

STATE OF CONNECTICUT



***AUDITORS' REPORT
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 and 2006***

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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AUDITORS' REPORT
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 and 2006

We have examined the financial records of the Department of Economic and Community Development for the fiscal years ended June 30, 2005 and 2006. 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 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:

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

RÉSUMÉ OF OPERATIONS:

General Fund Receipts:

General Fund receipts for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Loan principal and interest	\$ 862,524	\$ 380,416	\$ 458,735
Refunds of Expenditures	895,968	732,559	881,609
Tourism Taxes	222,575	0	0
All other	<u>(57,360)</u>	<u>23,490</u>	<u>50,206</u>
Total Receipts	<u>\$1,923,707</u>	<u>\$1,136,465</u>	<u>\$1,390,550</u>

The significant decrease in total General Fund receipts in the 2004-2005 fiscal year was caused by decreased collections of loan principal due to housing loans being transferred from DECD to the Connecticut Housing Finance Authority, and also to the transfer of the Tourism Office out of DECD in the 2003-2004 fiscal year.

General Fund Expenditures:

General Fund expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Personal Services	\$ 5,666,479	\$ 6,154,384	\$ 6,578,696
Other expenditures	1,519,015	1,826,044	1,570,061
Congregate facilities	4,827,752	5,029,671	5,160,683
Payments in lieu of taxes	2,755,000	2,755,000	2,204,000
Housing assistance	2,222,888	2,529,124	2,507,010
Tax abatement	2,131,112	2,131,112	1,704,890
Assisted Living Demonstration	0	854,300	770,400
All other	<u>182,500</u>	<u>516,511</u>	<u>167,500</u>
Total Expenditures	<u>\$19,304,746</u>	<u>\$21,796,146</u>	<u>\$20,663,240</u>

Total expenditures fluctuated by \$2,491,400 and \$1,132,906 during the fiscal years ended June 30, 2005 and 2006, respectively. There were no types of expenditures that accounted for a significant portion of those fluctuations.

Special Revenue Funds:

In addition to the Fund that accounts for Federal and other restricted monies, the Department utilized 13 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:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Principal and interest on loans	\$ 9,907,702	\$ 9,423,564	\$ 9,494,135
Refunds of expenditures	188,993	448,188	(15,343)
Federal Contributions	43,941,203	37,759,043	37,328,964
Restricted Contributions, Other	2,138,280	105,798	966,196
Other	<u>286,264</u>	<u>(105,559)</u>	<u>126,238</u>
Total Receipts	<u>\$56,462,442</u>	<u>\$47,631,034</u>	<u>\$47,900,190</u>

The main fluctuations in receipts were decreases in Federal and other restricted contributions in the 2004-2005 fiscal year.

Special Revenue Funds Expenditures:

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Loans	\$ 10,844,483	\$10,042,265	\$10,650,032
Grants	104,074,485	68,899,257	57,339,073
Administration	<u>8,300,593</u>	<u>6,767,393</u>	<u>7,265,352</u>
Total Expenditures	<u>\$123,219,561</u>	<u>\$85,708,915</u>	<u>\$75,254,457</u>

Included in the above totals are Federal expenditures totaling \$40,989,795, \$37,462,739, and \$36,080,501 for the fiscal years ended June 30, 2004, 2005 and 2006, respectively.

Special Revenue Fund grant expenditures decreased by \$22 million in the Hartford Downtown Redevelopment Fund and \$8.8 million in the Housing Assistance Bond Fund in the 2004-2005 fiscal year.

Capital Projects Funds:

Total expenditures for the Capital Projects Funds were \$49,974,083 and \$34,112,787, for the fiscal years ended June 30, 2005 and 2006, respectively, compared to \$45,896,725 during the 2003-2004 fiscal year. Most of these expenditures were made from the Community Conservation and Development Fund for urban development projects.

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.

Outstanding Contractual Balances:

Criteria: DECD funds grants for projects approved by the State Bond Commission from the State's issuance of bonds, which creates a debt to the State.

State Bond Commission 2005 Policy Letter Appendix A requires that "All unused balances from prior State Bond Commission approvals must be returned to the unallotted balance under the fund and section of origin once a project is completed or cancelled. The only exception to this is if legislation authorizing the project or purpose allows the balance to remain in an account or if the State Bond Commission had approved the authorization on an as needed basis to be controlled through the allotment process pending project definition. In no case should an agency use remaining funds without the specific authority of the State Bond Commission. If an agency wants to use remaining funds, the new project can be initiated upon a reversion and specific approval of the State Bond Commission. Bond funds that are more than ten years old will be looked at for complete cancellation of unused balances depending on the status of its projects and whether or not it is complete and all bond funds are used."

Grant balances should not remain allotted to projects that have been cancelled, completed, or otherwise concluded. The Department has a fiduciary responsibility for returning unexpended balances to the appropriate fund through a reversion allotment process.

The following is the Agency's Mission Statement:

"The Department of Economic and Community Development develops and implements strategies to attract and retain businesses and jobs, revitalize neighborhoods and communities, ensure quality housing and foster appropriate development in Connecticut's towns and cities."

The Department also has a responsibility to collect receivables from grantees to which the Department advanced more than the actual expenditures incurred by the grantees for the projects funded by the Department. DECD should report those receivables to the Office of the State Comptroller (OSC) annually as instructed by OSC.

Condition: From the proceeds of the issuance of State bonds, the Department funds projects under programs authorized by various Connecticut General Statutes. The Department's contracts (Assistance Agreements) provide the general terms of the agreements and other documents provide the detailed terms. The period of the funding (budget period) is contained in the Project Financing Plan and Budget.

It is common for a budget period to be extended in the event that the budget period expires before the entire grant is expended by the client. The budget period for a project may be extended multiple times. Budget periods are frequently not accurate estimates of how long projects will take. If a project is delayed, the funding will remain unused for an extended period of time.

We reviewed a sample of 50 grant agreements that had unexpended balances totaling \$43,861,893 as of June 30, 2006. We reviewed available information within the agency and we were also provided explanations from project managers and office directors. Based on the information provided to us by the agency, we report the following:

For the sample, we found that 20 projects had the same unexpended balances totaling \$19,214,194 from June 30, 2004 through June 30, 2006. For this sample we also found that as of November 6, 2007:

- Nineteen grants with unexpended balances totaling \$19,157,486 had no expenditure activity since at least June 30, 2004 (more than three years).
- Six grants with unexpended balances totaling \$3,909,872 had never had funds expended on them and their budget periods had expired.
- In our review of 50 projects, we found no instance when a project was cancelled because the project exceeded its budget period.

Because DECD did not close out projects in a timely manner, whether any receivables were due from DECD overpayments to grantees would not be determined, recorded, reported or collected in a timely manner.

Effect: A failure to return unexpended fund balances remaining on completed bonded projects increases the chance that bond fund balances will be used for unauthorized purposes. In addition, such a failure suggests that the Department is not fully meeting its fiduciary responsibility relating to the administration of bond-funds.

Leaving balances allotted to inactive projects causes an inaccurate reflection of the financial position of those funds and does not enable those funds to be used for other purposes.

If the projects selected for State funding are not seen to completion, or funds reallocated to viable projects, DECD may not be utilizing available State resources in the most effective manner to fulfill its mission to retain businesses and jobs, revitalize neighborhoods and communities, and foster appropriate development in Connecticut's towns and cities.

The Department may not be recording, collecting and reporting receivables that result from overpayments to grantees.

The State incurs unnecessary expense by issuing debt, and paying related interest and other fees, for projects that are stalled, cancelled or completed.

Cause: The Department has no enforced policies or procedures for the administration of unexpended balances on completed or otherwise concluded bond-funded projects.

There is a lack of accountability for the funds entrusted to the administration of the Department.

Recommendations: The Department should implement formal policies and procedures that address the administration of unexpended balances on bond-funded projects. Unexpended balances for projects that are cancelled, completed or otherwise concluded should be returned to the appropriate fund through the reversion allotment process. (See Recommendation 1.)

Agency Response: "We agree that DECD needs to implement formal policies and procedures that address the administration of unexpended balances on bond-funded projects. A process review is currently being conducted by the Department to develop such policies and procedures.

The Department funds diverse projects which create opportunities in economic, community, and housing development. The successful completion of a project depends upon the specific characteristics of each project. To enhance its current oversight of bond funded projects the Department will require more frequent reviews as to the status of a project by a project manager. The Department will cancel unexpended balances, if appropriate, or reallocate bond funds based on Bond Commission approval.

The Department notes that in December 2007 a report was provided to the Office of Policy and Management which included unexpended balances as of November 6, 2007. This report included projects contained in this finding. The Office of Policy and Management did not require any additional information as to the status of the unexpended balances for these projects.

Finally for the twenty projects with unexpended balances totaling \$19,214,194 the Department has taken the following actions:

- Extended budgets when deemed appropriate;
- Closed projects by issuing a Certificate of Approved Program Cost and State Funding;
- Processed reverse allotments to return unexpended bond funds to the appropriate fund; and
- Reallocated bond funds based upon Bond Commission approval.

It should be noted that the aforementioned unexpended balances totaling \$19,214,194 remained with the Department and were not at risk for unauthorized use as indicated by the Auditors of Public Accounts.”

Records for Grants and Loans:

Criteria: The Department should maintain organized, complete and updated records for the projects that it administers.

Condition: The Department has no centralized source for maintaining the status of projects. Information may be contained in one of several computer-based systems, in the project files, in the library master files, or in the Office of Finance and Administration.

Our review found that the agency’s Alchemy, Client Connection and Compliance databases, or a combination of them, did not contain complete information for projects. The most complete information was obtained from the project managers. At times, the information is spread across all areas listed above and the information is inconsistent from one area to the next.

Effect: The Department may not adequately monitor the projects that it administers without ready access to all information related to those projects.

Cause: Lack of implementation of standard recordkeeping procedures and lack of communication between Agency offices cause the above condition.

Recommendation: Organized, complete and updated records should be maintained for the grants and loans that the Department administers. (See Recommendation 2.)

Agency Response: “The Department agrees with this finding.

The Department’s records for grants and loans are currently maintained in various databases. Individual offices’ needs to undertake their ongoing responsibilities pertaining to grants and loans has resulted over time in the establishment of various databases such as Alchemy (master file), Client Connection System, Compliance databases, and Core-CT (Office of Finance and Administration). This was further compounded by functions being spread across many different departments within the agency. The March 2008 reorganization along functional lines will improve many of these overlaps.

In an effort to provide a more effective and efficient means for maintaining grant and loan records, the IT staff of the Department is currently reviewing existing databases to determine the best method to consolidate existing databases.

The goal is to create a database system within the existing budget allocation and with the coordination of DOIT (The State’s Department of Information Technology) that meets the need of each office as it pertains to recordkeeping for grants and loans the Department administers.

This initiative will permit the Department to improve upon its existing recordkeeping procedures and enhance its monitoring capabilities of projects funded by the Department.”

Payroll Expenditure Coding:

Criteria: Payroll expenditures should be charged to programs for time devoted and identified specifically to the performance of objectives of those programs.

Section 4-97 of the Connecticut General Statutes provides “No appropriation or part thereof shall be used for any other purpose than that for which it was made unless transferred or revised as provided in section 4-87...”

Ensuring that payroll expenditures accurately reflect time worked by each employee is a good business practice and an essential component of an adequate system of internal controls relative to the budgeting process and to monitoring the effectiveness of Federal and State programs.

Condition: Federal and State programs are charged for the amount of payroll expenditures coded to the accounts assigned to each program. We found that not all accounts accurately reflect the payroll expenditures for the actual employee time recorded as worked on each program.

Each employee within the agency is assigned to one expenditure coding for payroll. Biweekly payroll expenditures are coded to the assigned expenditure code. In addition to a biweekly timesheet, each employee prepares a biweekly work distribution report of the hours worked on each Department program. Many employees work on more than one program, but payroll expenditures are originally charged to only the one assigned program.

Periodically, usually near the end of the fiscal year, the agency makes adjustments to correct some of the coding for time charged to programs that was actually worked on other programs, per the biweekly work distribution reports. We found that after the adjustments were made, expenditures for certain programs still exceeded the related charges that were recorded for the time worked on those programs as reflected on the biweekly work distribution reports. We found that the above situation also existed for the 2006-2007 fiscal year.

We also found that payroll expenditures for 14 out of the 20 employees in a separate payroll expenditure test (70 percent) were coded to inappropriate funding for the work performed. The amount that was miscoded totaled \$23,204.

Effect: Payroll expenditures were misrepresented, thus making it difficult to monitor the effectiveness of Federal and State programs. Money allocated to specific programs is not being spent as intended. This may cause violations of Section 4-97 of the Connecticut General Statutes.

Without accurate information on the expense and effort it takes to direct its programs and resources, the Department cannot evaluate its effectiveness in administering programs and cannot accurately budget for those programs.

Cause: The Department does not have procedures in place to either guarantee that the adjustments necessary to align payroll expenditures with time worked are made or that initial payroll charges to the proper funding were made.

Recommendation: The Department should institute procedures to ensure that payroll expenditures are charged to the appropriate funding. (See Recommendation 3.)

Agency Response: “The Department agrees with this finding.

Going forward the Department will ensure that payroll expenditures are charged to the appropriate fund. Budget Unit staff will adjust payroll expenditures to the extent possible based on the biweekly work distribution forms prepared by Department employees. The Budget Unit supervisor will review all work distribution adjustments processed by Budget Unit staff to ensure completeness and accuracy.

The process review being undertaken by the Office of Strategy and Policy within the Department will develop specific reporting and forecast requirements which will be implemented going forward.”

Property Control:

Criteria: Section 4-36 of the Connecticut General Statutes requires each State agency to keep inventory records in the form prescribed by the State Comptroller and to annually submit to the Office of the State Comptroller an annual report of its inventory balances [Form CO-59].

The State Property Control Manual prescribes the inventory records and procedures.

Beginning in the 2005-2006 fiscal year the agency began maintaining its inventory records in the Core-CT Asset Management Module. Core-CT is now the official record for the Agency’s inventory.

The State leased out property in Bristol for 25 years beginning November 1, 1990, for the purposes of developing and operating rental housing for low and moderate income persons who are disabled. That lease provides that the lessee maintain insurance for the mutual benefit of the State and the lessee, and that the lessee provide the State with evidence of insurance. Also, the State must approve of any sublease to other than persons of low and moderate income who are disabled.

Condition:

Annual CO-59 Reports:

Three owned pieces of real property were not reported on the Form CO-59 reports. Also, DECD did not have any documentation to support personal property/equipment additions, deletions and ending balances reported for the 2004-2005 or 2005-2006 fiscal years.

- Amounts reported as additions were \$40,581 higher than the \$189,300 in additions indicated in Core-CT.
- Amounts reported as deletions were \$179,084 higher than the \$473,975 indicated in Core-CT.

- The amount reported as the personal property balance was \$140,861 lower than the \$744,661 indicated in Core-CT as of June 30, 2006.

When we questioned the agency on this, the Agency attempted, unsuccessfully, to recreate records to match the amounts reported.

Real Property:

The agency has no complete record of its inventory of land and buildings. There is no centralized inventory record within the Agency. Each office had some of the records, but, for three properties, DECD had no record that the State's ownership of the properties was recorded by the towns in which the property is located.

The lessee of the State's property in Bristol subleased the property from December 12, 2000, through November 30, 2005, to other than persons of low and moderate income who are disabled. We were informed that the sublessee still occupies the premises; however, DECD neither approved of the sublease, nor had a current sublease on file.

When we initially inquired, DECD did not have a copy of the lease, sublease or evidence of insurance. After five months, DECD did obtain a copy of the lease and the expired sublease mentioned above, but no evidence of insurance or current sublease was obtained by DECD.

Physical Inspection:

The agency maintains its own asset management database to account for equipment inventory balances, additions and deletions. Until July 2005 this was the official record for the Agency's inventory. Beginning in the 2005-2006 fiscal year the agency began maintaining its inventory records in the Core-CT Asset Management Module. Although Core-CT is now the official record for the Agency's inventory, DECD has continued to maintain its own asset management database. During the audited period the Agency updated its in-house records for inventory when it did not update the Core-CT record as shown below:

- We selected a sample of 25 equipment items from the Core-CT inventory records. We were unable to physically inspect two of the 25 items (8 percent) within the agency. These two items were lost or disposed of and removed from the agency's in-house inventory records, but not from Core-CT.
- We selected 25 inventory items within the agency to trace to the Core-CT inventory records. Eight of those 25 items (32 percent) were not found on Core-CT. They were located on the agency's in-house inventory records.

Effect: DECD's inventory listing on Core-CT did not accurately reflect the equipment it owned, and incorrect inventory amounts were reported to the State Comptroller. The accuracy of the amounts reported as personal property/equipment could not be determined.

The State's ownership of real property may not be recorded on town records.

Without evidence of lessee insurance, the State cannot verify that the leased property and those working on that property are appropriately covered by the insurance of the lessee.

Cause: Each office within the agency may obtain some of the real property inventory records, but there is no procedure in place to forward those records to a central location for the maintenance of a complete record.

The conditions concerning the CO-59 were caused by lack of monitoring of assets in Core-CT and in the Agency's Access database, lack of communication between the offices responsible for information pertaining to the CO-59, and the lack of a reconciliation of amounts reported and amounts recorded in Core-CT.

Lease requirements were not reviewed or enforced.

Recommendation: DECD should improve its inventory recordkeeping and reporting, establish more effective controls for managing assets in Core-CT and ensure that the necessary personnel are informed of information needed for maintaining inventory records and preparing inventory reports. (See Recommendation 4.)

Agency Response: "The Department agrees with this finding.

Annual CO-59 Reports

The Core Asset Management module was implemented at the beginning of the 2005-2006 fiscal year. The initial training provided to DECD staff by Core-CT representatives resulted in conflicting instructions regarding the criteria for entering personal property/equipment into the Core-CT System.

Going forward, the Department will insure that the appropriate documentation will be maintained to support additions and deletions to the Core-CT System. This will permit the Department to be able to accurately complete the annual CO-59 report submitted to the State Comptroller.

Real Property

Communications have improved within the agency and between agencies that will ensure complete records will be maintained for real property.

The Department has obtained evidence of insurance for the State's property in Bristol.

The Department will be obtaining a copy of the sublease for the State's property in Bristol.

Physical Inspection

The two of the twenty-five equipment items identified in the report were not lost, but surplused and entered into the Core-CT System in FY 07.

The eight of the twenty-five inventory items not found in Core-CT, each valued at less than \$1000, were not entered into the Core-CT System based on instructions received at the time from Core-CT representatives. The Department has now entered the items into the Core-CT System.

The Department wishes to note that the value of the two equipment items and the eight inventory items is approximately \$4,600. The Department's CO-59 report for the fiscal year ending June 30, 2007, reported the grand total for real and personal property as approximately \$3.8 million dollars. The Department considers this to be an immaterial amount and that its system of physical control of its assets more than adequately safeguards its assets.

Conclusion

To further improve its inventory recordkeeping and reporting for managing assets in the Core-CT System the Department will take the following actions:

- Seek clarification from Core-CT representatives to verify criteria for entering items into the Core-CT System;
- Ensure that additions and deletions are entered into the Core-CT System in a timely manner; and
- Ensure that the records for real property will be maintained by the various DECD offices and forwarded to the Office of Finance and Administration for inclusion in the CO-59 report."

Financial Assistance:

Criteria: Section 32-1c, subsection (b), of the Connecticut General Statutes allows the Commissioner of DECD to provide financial assistance to any appropriate agency, authority or commission for planning and other

functions pertinent to economic development. That Section provides that “Financial assistance shall be rendered upon such contractual arrangements as may be agreed upon by the commissioner and any such agency, authority or commission in accordance with their respective needs.”

An adequate system of internal control and good business practice require that terms and conditions of financial agreements should be documented, including what is expected for the assistance (e.g. how it will benefit the State) and any required reporting.

DECD has established procedures for documenting, contracting and monitoring its grant and loan agreements.

Condition: During the 2005-2006 fiscal year, 12 transactions totaling \$220,167 were coded as sponsorship costs. We reviewed four of those transactions, totaling \$185,000 and are reporting the following condition regarding one of them.

In June 2006, an organization formally requested assistance from the Department for funding. Based on an invoice submitted to DECD in June 2006, and approved by the Commissioner, \$275,000 was paid to that organization. Payments of \$100,000 and \$175,000 were made by DECD during the fiscal years ended June 30, 2006 and 2007, respectively.

A contractual agreement was not entered into between the Department and the organization for this arrangement. Also, there was no documentation supporting the decision to provide the funding, and, until we inquired no written report of funded activities was received by DECD.

Effect: Without a formal contractual agreement in place for financial assistance activities, the Department cannot be assured that monies are being properly utilized in accordance with their intent. There is a lack of accountability for the State funding.

Cause: The Department did not follow its procedures for documenting grants. We were informed that the Department did not interpret the payments noted above to be financial assistance activity.

Recommendation: The Department should ensure that all of its financial assistance is properly documented by written agreements and that adequate monitoring is performed to ensure that State funds were used as intended. (See Recommendation 5.)

Agency Response: “The Department funds diverse projects which create opportunities in economic, community, and housing development. The successful completion of a project depends upon the specific characteristics of each project. As part of our mission, DECD will from time to time sponsor events and forums related to economic or community development.

Based upon the funding source, the appropriate written agreement will be executed between the Department and the entity receiving the funding. The written agreement will include the terms and conditions that the entity must adhere to in order to receive funding. Also, the Department will be monitoring entities to ensure compliance with the terms and conditions of the written agreement.

The Department wishes to note that since the Auditors of Public Accounts did not provide the Department with any instance of unintended use of State funds, the existing system of internal control in place has been adequately safeguarding State funds.

However, the Department will take the additional steps as indicated in the response to further strengthen its existing system of internal control.”

Compensatory Time:

Criteria: Bargaining unit contracts provide that covered employees earning above specified salary levels are exempt from being paid for overtime work. Employees who are not eligible for paid overtime shall be eligible for compensatory time off if overtime is worked.

Management Personnel Policies (MPP) 80-1 (Revised) and 06-02 provide that an agency head may grant extra time off for extra time worked by employees classified as Managers and Confidential employees if the extra time worked is authorized in advance and meets other stated requirements. MPP 06-02 requires the authorization to be written and include the reason for the compensatory time.

Regulation Section 5-245-1 provides that work for a period in excess of an employee’s regular, established or standard hours of work shall be performed by the employee as directed by his appointing authority. Section 5-196 of the Connecticut General Statutes defines Appointing Authority as a board, commission, officer, commissioner, person or group of persons having the power to make appointments by virtue of a statute or by lawfully delegated authority.

The Appointing Authority’s (DECD’s) Policy on Compensatory Time Earned requires that compensatory time must be approved in advance

by the supervisor. A written request that includes the reason, the date and approximate amount of time must be submitted to the supervisor at least twenty-four (24) hours in advance. Only approved requests will be credited towards compensatory time earned.

Condition: We reviewed 24 instances when compensatory time was earned by nine employees and found that the above criteria was violated as follows:

- Seventeen instances (71percent of our test) when compensatory time was earned when the approval occurred after the hours had been worked.
- Five instances (21 percent of our test) when compensatory time was approved, but there was no stated reason for the compensatory time.
- One employee earned compensatory time for hours that had been denied by the supervisor. This incident occurred because the employee requested the compensatory time after the hours had been worked and the hours were denied after the hours had already been recorded in Core-CT. The time was not removed and the compensatory time was used at a later date.

Effect: Employees earn and use unauthorized leave.

Cause: The Agency does not enforce State regulations and/or Departmental policies and procedures.

Recommendation: For compensatory time to be earned, written approval should be obtained in advance and include the reason for the compensatory time. (See Recommendation 6.)

Agency Response: “The Department agrees with this finding.

The Department will reinforce its policy regarding compensatory time by re-issuing to staff the Department policy. Also, the Payroll Section of the Office of Finance and Administration will require that an email be provided by the employee’s supervisor indicating that compensatory time has been approved in advance prior to the employee earning and using compensatory time.

The Department notes that employees may be required to perform unscheduled work related duties such as attending an evening meeting or a State Legislature meeting. In these instances prior approval of compensatory time cannot be planned. The Department will ensure in those instances that the proper approval is provided for the employee earning compensatory time which will include the approval of the Commissioner.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. This recommendation was implemented.
- 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. This recommendation was implemented.
- DECD should implement a reconciliation procedure for its payroll expenditures to ensure that only DECD authorized expenditures are charged to its payroll accounts. This recommendation was implemented.
- DECD should institute safeguards to ensure that proper authorization is obtained for all receivables that are removed from its books. This recommendation was implemented.
- 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. This recommendation is repeated as Recommendation 4.

Current Audit Recommendations:

- 1. The Department should implement formal policies and procedures that address the administration of unexpended balances on bond-funded projects. Unexpended balances for projects that are cancelled, completed or otherwise concluded should be returned to the appropriate fund through the reversion allotment process.**

Comment:

Unexpended balances remained idle on projects with no activity for extended periods and/or projects that were past the budget periods approved by the Department. Projects were not pursued to conclusion and unneeded funding was not returned to the appropriate fund.

Because DECD did not close out projects in a timely manner, whether any receivables were due from DECD overpayments to grantees would not be determined, recorded, reported or collected in a timely manner.

2. Organized, complete and updated records should be maintained for the grants and loans that the Department administers.

Comment:

The Department has no centralized source for maintaining the status of projects. Information may be contained in one of several computer-based systems, in the project files, in the library master files, or in the Office of Finance and Administration. At times, the information is spread across all areas listed above and the information is inconsistent from one area to the next.

3. The Department should institute procedures to ensure that payroll expenditures are charged to the appropriate funding.

Comment:

We found instances when payroll expenditures were not charged to the funding assigned to the programs actually worked by employees, as recorded on biweekly work distribution reports.

Without accurate information on the expense and effort it takes to direct its programs and resources, the Department cannot evaluate its effectiveness in administering programs, and, cannot accurately budget for those programs.

4. DECD should improve its inventory recordkeeping and reporting, establish more effective controls for managing assets in Core-CT and ensure that the necessary personnel are informed of information needed for maintaining inventory records and preparing inventory reports.

Comment:

Amounts reported on annual CO-59 reports were not supported by the Department and were not reconciled to inventory recorded in Core-CT.

The Department had no complete record on its inventory of land and buildings, and, was missing information from the lessee of one State property.

Our physical inspection of equipment inventory revealed agreement between our inspection and the Agency's in-house inventory records, but differences between actual inventory and Core-CT. Core-CT had not been updated for changes.

- 5. The Department should ensure that all of its financial assistance is properly documented by written agreements and that adequate monitoring is performed to ensure that State funds were used as intended.**

Comment:

We reviewed activity coded as sponsorship costs and found one such activity for which the Department paid \$275,000, but had no written agreement and, until we inquired, had no written report of funded activities.

- 6. For compensatory time to be earned, written approval should be obtained in advance and include the reason for the compensatory time.**

Comment:

Compensatory time was earned even though the appropriate advance approval from a supervisor was not obtained.

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, 2005 and 2006. 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, 2005 and 2006 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 controls 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, 2005 and 2006, 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 controls 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 controls 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 controls over those control objectives.

However, we noted certain matters involving the internal controls 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 controls 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: deficiencies in administration of unexpended balances on bond-funded projects, charging payroll expenditures to inappropriate funding and weaknesses regarding 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 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 controls over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal controls 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 that the reportable conditions on payroll and inventory are material or significant weaknesses.

We also noted other matters involving the internal controls 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.

Elaine C. O'Reilly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts