in recent years to the Office of Compliance, Planning and Program Support in rebuilding an accurate accountability report. This entailed the adjustment of balances. The reduction of DECD's housing loan portfolio due to the transfer of assets to the Connecticut Housing Finance Authority, and referenced in the State Auditors' report, was a complicated transaction in which some projects were held at DECD until completion. This transfer of funds accounts for \$203 million of the amount indicated by the State Auditor, or 98 percent of the total. The beginning balances for the housing programs were expected to be significantly reduced by the transferred portfolio amount of approximately \$203,212,000. It appears that the transfer has been successfully completed, and that going forward, the balances will be accurate.

The Office of Finance and Administration is in the process of finalizing procedures to insure an accurate accountability report, given the fact that previous years balances have now been reconciled and will not need further adjustment.”

**Payroll Expenditures:**

*Criteria:* A reconciliation procedure between the amounts paid according to the bi-weekly payroll registers and amounts recorded in the accounting records is a key internal control procedure that ensures the amounts paid are properly recorded in the accounting records.

*Condition:* DECD did not have such a reconciliation procedure in place. Our review disclosed that, during the fiscal year ended June 30, 2004, payroll expenditures in excess of \$100,000 were charged to DECD's General Fund budgeted accounts for State employees who were not on DECD's payroll. These employees worked in the Tourism Office of DECD before the Tourism Office was transferred to another State agency. DECD was unaware of these charges until we brought them to its attention.

*Effect:* DECD absorbed payroll costs in its General Fund budgeted accounts for staff who no longer worked for DECD.

*Cause:* DECD did not have a reconciliation procedure in place that would have detected those charges.

*Recommendation:* DECD should implement a reconciliation procedure for its payroll expenditures to ensure that only DECD authorized expenditures are charged to its payroll accounts. (See Recommendation 3.)

*Agency Response:* “DECD agrees with the recommendation, and a reconciliation procedure has been put into place. Also, it is significant to note that

the personnel actions needed to transfer the Tourism Division did happen. The CORE-CT transaction concerning the expenditures would have been captured eventually by the Budget Unit of the Office of Finance and Administration. DECD appreciates the scrutiny of the State Auditors which brought to light this issue sooner.

In August of 2003 the Tourism Division was transferred to the Connecticut Commission on Culture and Tourism. This one time occurrence of transferring employees from DECD to the Connecticut Commission on Culture and Tourism will no longer impact the department's processing of payroll expenditures.”

**Unapproved Write-Off of a Receivable:**

*Criteria:* Section 3-7, subsection (b), of the Connecticut General Statutes, states that, “The Secretary of the Office of Policy and Management may authorize the cancellation upon the books of any state department or agency of any uncollectible claim for an amount greater than one thousand dollars due to such department or agency.”

*Condition:* DECD wrote-off a receivable in the amount of \$39,341 without first obtaining approval from the Office of Policy and Management.

*Effect:* DECD did not comply with Section 3-7, subsection (b), regarding this particular write-off.

*Cause:* It appears that this was an oversight by the Department, as approval was obtained for other items that were written-off.

*Recommendation:* DECD should institute safeguards to ensure that proper authorization is obtained for all receivables that are removed from its books. (See Recommendation 4.)

*Agency Response:* “DECD adheres to the Section 3-7, subsection (b), of the Connecticut General Statutes that requires the Secretary of the Office of Policy and Management (OPM) to authorize the cancellation of any uncollectible claim greater than one thousand dollars.

The department’s processing of numerable write-offs resulted in an inadvertent omission of not obtaining approval for the write-off from OPM.

DECD has instituted safeguards to ensure that future write-offs will comply with the requirements established in Section 3-7, subsection (b), of the Connecticut General Statutes.”

**Property Control and Equipment:**

*Criteria:* Section 4-36 of the Connecticut General Statutes provides that an inventory of property shall be kept in the form prescribed by the State Comptroller and an annual report of all property that is in the custody of the Agency must be reported annually to the State Comptroller. The annual report of all property is required to be reported on form CO-59.

According to the State of Connecticut Property Control Manual, “As soon as each item is received and accepted, an identification marker must be assigned, recorded on the receiving report or other source document and marked.”

*Condition:* Our test of equipment inventory disclosed the following exceptions:

- Three items that we physically located at DECD and were in use were not included on DECD’s Inventory Report or included in the amounts reported on its CO-59. Of these three items, one was not tagged, and another was included on DECD’s Inventory of Surplused Items, with a surplus date of January 1, 2002.

Our review of DECD’s CO-59’s that were submitted for the fiscal years ended June 30, 2003 and June 30, 2004, disclosed the following exceptions:

- For the fiscal year ended June 30, 2003, DECD did not report equipment inventory additions totaling \$4,890 and equipment inventory deletions totaling \$89,387.
- For the fiscal year ended June 30, 2004, DECD did not report equipment inventory additions totaling \$68,051. Also, the items making up the \$68,051 were not included on DECD’s inventory listing. DECD submitted a revised report subsequent to our review, adjusting additions by \$73,051. The revision did not include corrections for the errors made in the prior year; thus, the ending June 30, 2004 balance as reported is overstated by a net amount of \$89,497.

*Effect:* DECD’s inventory listing did not accurately reflect the equipment it owned, items were put into use without being properly tagged or added to the inventory records, and incorrect inventory amounts were reported to the State Comptroller for the fiscal years ended June 30, 2003 and 2004.

*Cause:* DECD does not have a procedure in place to reconcile its inventory listing and related equipment records to the amounts reported on its

CO-59. We were told that the omission of amounts on the CO-59 was caused by a lack of communication between the DECD unit responsible for maintaining the computer inventory and the unit responsible for completing the CO-59.

*Recommendation:* DECD should take steps to improve internal controls over its equipment inventory to ensure accurate reporting and compliance with the State of Connecticut Property Control Manual. (See Recommendation 5.)

*Agency Response:* “DECD agrees with the recommendation made by the State Auditors, and has taken steps to improve communication between staff handling the IT inventory and staff handling the inventory of all other agency property. This should eliminate possible misstatement of inventory.

Specifically:

- DECD has recorded on its inventory the three items identified in the report.
- DECD has processed the inventory adjustments on the CO-59 for the fiscal year end 6/30/04.
- DECD will be contacting the State Comptroller to determine the appropriate method for processing the adjustments for the fiscal year end 6/30/03.
- DECD is currently reviewing its existing inventory records to ensure that complete and accurate information is being transferred to the Asset Management record keeping contained in CORE-CT.
- DECD is entering new purchases in the Asset Management Module of CORE-CT as required.”

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

Nine recommendations were presented in our prior report. This report contains five recommendations, two of which are restated from our prior report. The following is a summary of the prior recommendations and the action taken by the Department.

- The Department should minimize the amount of time the State is advancing funds for the HOME program by requiring project managers to submit certification of payments in a timely manner. The Department has complied with this recommendation.
- The Department should determine the completeness and accuracy of its accounts receivable balances prior to billing. The Department should age its accounts receivables. The Department's Director of Finance and Administration should request payment on the delinquent receivables. The Department should implement procedures to write-off accounts receivables of less than \$1,000 after reasonable efforts have been made to collect the receivables. The Department has implemented this recommendation.
- The Department should reconcile loans recorded in its open loan balance report and other reports to an accountability report to ensure that loans receivable balances and the amount reported to the State Comptroller are accurate. This recommendation is restated as Recommendation 2.
- The Department should include a parameter in the Nortridge Loan System to alert the Department to look for additional terms and conditions for loans intended to be paid off prior to their maturity date. Also, the Department should establish procedures to ensure that initial loan documents are reviewed to determine the total amount currently outstanding on the loans. The Department has implemented this recommendation.
- The Department should establish procedures to ensure that upon final determination that a financial assistance recipient has defaulted on the terms and conditions of the assistance agreement, the Finance and Administration Division is notified so that a receivable is recorded, the recipient is billed and the receivable is collected and documented properly. This recommendation has been resolved.
- The Department should exercise greater care in handling transactions within the Big E checking account. Transactions should be reconciled in a timely manner and all records should be maintained properly in order to help prevent overpayments and incorrect billings, as well as to ensure complete accountability over all of the transactions within the account. The Department should comply with Section 4-32 of the General Statutes which requires that funds over \$500 be deposited within 24 hours of the receipt of the funds. The Department has resolved this recommendation.

- Employees' timesheets should be approved only at the end of the pay period and upon supervisory review of the timesheet. The Department should follow its policy for earning compensatory time. Also, the Department should obtain proper documentation from employees who are out on workers' compensation or on sick leave without pay for more than five consecutive work days. This recommendation has been resolved.
- The Department should comply with Section 4-33a of the General Statutes, which requires the Department to promptly report the loss of State property, and should follow the policies and procedures outlined in the State of Connecticut Property Control Manual. The Department has complied with this recommendation as it pertains to the prompt reporting of the loss of State property. However, the Department has not implemented procedures to ensure compliance with those outlined in the State of Connecticut Property Control Manual. We are restating this recommendation as Recommendation 5.
- The Department should periodically monitor Internet use on State computers. The Department should monitor employees for unauthorized software on computers. Also, the Department should assign Internet Protocol addresses to access the Internet only to employees and not to computer workstations that can be used by more than one employee. The Department has addressed these matters.

*Current Audit Recommendations:*

- 1. DECD should not make loans to private companies that require repayment to be in the form of services provided to other entities and it should monitor the repayment of the \$500,000 loan it made that included such terms.**

Comment:

DECD provided a \$500,000 loan to a private company in July 1998, which did not require cash repayment to DECD, but rather services that were to be provided to Central Connecticut State University (CCSU) and the University of Connecticut (UCONN). Our review disclosed that DECD has no records prior to June 30, 2004, supporting its monitoring of the services which were to constitute repayment of the loan. We note that, as of June 30, 2004, UCONN received cash payments totaling \$45,000 and there is no indication that CCSU received anything.

- 2. DECD should institute procedures to ensure that its annual loan accountability reports contain accurate information and that the amounts are supported by the activity recorded in the Department's records.**

Comment:

Errors in DECD's loan accountability report covering the 2004 fiscal year included the beginning balances being significantly different than those that were reported in the prior year, an item that was written-off and included as a current year loan balance

reduction even though it was not included in the beginning balance, and other improper adjustments that were reflected in the current year activity.

- 3. DECD should implement a reconciliation procedure for its payroll expenditures to ensure that only DECD authorized expenditures are charged to its payroll accounts.**

Comment:

During the fiscal year ended June 30, 2004, payroll expenditures in excess of \$100,000 were charged to DECD's General Fund budgeted account for State employees who were not on DECD's payroll at the time. DECD was unaware of these charges until we brought them to its attention.

- 4. DECD should institute safeguards to ensure that proper authorization is obtained for all receivables that are removed from its books.**

Comment:

DECD wrote-off a receivable in the amount of \$39,341 without first obtaining approval from the Office of Policy and Management.

- 5. DECD should take steps to improve internal controls over its equipment inventory to ensure accurate reporting and compliance with the State of Connecticut Property Control Manual.**

Comment:

DECD's inventory listing did not accurately reflect the equipment it owned, items were put into use without being properly tagged or added to the inventory records, and incorrect inventory amounts were reported to the State Comptroller for the fiscal years ended June 30, 2003 and 2004.

## 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, 2003 and 2004. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Department are complied with, (2) the financial transactions of the Department are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Department 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, 2003 and 2004 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 auditing standards generally accepted in the United States of America and the standards applicable to financial 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 Department 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 Department's financial operations for the fiscal years ended June 30, 2003 and 2004, 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 Department. In planning and performing our audit, we considered the Department's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Department'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 Department'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 Department's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Department'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: not monitoring the repayment of a loan that required services to be provided to other entities, weaknesses in the completion of the annual loans receivable accountability report, the lack of a reconciliation procedure for payroll expenditures and weaknesses regarding equipment inventory procedures and reporting.

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 Department's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Department 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 Department'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, we believe that none of the reportable conditions described above is a material or significant weakness.

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.

Michael DiDomizio  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts