

STATE OF CONNECTICUT

JULY 3, 2001

**PERFORMANCE AUDIT
STATE FINANCIAL ASSISTANCE MONITORING
DEPARTMENT OF ECONOMIC AND
COMMUNITY DEVELOPMENT**

**AUDITORS OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have conducted a performance audit of some aspects of financial assistance monitoring for programs of the Department of Economic and Community Development.

The Department of Economic and Community Development administers programs and policies to promote business, housing and community development. It is the State agency responsible for promoting economic growth. The Department operates fifteen housing programs and seven economic development programs.

The conditions noted during the audit, along with our recommendations, are summarized below.

Standardized monitoring through written procedures.

The Agency has few standardized monitoring practices for its State-funded economic assistance programs, and fewer written monitoring procedures. (See Item No. 1.)

The Department of Economic and Community Development should develop standards for the monitoring of the State funded economic development grant and loan program. These practices and procedures should be put into writing.

Currently, project monitoring in the active phase of a project is left up to the project manager. This individual plays a dual role, as this is usually the same person who is responsible for facilitating the approval and operation of the project, including developing the budget and approving payments to the client. There are no written monitoring guidelines for the project managers to follow. Some project managers have adopted monitoring procedures for their projects, but other project managers see their responsibility solely as a facilitator to expedite the project. This dichotomy of perceived responsibility is one reason that monitoring standards are needed.

Unique and Specific Agreements

The recipients of the Department of Economic and Community Development's financial assistance are diverse, and each project is unique. However, the legally binding contracts between the Department and the financial assistance recipients are ill defined

and generally do not reflect the unique character of the recipients or the projects. (See Item No. 2.)

The legally binding contracts between the recipients of State financial assistance and the Department should be specific to each project.

The Department has a diverse client base composed of municipalities, non-profit organizations, and for-profit companies of all sizes and types. In serving this client base, and more importantly, in serving the citizens of the State, the Department undertakes a broad spectrum of projects to promote the State's economy. The purpose of the projects, and the resulting benefits to the State's citizens are diverse, unique to each project. However, we found that in general, the legally binding assistance agreements did not adequately reflect the unique nature of the projects. Specific performance measures that are part of the goals and objectives of a project often are not included in the assistance agreement. Conversely, certain requirements that have nothing to do with a project are included in the agreement.

**Automated
Information
Systems**

Not all relevant data had been recorded in the Agency's automated tracking system when we began reviewing project data. The lack of relevant information in the Compliance System limits its usefulness in monitoring the projects. (See Item No. 3.)

The Department should review its project data requirements and develop a more uniform process for managing project information.

With few exceptions, no one in the Agency had been assigned the responsibility for entering relevant project data in the Compliance System. Furthermore, even if the information were entered, no one had been assigned the specific responsibility to track the information, or to ensure that all compliance terms had been met. There were gaps in project information as recorded in the system, and the system has the capacity to track only general compliance terms.

In addition, the Agency has installed another system, Client Connections, for managing project information, replacing an existing information management system. Project personnel report varying levels of use of these information systems. Therefore, the

project information available on the information systems may vary widely from project to project.

Statutory Reporting Requirements

The Department of Economic and Community Development does not meet statutory reporting requirements. (See Item No. 4.)

The Agency should prepare and submit annual and biannual reports as required by the Connecticut General Statutes.

The statutes require two different reports for the Agency's programs. One of these, on financial assistance and jobs, is to be submitted biannually to the Auditors of Public Accounts and specified Legislative Committees. The other report, analyzing Agency performance in granting assistance, must be prepared annually. The requirements for the latter report are outlined in Section 32-1i of the General Statutes. According to the Agency the original report was issued in January 1996, although there is no copy. Reports were not issued for the subsequent years. The requirements for the biannual report are found in Section 32-1h of the General Statutes. Copies of these reports were available, but did not include all the information outlined in the Statutes.

State Single Audit Reports required of certain entities

The Agency's process for identifying entities that are required to file annual reports in compliance with the State Single Audit Act is weak. (See item No. 5.)

The Department should improve its accountability over its grant and loan programs by identifying all recipients that are required to file audit reports under the State Single Audit Act.

Municipalities and non-profit entities that expend \$100,000 or more of State funding in a fiscal year are required to file a State Single Audit report for that year with the Office of Policy and Management, as cognizant agency, and with the Department, as grantor agency. Housing authorities must file their reports only with the Department, as the Department of Economic and Community Development has been designated as the cognizant agency for housing authorities. There is no system in place to ensure that the Office of Policy and Management and the Department of Economic and Community Development have received audit reports from all non-profit organizations that should

have filed them. Although the Department does have a record of all the local housing authorities for which it is the cognizant agency, as well as a separate record of economic development projects, it does not track financial assistance distributed. Therefore, personnel do not know which entities receive \$100,000 or more in State assistance and, consequently, should most likely be audited under the State Single Audit Act.

We found that there were non-profit organizations and housing authorities that should have been filing audit reports under the State Single Audit Act, but were not doing so. Also, some of the organizations that did file the required audit reports filed late.

**Audit Report
Review**

Audit report review is not always timely. (See Item No. 6.)

The Department of Economic and Community Development should take steps to expedite the review and processing of audit reports.

A delayed review, as with a report filed late, limits the usefulness of the audit report as a monitoring instrument. The length of time between the date the report was received and the date the report was reviewed was from nine days to twenty months for those projects in our sample. The average for one group of reports, which represented two entities over a five-year period, was eleven months. The average length of time from the date a report was received until it was reviewed for reports in our sample, issued for client fiscal years ending in 1998, was three months.

**Accountability
for Following
up on Audit
Findings**

No one is held accountable to follow up on audit findings. (See Item No. 7.)

The Audit Section should track the receipt of a Corrective Action Plan, the acceptance of the Plan, and the resolution of the audit findings as part of the audit process.

Timely resolution of findings is an important conclusion to an audit. The Department of Economic and Community Development neither considers it to be the Audit Section's responsibility to keep track of these findings and their resolution,

nor has the responsibility been assigned to program personnel. The result is that it is not known whether the audit findings are resolved until the next audit report is issued, which can be years after a problem has been identified.

We found that follow-up and resolution of the findings was inconsistent for the economic development and housing authority projects that we reviewed.

Review of Audit Reports and Familiarity with Assistance Agreements

The Agency's review of audit reports could be improved. (See Item No. 8.)

The Agency should establish procedures linking audit review to a thorough knowledge of the assistance agreements, and take steps to ensure that all parts of the State Single Audit reporting package are submitted and reviewed.

Certain information that should be submitted with the State Single Audit report is not always obtained. In addition, the Agency does not have a policy that combines the audit report review with a thorough knowledge of the related program(s) and assistance agreement(s). An understanding of the terms of the related contract(s) would enhance the usefulness of the reports as a monitoring tool.

Job Audits

Many of the loans and grants funded through the Manufacturing Assistance Act have job requirements. However, the Agency does not require job audits for all entities with job requirements. Thirty-two percent of the for-profit entities that received State funding, valued at \$38,162,550, did not have job audit requirements. Furthermore, even though job requirements have been included in contracts for a number of years, formal job audit procedures were instituted only recently. (See Item No. 9.)

The Department should continue in its efforts toward more complete and timely job audits.

Although many of the loans and grants funded through the Manufacturing Assistance Act have job requirements, job audits to determine if these requirements were met are not required for 32

percent of the entities that received funding. In addition, the Department did not begin formal job audits for those entities requiring audits until July 1999. Fifty-four out of the 55 completed job audits were performed an average of three years after the job audit due date. Twenty-four audits are in process. Another 58 audits, due prior to October 2000, have not been started; these past due audits are, on average, 3½ years late.

**Alteration of Job
Creation and
Retention Goals**

If recipients of financial assistance are unable to attain their employment goals, the Department's policy is to allow the recipients to change their job requirements. (See Item No. 10)

The Department of Economic and Community Development should not change the job requirements established in the assistance agreement.

One of the terms of many assistance agreements for projects funded under the Manufacturing Assistance Act is to create and/or retain a certain number of jobs. Most contracts with job creation/retention requirements also include a requirement that the entity pay back the State, based on some pre-determined formula, for every job it fails to create/retain under the required minimum. If a client's job audit indicates that the entity has failed to meet its job requirements, according to Agency policy, that entity may request an extension of the job creation/retention deadline, modification of the employment requirement, or a combination of the two.

It is likely that the penalty imposed for non-performance would create a hardship that could undermine the whole project, and nullify any gains that had been made. Thus, it seems that changing the job creation and retention goals is a way to avoid penalizing an already financially distressed client. If Agency personnel believe that a penalty for non-compliance will only exacerbate a client's problems, the Agency should address that issue rather than alter the original job requirements. Modified job requirements will distort the record of the Agency's accomplishments.

**Formalization of
Job Creation
and Retention
Goals**

Employment goals are sometimes not formalized, and therefore, cannot be monitored. (See Item No. 11.)

Terms presented to the Bond Commission and included in the project proposal as the reason for the project should be included in the assistance agreement.

The number of jobs to be created or retained is often the major reason given for promoting a project. This information may be found in presentations to the Bond Commission and in the project proposals. In spite of this, job requirements are frequently not included in the final contracts. Consequently, the Department feels that these goals can not be monitored.

Matching Funds

There are no written guidelines as to what constitutes matching funds, nor on other matters relating to matching funds. (See Item No. 12.)

The Agency should define what constitutes matching funds, especially non-cash contributions.

Clients are required to raise matching funds for many of the projects supported by the Agency. However, there are no written guidelines on matters relating to matching funds. The Agency has not defined what constitutes matching funds, particularly non-cash contributions, nor has it addressed time requirements for raising matching funds. As well, there have been problems with cash contributions, as there are no written guidelines addressing the availability of cash contributions for the benefit of the project. Agency staff relates that the goal is to keep the definition flexible, as a matter for negotiation. This policy sometimes creates confusion, and sometimes results in long delays in obtaining the matching portion of State financial assistance.

Collateral

The Department routinely puts millions of dollars in State funding at risk by subordinating the State's lien position in favor of other funding sources. (See Item No. 13.)

The Department should keep in mind its policy of subordinating its collateral position when selecting a project, and should subsequently subject its projects to consistent ongoing monitoring prior to subordination.

In some ways, the Department of Economic and Community Development resembles a lending institution. Some of the State support for projects is in the form of loans. However, there are also qualities that do not resemble those of a financial institution. One of these qualities is that, as the State agency responsible for fostering economic growth, it is necessary to try to leverage project funding from other sources. One of the State's objectives is to provide enough economic stability to an entity to encourage others to provide needed support for the project. When this happens, the new lenders generally insist on the primary collateral position. If they do not get the primary position, they will decline to participate financially. If an entity cannot obtain other funding, the whole project may be at risk, and the benefit of the State funding already provided could then be lost.

The very nature of the Department's activities entails risk, and it is highly unlikely that the Agency will be able to select and fund only those projects that will succeed or that it will maintain a solid collateral position. Bearing this in mind, the Department should exercise great care in selecting projects for State funding and should obtain an objective perspective on its client's position and potential through consistent ongoing monitoring, as hundreds of millions of dollars of the State's money, raised through bonded debt, is at stake.

**Weak Controls
over Sub-
recipient
Funding**

Controls over financial assistance passed through to sub-recipients are weak. (See Item No. 14.)

The Agency should develop procedures to help ensure that State funding passed on to sub-recipients is used to achieve approved objectives, including written guidelines to aid

primary recipients in monitoring sub-recipients and for the project managers' review and assessment of a primary recipient's monitoring capabilities.

From time to time, the Department of Economic and Community Development provides State financial assistance to entities that subsequently pass this funding on to other organizations, to achieve the objectives of a project or program. In such cases, the primary recipient should be monitoring the sub-recipient. However, the Department does not have standard procedures to ensure that a primary recipient has the capability to monitor its sub-recipients or that appropriate monitoring procedures are implemented.

We found that Agency program personnel do not, as a general rule, review or even inquire as to a recipient's procedures and practices for monitoring any subsequent recipients of passed-through State funding.

**Weak Controls
over Funding to
For-profit
Clients**

The controls used to monitor funding given to for-profit clients are weaker than the controls used to monitor funding provided to governmental and non-profit clients. (See Item No. 15.)

The Agency should clarify the need for annual reporting and compliance measures, if applicable, for for-profit companies that receive State funding for their programs and projects. These requirements should be clearly stated in the assistance agreements, and procedures should be developed for reviewing this information.

State law requires audits of non-profit and governmental entities that receive State financial assistance for any year in which the State-sponsored entity expends \$100,000 or more in State funding. However, the monitoring process for for-profit recipients of State financial assistance does not include annual audits or any other consistently required annual financial review. Rather, the assistance agreements for the for-profit entities generally require a project audit, the report of which is due 90 days after the conclusion of the project. Project periods are of varying lengths. This means that a lengthy project could go for a number of years without a financial review. The assistance agreements also require financial statements upon request, leaving room for doubt on the part of the for-profit client as to whether it must submit financial

statements or not. When the financial statements are requested, they are not subject to a formal review process.

**Urban Act
Contract
Language**

Urban Act contract language could be clearer. (See Item No. 16.)

The Department should ensure that Urban Act contracts, entered into with the recipients of State financial assistance, are clear.

Each type of financial assistance recipient, municipality, non-profit, or for-profit, has a different financial reporting requirement. The legally binding assistance agreement is not specific as to the type of audit report that is required. This language may lead to confusion about what type of audit is required, and who may perform the audit.

**Financial
Closeout**

The Agency has an opportunity to improve its financial closeout process. (See Item No. 17.)

The Department should improve its financial closeout process by clarifying when the closeout process should occur.

Although the Department's procedures require that the project manager request a closeout audit upon completion of the project, the Department has not defined the term "completion of the project." None of the projects in our sample had been reviewed for a financial closeout although of the sixteen undertakings, the project period had ended for all but one, by a period of eight months to nearly six years. The Department's financial closeout process would be improved if it were clarified when the closeout process should occur, in addition to what should be included in the review.

**Closeout of Client
Compliance
Matters**

The Agency does not have a vehicle for addressing the closeout of client compliance matters. (See Item No. 18.)

The Department of Economic and Community Development should develop a procedure for performance review of each project, to determine if an entity has complied with all performance requirements and to determine if the original intent of the project has been realized.

The financial closeout process, culminating in the Certificate of Approved Program Cost and State Funding, serves a very specific purpose. It addresses only the matter of project funding. It does not answer the question of whether a project has fulfilled its performance obligations. For example, some entities may be required to create jobs, all entities must agree to remain in the State for a certain length of time, and some entities may be required to pay royalties over a period of time. On a broader scale, the financial closeout process does not address whether the original purpose and goals of the project, as presented to the Bond Commission, were met. To answer these issues, the Agency needs a performance equivalent to the financial closeout process and its resulting Certificate of Approved Program Cost and State Funding. This process would occur at the end of the period when an entity is supposed to have achieved certain goals as a result of the State's financial assistance.

**Master File
Maintenance**

Project master file maintenance needs improvement at the Department of Economic and Community Development. (See Item No. 19.)

The Agency should continue its efforts to improve file maintenance, by establishing standards for maintaining the integrity of the filing system, and assigning a single person or workgroup the responsibility and necessary authority to maintain the files.

We noted several instances of disruption to the integrity of the filing system in the project master files. Related documents might be found in one or more of several file locations; documents submitted by the project manager for filing in the master file were not consistently filed; files might be removed from the filing cabinets without a means of identifying who took the file.

We note that the Agency has taken steps to abate the file problem. At the end of our fieldwork, Agency personnel had instituted a sign-out sheet for each file drawer.

**Quality Control
Reviews**

The Department of Economic and Community Development does not review a sample of working papers from the auditing firms submitting audits under the State Single Audit Act, the Municipal Auditing Act, or the assistance agreements. (See Item No. 20.)

The Department of Economic and Community Development as the cognizant agency for the local housing authorities should develop criteria and procedures for conducting quality control reviews and should then conduct selected reviews.

Although the concept of the State Single Audit was patterned after the Federal Single Audit, the Department does not use some of the assurances required by the Federal cognizant agencies. The Department does not review a sample of working papers from the auditing firms to determine whether the supporting working papers for those reports are adequate to meet the Agency's information needs, or if the financial statements and other information are in compliance with the law.

In the course of reviewing the reports prepared by independent public accountants, the Agency's audit personnel noted some deficiencies. Some were quite minor and easily corrected; they did not reflect the quality of the work performed. In other cases, the deficiencies in the reports are a reflection of weaknesses in the underlying audit work. Unfortunately, the quality of an audit cannot be accurately determined by reading the reports alone. It is necessary to review the working papers to do that.

BACKGROUND

The Department of Economic and Community Development administers programs to promote business, housing, and community development. This is the State agency responsible for promoting economic growth. It is the Department's goal to develop strategies and programs to attract and retain businesses and jobs, revitalize neighborhoods and communities, ensure quality housing, and foster appropriate development in Connecticut's cities and towns. The Agency was created on October 1, 1995, when the Department of Housing and the Department of Economic Development merged, pursuant to Public Act 95-250.

One of the ways in which the Department of Economic and Community Development fulfills its goals is to provide financial assistance, in the form of grants and loans, to entities that serve the needs of the State's citizens. These entities include for-profit businesses, non-profit organizations, housing authorities, governments, and governmental units.

At the time of our review, the Department of Economic and Community Development had four line divisions, the primary Agency divisions that manage the projects.

- ◆ **Business and Housing Development**
The purpose of this Division is to promote community development initiatives and create quality housing in Connecticut's communities.
- ◆ **Urban Revitalization and Investment**
With five field offices in Bridgeport, Hartford, New Britain, New Haven, and Waterbury, this Division functions to provide technical and financial assistance to the State's cities.
- ◆ **Infrastructure and Real Estate**
This Division provides engineering and architectural expertise to the Department of Economic and Community Development projects. Other services include feasibility assessments, development cost estimate review, site pollution evaluation, and utility coordination. The division also operates an environmental remediation program and a program to promote business centers.
- ◆ **Industry Clusters and International (The Office of Tourism is within the Industry Clusters Division.)**
The Industry Clusters Section of the Division focuses on developing business concentrations in the State. The goal of the Office of Tourism is to promote Connecticut as a travel destination.

These divisions are supported by Customer and Program Support, Public Affairs and Strategic Planning, Finance and Administration, Audit and Asset Management, Human Resources, and Legal and Legislative Services.

The Department has two basic responsibilities in administering the financial assistance it distributes. The first is that of grantor agency. This responsibility is the topic of Items 1 through 19 of the “Results of Review” Section of this report, where we focus on the Agency’s monitoring of the financial assistance that it has awarded. The second responsibility relates to the housing authorities. In addition to being a grantor agency, the Department is the cognizant agency for these authorities, pursuant to the State Single Audit Act. In addition, it may perform some audits of the housing authorities under the authority of the Municipal Auditing Act. Topics relating to this issue are discussed in Items 5, 6, and 20.

Statutory Authority for Economic Development Financial Assistance

The Department of Economic and Community Development administers several housing and economic development programs throughout the State. Each program is established and governed by various statutory provisions, on both the Federal and State levels. These provisions establish the program objectives and program guidelines for each economic development project, as well as eligibility for each program. Some of the statutory funding provisions through which the Department grants financial assistance are listed below:

MANUFACTURING ASSISTANCE ACT

As the title suggests, the Economic Development and Manufacturing Assistance Act (MAA) is geared toward developing the State’s manufacturing sector and retaining and creating job opportunities in the State. The restrictions on MAA funding include a limit on the percentage of a project that the Agency will fund, generally fifty to ninety percent of the total project cost. The Act is codified in the Connecticut General Statutes, Section 32-220 through 32-242a.

URBAN ACT

Urban Action (UA) funding is for the purpose of redirecting, improving and expanding State activities that promote community conservation and development, and improving the quality of life for urban residents of the State. There are few restrictions on the use of Urban Action funding, which can be used for up to 100 percent of the cost of a given project. Urban Action funding is referenced in the Connecticut General Statutes, Section 4-66c.

REGIONAL ECONOMIC DEVELOPMENT ACT

The Regional Economic Development Act is encompassed in the Connecticut General Statutes, Sections 32-325 through 32-330. The Act was passed in an effort to address the “. . . great and growing need for additional public and private capital

improvements and acquisitions and project development that will promote economic diversification, stability and growth.”

Financial assistance can be provided to regional development entities, municipalities, and other organizations. The Act includes restrictions on funding. Projects in targeted investment communities can be funded for up to 90 percent of the total project costs. A project in a region that includes a targeted investment community can receive assistance for up to 75 percent of total project costs. Not more than 66 2/3 percent of the total project costs can be covered for those projects in a region that does not include a targeted investment community.

SPECIAL ACTS

From time to time, the Legislature enacts legislation providing for special funding. The terms of the financial assistance resulting from these Special Acts are specific to the project or projects so funded. One of these, Special Act 93-2 (June Special Session), in the amount of \$7,000,000, was approved for Inner City Cultural funding. The purpose of this funding was to promote inner city economic, cultural and artistic development and stimulus.

Process for Obtaining Financial Assistance

Obtaining approval for a project is usually a multi-step process, outlined here.

- ◆ **Pre-Application:** The pre-application document initiates the formal application process. The applicant must also submit a business plan, business financial statements, prior year cash flow summary, tax information, personal financial statements, data on related or affiliated companies, and information on business acquisition.
- ◆ **Evaluate Need and Viability:** The project is then reviewed to evaluate the need of the applicant, the economic benefit to the State, type of business, the availability of other funding, the effect of the project on the community, the ability of the applicant to carry out the project, and the economic viability of the applicant.
- ◆ **Project Development and Assessment:** During this phase of the process, the Department of Economic and Community Development personnel evaluate the financial and legal position of the project, to ensure that it meets certain standards. They assess applicant eligibility and determine the type of State assistance that will be the most appropriate for the project.
- ◆ **Other Documents Required:** The applicant must provide certain information at this time, including public policy statements, public notification statements, and a certificate of good standing. The applicant must also provide other project information as requested.

- ◆ Business Assistance Proposal: When all information has been reviewed and evaluated, the terms of the financial assistance are negotiated. The Department of Economic and Community Development will then prepare a proposal based on the negotiated terms.
- ◆ Application: When the applicant accepts the proposal, it will be necessary to complete a financial application reflecting the agreed-upon terms. The applicant must file the application, an acceptance of proposal, a corporate resolution, a project-financing plan and budget, and an affirmative action policy statement.
- ◆ Bond Commission: Once the application is completed, the Agency must make appropriate application to the State Bond Commission for allotment of funds for the project.
- ◆ Contract Preparation and Review: The Agency prepares contract documents, reflecting the terms in the pre-application, proposal, application, project financing plan and budget, and related documents.
- ◆ Contract Execution: The Department of Economic and Community Development's attorney then reviews the contract. After this, the contract must be approved and executed by all parties.
- ◆ Contract Management and Monitoring: Following the closing, the Department of Economic and Community Development will conduct audits and periodic reviews to ensure that the terms of the contract are being followed. Certain documentation will be required from the client during and after the active phase of the project, depending upon the nature of the project.

An entity may obtain financial assistance for its own programs and projects, for passing the funding on to a sub-recipient, or for some combination of these two arrangements.

State Single Audit Act

Prior to 1991, a separate audit of each agency's financial assistance award(s) was required to assure that State funding was being spent appropriately. Consequently, several different State agencies were often conducting audits of the same recipients' financial records. To reduce the duplication of effort and to establish uniform standards for financial audits, the Legislature passed the State Single Audit Act. Municipalities and municipal agencies were to comply with this Statute beginning July 1, 1992. Non-profit entities had until July 1, 1994, before they were expected to comply with the State Single Audit Act.

At about the same time the Legislature was interested in finding a way to stimulate the economy and improve the job market within the State. The Legislature enacted laws making the Department of Economic Development (currently the Department of Economic and Community Development) the oversight agency for a number of new and expanded grant and loan programs. These include the Manufacturers Assistance Act (July 1, 1990) and the Regional Development Act (July 1, 1993), both described earlier in the report.

The Department of Housing had been managing loans and grants for many years and had functioning audit units with policies and procedures in place before the State Single Audit Act went into effect. The Department of Economic Development had established a unit to find and evaluate projects and another unit to be responsible for taking the client through the contract stage, but historically, it had never focused on the monitoring phase of the project. This varied history is evident in the management practices of the economic development and housing projects of the now combined agency of the Department of Economic and Community Development.

The Legislature enacted the State Single Audit Act to provide the agencies with a more efficient and uniform means of monitoring the State's financial assistance. We hoped to determine how and if the staff at the Department of Economic and Community Development used the State Single Audit reports as a monitoring tool. In addition, we tried to determine whether the staff could rely on the State Single Audit reports to provide assurance that the State's laws were followed and that the money was spent for the purpose for which it was intended. Although our review focused on the State Single Audit reports, it also included Project Audits, Closeout Audits, Agreed-Upon-Procedures Audits, Financial Audits, and Job Audits.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

One of the functions of State government is to provide financial assistance, through State grants and loans, to entities that serve the needs of the State's citizens, either to improve the State's economy, to assist persons in need, to carry out specific programs mandated by the Legislature, or to assist municipalities and other municipal agencies. Our assignment was to review the systems used to monitor the State financial assistance program. The review was to include the State Single Audit Program, as well as other monitoring tools at several agencies within the State system. As part of this overall review, a report was issued on August 2, 2000, for the Office of Policy and Management, as the oversight and primary cognizant agency for the State Single Audit Program. The audits of several additional agencies are planned.

The Auditors of Public Accounts, in accordance with Section 2-90 of the Connecticut General Statutes, are responsible for examining the performance of State entities to determine their effectiveness in achieving expressed legislative purposes. This report, as part of the larger audit mentioned above, is limited to a review of the

Department of Economic and Community Development and its role as both a grantor and cognizant agency of State financial assistance.

We conducted this performance audit of the Department of Economic and Community Development's monitoring of State financial assistance in accordance with generally accepted government auditing standards. This audit covered effectiveness issues, which is one type of performance audit. Our purpose was to determine if the level of monitoring for State financial assistance provided by the Department of Economic and Community Development is adequate to ensure that: 1.) State funds are expended appropriately, and 2.) Project results conform to the purpose for which the project was undertaken.

Our audit objectives were:

- ◆ To determine if monitoring procedures, including the State Single Audit, instituted by Department of Economic and Community Development as grantor agency to oversee the expenditure of State financial assistance are reasonable.
- ◆ To determine if the State Single Audit provides an adequate monitoring tool for Department of Economic and Community Development, in its capacity as cognizant agency for housing authorities, to assure that program goals are met.

To accomplish our objectives, we conducted interviews and on-site visits, reviewed applicable statutes and regulations, prior audit reports, Agency procedures, reports, files, documents, and other information. This included certain computer-processed data contained in the Agency's Compliance System database. Our review of system controls and the results of data review indicate that the data may not be entirely reliable or complete. However, when these data are viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations in this report are valid.

The Department of Economic and Community Development manages fifteen housing programs and seven economic development programs. As part of our audit we examined the Department's audit review process as cognizant agency for housing authorities. For purposes of comparison, we reviewed the procedures used for the Federal Small Cities Community Development program. The major portion of our audit consisted of reviewing the procedures and practices used in managing and monitoring grants and loans given out under the Manufacturing Assistance Act, Urban Act, Regional Economic Development Act, Special Acts, and Inner City Cultural funding. All projects tested were selected from a list of payments made by the Department of Economic and Community Development in excess of \$100,000 during fiscal year 1998. These projects were followed from their inception to the end of our audit fieldwork. We reviewed several types of projects and entities, including: four large non-profit/municipal renovation projects, one for-profit company, one Federal program, two purchases of land,

one which involved debt resolution and the other the settlement of a legal claim, and two regional development loans. Several cases involved sub-recipient benefactors.

Laura D. Rogers, Carolyn Z. Newell, Martha O’Leary, and Lynne Adler, all members of the staff of the Auditors of Public Accounts, completed the majority of the fieldwork between August 1999, and August 2000. This work was conducted on-site at the Department of Economic and Community Development’s central office.

NOTEWORTHY ACCOMPLISHMENTS

- It is often difficult to reconcile the Agency’s disbursements of financial assistance with the client’s expenditure of such assistance in the client’s audited financial statements and/or State Single Audit report. This may be due to the variance between the State and client fiscal year ends, timing differences, classification of expenditures, terminology, errors, or other factors. Audit personnel in the Department of Economic and Community Development have developed an instrument that they have found useful in performing this necessary task. This document, the Reconciliation of Expenditures by Contract to State Single Audit Schedule of State Financial Assistance, may serve as a useful model for other agencies and their funded clients for use in reconciling State financial assistance.
- The Department of Economic and Community Development has issued an audit guide for Department of Economic and Community Development programs, which is available both in a printed format and on the Internet. We found it to be clearly written, readily available, and comprehensive.
- The Department of Economic and Community Development audit staff has written procedures to be followed when reviewing audits by independent auditors and a written audit program, based on one of the standardized published audit plans, for the housing authority audits that they perform themselves. In addition, the Department’s audit staff tracks the status of all of the housing authority audits it receives or performs. As part of its cognizant agency responsibility, desk reviews are performed on all reports issued by independent auditors to ensure that the reports are complete and, when required, in accordance with the State Single Audit Act. The Department uses the Desk Review Questionnaire for Cognizant Agencies provided by the Office of Policy and Management to perform its reviews. The Audit Section maintains files of the audit reports and any related correspondence.
- The Department of Economic and Community Development audit staff appeared to be conscientious in their auditing efforts. In the period under review, audit findings were reported in 28.6 percent of the audit reports issued by the independent auditors; audit findings were reported in 100 percent of the audit reports issued by the Department’s staff.

AREAS REQUIRING FURTHER REVIEW

We have noted several areas, relating to the State's financial assistance program at the Department of Economic and Community Development that are beyond the scope of our audit, but stand out as areas that require further review. Five of the more important areas noted are outlined below.

1. One of these areas relates to the Manufacturing Assistance Act (MAA) itself. This legislation was enacted during a low point in the State's economy and was intended to stimulate the economy, specifically the hard hit manufacturing and defense industry sectors. Although the language in the Statutes is specific and the method to measure success is outlined, the types of projects funded by MAA grants and loans were never as specific as one would expect and, as the economic climate has improved, have broadened even further. Consequently, the ability to measure the success of the program has been limited.

Two renovation projects, found in our sample, were presented to the Bond Commission as projects that would rejuvenate the municipalities in which they were located and create or attract a high number of "good paying" manufacturing jobs. Instead, many of the tenants merely relocated from other sites. In both cases, one or more government agencies had leased space in the complex to help fill the void, something that was clearly not intended by the Statute.

A review of this program would attempt to answer some of the following questions: Are the objectives of the Statutes being achieved? Has the goal of increasing the "good paying" jobs or increasing manufacturing jobs been achieved? Are the types of jobs created "quality" jobs? Do the quality and/or quantity merit the cost of each job? Are the large renovation projects accomplishing the purpose stated in the Statutes?

2. A second area requiring review is Allowable Costs. The Department of Economic and Community Development does not have standards for determining which costs will be allowed and which ones will not. Expenditures are supposed to be based on an agreed upon Financial Plan and Budget, but the recipient can request budget revisions, as long as the total remains the same.

The budget for one project allowed a very high percentage of the total assistance to be used for salaries, most of which were paid to the two owner/administrators. The funding was also used to pay interest expenses and a bridge loan. Another large expense was legal fees. Another entity was allowed to pay interest expenses, legal fees, and the administration costs of another entity. Many of these expenses would not be allowed under the terms of a Federal grant, but there are no such restrictions on State funding.

3. Another area that needs further review is the cost effectiveness of passing money through a recipient to a sub-recipient. One reason for this procedure is that one type of funding can only be given out in the form of a grant. If the money is granted to a regional agency, it can be given out in the form of loans to secondary recipients and hopefully returned to the original recipient to be given out again. However, it is never returned to the State to reduce the bonds that were issued for the initial project. As reported in the Results of Review Section of this report, the controls over the use of State financial assistance by sub-recipients are very weak. This is true even when the Department picks the sub-recipient. The use of sub-recipients not only weakens the controls, but in many cases, the Department has to pay the operating costs of the recipient, as well as that of the sub-recipient.
4. Also beyond the scope of our audit was the project selection process. We noted that in many instances the project selection process did not seem to follow logic or the procedures outlined by the Department of Economic and Community Development in their brochure *Guide to Financial Assistance for Economic Development*. In several instances it appeared project expenses stemmed from activities that occurred prior to the Bond Commission approval. Some of the applications for funding are dated after the Bond Commission has given its approval. In many cases the agreement (legally binding contract) between the Agency and the recipient is not signed until long after the project starting date.

According to the Department's brochure, the Project Development and Due Diligence Phase follow the Pre-application Phase. The Due Diligence Phase includes a determination of whether the applicant has the ability to carry out the project, pay back the loan, if applicable, and stay in business. The Business Assistance Proposal and then the Application follow these phases. All are to be completed before the presentation of the project to the Bond Commission. This selection process should be reviewed to determine: (1) How many projects follow the agreed upon progression; (2) If risk analysis is done prior to acceptance of the project, what its impact is on the decision as to whether to go ahead with the project. (In the few cases that came to our attention, it did not seem to make a difference.); (3) If applications and review of impact on the community are completed before the Bond Commission decides to set aside money for the project; (4) If there are firm commitments for additional financing from non-State sources before Bond Commission approval, where additional financing is necessary; and (5) How often payments are made for expenditures incurred prior to the Bond Commission approval and in some cases prior to the Due Diligence Phase. (These payments may be in the form of bridge loans, prior debts, or accounts payable, etc.)

5. Applicants must submit financial statements as part of the application and selection process. According to an internal audit report dated August 25, 1997, it is the Agency's practice to accept the highest level of financial data available. This means that audited financial statements are not required, but must be submitted if available. This matter requires further review to determine if this practice adequately serves the information needs of the State prior to approving financial assistance. A comparison with the information requirements of lending institutions appears to be in order.

RESULTS OF REVIEW

Item No. 1. The Agency has few standardized monitoring practices for its State-funded economic assistance programs, and fewer written monitoring procedures.

In distributing the financial assistance deemed necessary to promote economic growth in the State of Connecticut, the Department of Economic and Community Development has only partially fulfilled its responsibilities to Connecticut's citizens. A very important part of the job is to monitor the projects to ensure that the money is spent according to the budget and that the project yields the intended results. Currently, monitoring the active phase of a project is mostly left up to the project manager. Some project managers do monitor their projects in terms of compliance, even adapting monitoring instruments from other programs. Other project managers see their responsibility solely as a facilitator to expedite the project. The Department has recently centralized an effort to monitor certain general provisions of the assistance agreements, which mostly occur after the active phase of a project.

Accountability is an inherent element in the government sector. Assets, used by the government, whether state, local, or Federal, to promote the philosophies for which the administration in power has been elected, do not belong to the various government agencies but to the community itself. Consequently, if money is spent or assets are to be used, they should be for the benefit of the community. Whether there are explicit laws describing each step to be taken or not, there is a widely held expectation that oversight or monitoring will be taking place at every phase of all government projects.

In order to verify compliance with the terms of an assistance agreement, and eventually to assess the success or failure of a project in meeting its objectives, it is necessary to monitor and evaluate the project. Although this can be accomplished in a variety of ways, it is desirable to have some reasonable standard so that all projects will have equal, or at least comparable, coverage in assuring compliance and measuring success. The best way to ensure success is to have standards in place that will aid project managers in identifying and helping to correct problems on a project at the earliest possible moment.

Prior to June 2000, the Department had a guide entitled *Good Service*, which described the grant and loan process in general terms. Effective June 2000, the Department issued the *Development Manager's Client Service Manual*. These manuals were presented to us after we had completed the audit fieldwork, at a meeting with various Agency managers held on December 8, 2000. The latter describes in detail the procedures and responsibilities that the Agency's staff is to follow to put into effect the economic development grant and loan programs. It outlines tasks that are to be performed by the Agency's staff for project initiation and facilitation, but there is little guidance on ongoing project monitoring. The latest manual does address active-phase project monitoring to a limited degree, on the issues of a company's financial well being and insurance coverage.

Currently, project monitoring in the active phase of a project is left up to the project manager. This individual plays a dual role, as this is usually the same person who is responsible for facilitating the approval and operation of the project, including designing the budget and approving expenditures. Some project managers do monitor their projects in terms of compliance, even adapting monitoring instruments from other programs. Some managers monitor their projects, but because there are no expressed expectations, the monitoring procedures and results are not documented. However, other project managers see their responsibility solely as a facilitator to expedite the project. This dichotomy of perceived responsibility is another reason that monitoring standards are needed.

Most of the project managers with whom we spoke report that they are in regular contact with active project principals, often including site visits. However, there are no established standards or directives for project personnel to follow while performing such visits. There are no standards as to how often a site should be visited, and what minimum site review may be beneficial during the active phase of a project. Most contracts require certain documentation during the course of a project. This may include but is not limited to such records as board minutes, project expenditure records, and personnel and payroll records. However, project managers are not required to review any records to ensure a degree of compliance with the terms of the project.

In addition, there are no standards or written policies for reviewing requests for payment, nor on the nature of acceptable documentation that must accompany the request. As well, there are no guidelines on the level of review that the project manager must undertake before approving a request for payment. Unless the contract places restrictions on payments to the client, the review of the payment request is solely at the discretion of the project manager. We found evidence for one project that either the original documentation requirements were not communicated adequately at the beginning of the project, or the requirements were subsequently changed.

We noted one example of specific payment requirements that were not observed. The assistance agreement limited payment of State funding to 33 1/3 percent of total costs and expenses then incurred. At no time was the State support to exceed more than one-third of the cost of the project to date. We found that eight out of the ten disbursements on this project brought State support over one-third of the cost of the project at the time of the payment. State support of the project was less than one third of the finished project cost, however. This situation illustrates the need for standardized, consistent expenditure review procedures.

Personnel from the Agency's Infrastructure and Real Estate Division usually monitor construction projects, as to matters relating to construction. This may offer some assurance when approving a request for payment, but construction personnel are not always involved in the projects, and there is no standard reporting or documentation mechanism when there is such involvement. We have noted that the involvement of construction personnel varies from project to project and from one time period to another. For one major urban project, the construction inspector was called in when the project

was nearly completed. This particular project has encountered extensive delays, cost overruns, and other problems. One unusual aspect of this is that a sub-recipient of State funding was running the project. In these situations, it would normally be the responsibility of the primary recipient, and not the State, to monitor the project. A major project in another area of the State, in which the project was run by the primary recipient who also received money as a sub-recipient in the early phases of the project, received limited attention from the construction inspector. This project, too, has encountered significant cost overruns and delays. Both clients have had to seek additional funding from the State, which has been granted. Total State financial support for the projects was \$19,031,100 and \$21,634,017 respectively, at the primary and/or sub-recipient levels. A standard level of construction inspection of these projects may have resulted in early detection and correction of some of the problems.

Consistent standards relating to monitoring sub-recipients are also needed. Either the State should have monitored the sub-recipient from the outset, or the Agency should have made sure that the primary recipient was in a position to monitor the project. (See Item No. 15 for a further discussion of sub-recipients.)

Another area in need of consistent standards is the matter of conflict of interest. Every contract that we reviewed requires that “The Applicant will adopt and enforce measures appropriate to assure that no member of the Applicant’s legislative or governing bodies and none of its officers or employees shall have or acquire voluntarily an interest in any agreement or proposed agreement in connection with the undertaking or carrying out of the Project.” Agency personnel whom we interviewed report varying approaches to this matter. The project manager may take no action to assure that a conflict of interest does not exist, or may rely on an audit to address the issue. Others take steps such as scheduled monitoring inquiries into possible conflicts, reviewing major contracts with conflict of interest issues in mind, or formal or informal comparisons of client entity personnel and persons known in the business and political community.

In the past, the Department had had a centralized monitoring unit, which reviewed assistance agreements and budgets for compliance. At some point the monitoring function for the economic development projects became somewhat ill defined. For a period, there had been no job audits, no assurances of State residence, and no assurances that other provisions of the assistance agreement were being carried out. Sometime beginning in March 2000, a centralized Compliance Section was reorganized. Currently, the Compliance Section is tracking some universal provisions found in the assistance agreements and performing job audits. Policies and procedures have been developed for this area, specifically for job audits, which is usually a contractual requirement that is monitored after the active phase of a project. (See further discussion of Job Audits in Item Nos. 9, 10, and 11.) Monitoring of compliance issues that are unique to specific projects is still not performed.

In contrast to the lack of monitoring standards for State financial assistance, the Small Cities Program appeared to have well established written monitoring standards.

This is a Federal program administered for the State of Connecticut by the Department of Economic and Community Development.

- Each grant must be monitored on-site, using standardized monitoring instruments, at least once prior to project closeout by a monitoring team comprised of specialists to address the different areas to be reviewed - the Financial Management Review, Building and Construction Review, Civil Rights Review, and Environmental Review. In addition, there are standards for reporting on the review and client responsibility in responding to the review.
- Clients are monitored for their supervision and monitoring of sub-recipients. A written agreement between the recipient and the sub-recipient is required, specifying the reports that the sub-recipient must submit.
- Contracts consistently require quarterly reports, which follow a standard format. If an entity does not submit its quarterly reports, the Agency will withhold future payments until the problem is resolved.

We understand that there are differences between the Small Cities Program and most of the State's grant and loan programs. We also note that the Small Cities Program is not trouble free. The specific monitoring procedures and instruments used in the Small Cities Program may not be appropriate for the State's economic development programs. However, the monitoring procedures outlined above may serve as a model for developing monitoring procedures for the State programs.

Lack of written monitoring procedures, combined with the conflicting perceptions and varying practices of the project managers, means that the projects have not been monitored in a minimum standard manner. This may result in non-compliance that is not detected and corrected at an early stage in the project. In the worst case, it may mean the difference between the ultimate success and failure of the project. Conversely, the lack of minimum standards may also cause the project manager to step into areas that are best monitored and tracked at other levels. For example, one project manager has expressed concern that requiring the client to submit extensive documentation with a request for payment implies validation of expenditures and that this step should be completed at the time the client is audited. Standardized monitoring and review procedures should address this matter.

The Agency should determine which aspects of active projects need to be tracked to ensure that the project meets its objectives. Assurances should be obtained to determine that the terms of the agreement, provisions in the law, and accounting and record keeping pronouncements are followed. These requirements should be committed to written standards for project managers and other personnel to follow. (See Recommendation No. 1.)

Agency Response:

“We disagree in part. The Department agrees with the auditors' that the monitoring and evaluating of a project can be accomplished in a variety of ways, and believes that this standard has been met. The realities of business assistance, economic development and construction projects often require [flexibility] in the administration of contract requirements. The Department makes practical and informed decisions when applying flexibility, and does everything possible to assure that the end results of a project comply with the requirements of the assistance agreement.

Since each assistance agreement is created around the specific requirements of a unique client/project, monitoring efforts conducted by project managers are, by necessity, designed to meet the specific needs of [each] situation. It is important to note that in some instances, site visits were made, and/or financial information requested, and/or UCC filings were updated, and/or jobs were counted. Reports of job cuts, impending lay-offs or expansions often precipitated some intervention and monitoring by the project manager. The project manager's activities were recorded and/or reported in a variety of formats. Briefing reports and client tracking system updates or entries are routine and standard operating procedure.

Payment processing is another form of monitoring, there are in fact standards for reviewing requests for payment and the nature of acceptable documentation that must accompany a request is clearly understood by the project manager. In addition, the project manager relays the requirements to the recipient at the onset of the project and does not process a payment without the agreed upon back up documentation. Please review again our previous comments in which we outlined two acceptable ways in which a payment may be processed: one for reimbursement of expenditures, and one for going forward expenditures. The capacity of the applicant, the nature of the project and the financial condition of the applicant all come into play in determining whether a certification and spread sheet of expenditures, or a box of invoices is required. In all instances, when subcontracts are a part of the equation, particularly construction projects, we require that they be submitted along with a payment request. All payment requisitions are reviewed against the approved project financing plan and budget and the appropriate documentation is required and reviewed.

In the case of construction projects, the project management function as it relates to project engineering design, construction monitoring in the office and field construction monitoring, is a function of the project type, actual capacity of the applicant and the level of funding support being provided through the Department. The Department professionals evaluate these criteria on a case by case basis through both the regional office and the Infrastructure and Real Estate Division in order to determine the level of and timing of such support.

A judgement of an appropriate level of support is made at the outset of each project through an informal process, usually when the lead division manager is decided prior to Bond Commission submittal. This process provides guidance for development of the project budget, schedule and the commitment of the Department resources that will be needed. The goal sought through this process is to provide sufficient and objective professional review and input at the appropriate time in the life of a project by the Department staff. It also provides for efficiency in the management of development projects by reducing overlap of professional services when a client has the capacity available to secure confirmation of compliance with the technical provisions associated with project performance. Alteration to the level of the Department technical support can and has been modified as needed to assure full contract compliance when project conditions have warranted it.”

Auditors’ Concluding Comments:

The Agency’s response seems to stress managing its projects and providing necessary support. Much of the documentation provided by the Agency, some of which was provided after completion of the audit fieldwork, reflects the project manager’s responsibility in project initiation and facilitation. Monitoring is an additional, separate, and necessary function. Though monitoring steps taken by the Agency *in certain circumstances* are important, we contend that effective monitoring should not occur on an “as needed” basis. Monitoring only when it appears to be necessary contradicts the concept of monitoring. Intervention may appropriately be based on the circumstances, but monitoring should be more systematic. None of the project managers with whom we spoke mentioned a process – formal or informal – for developing monitoring guidelines during the active phase of a project.

We maintain that one way to achieve a systematic approach to monitoring is to develop standard monitoring practices and commit them to writing. We commend the Agency for the steps it has taken in its June 2000 *Development Manager’s Client Service Manual*, to address certain monitoring needs. However, we see this as only the beginning of developing a standardized monitoring process. We are hopeful that the Agency will continue to develop its monitoring standards with the same thorough attention it gave to developing its standards for project initiation and facilitation.

Item No. 2. The assistance agreements, the contract signed by the recipient and the Department, are largely “boiler-plate” agreements.

The recipients of the Department of Economic and Community Development’s financial assistance are diverse and each project is unique. However, the legally binding contracts between the Department and the financial assistance recipients are ill defined and generally do not reflect the unique character of the recipients or the projects.

The Department has a diverse client base composed of municipalities, non-profit organizations and for profit companies of all sizes and types. In servicing this diverse client base, the Department undertakes a broad spectrum of projects ranging from environmental remediation to business recruitment, business expansion and retention, job training, and workforce development support.

Agency personnel have stated that each project is unique and consequently most of the goals and objectives of each project are also unique. Before most economic development projects can move from the planning and analysis stage to the active project stage, a legally binding contract is signed by the Department and the recipient. Program personnel with whom we spoke, in terms of monitoring, focused mainly on two parts of the contract – the assistance agreement and the Project Financing Plan and Budget. All projects that we reviewed had Bond Commission applications, which describe the project, and some projects had highly developed and detailed proposals. These documents often contain the goals and objectives of the project. However, only the assistance agreements are considered legally binding.

The amount of money to be given or loaned, the source of the funding, the terms of the payments to the recipient, and the process for repayment when a loan is involved are specific for each agreement. The budget can be very detailed and spell out exactly what the financial assistance is to be used for or it can be very general, leaving the use of the funds to the discretion of the recipient. Amendments to the budget are often made, sometimes after the fact, to reflect the actual expenditure.

In general, the terms of the agreement did not reflect the unique nature of the project. For instance, one of the standard terms is that the entity should remain in the State for a minimum of ten years. This requirement is included in the agreements made with municipalities and regional economic development alliances, neither of which can relocate, as they would not exist outside of their current location. Audit requirements, addressed in Item No. 16, are not always specific to each type of project. The specific goals and/or objectives of the project are often not included in the agreement. One of the few specific objectives that are introduced in the agreement is job retention or creation. There may be good reasons to have some portion of the agreement included in a “boiler-plate” so that the language is legally binding and complies with State labor laws; but if there are other goals and/or objectives, these should also become part of the binding agreement. In this way, the Agency can develop tools to measure whether these goals have been achieved.

Between the lack of requirements that address the specific project, and the unrelated or extraneous requirements, the terms of the legally binding assistance agreements do not seem to be taken as seriously as they should. Projects costing the State millions of dollars should be worth the time and effort to put together a clear, specific, comprehensive document, which can be used to develop some specific measurement tools.

Because the purpose of the projects and *the benefits* to the community, in this case the citizens of the State, are often diverse, the need for clear goals or objectives and the means to measure whether these are met is not eliminated, but increases in importance. The unique goals and objectives of each project, which includes the means of measuring and time-line to be followed, should be included in the terms of the legally binding agreement and related budget between the Department and the recipient. “Boiler-plate” terms that do not relate to the specific project should be eliminated from the agreement. (See Recommendation No. 2.)

Agency Response:

“We agree since we do it now. The Department has a diverse client base (municipalities, nonprofit and for profit organizations and businesses of all sizes and types). In servicing this client base, the Department undertakes a broad spectrum of projects ranging from environmental remediation to business recruitment, business expansion/retention, job training and workforce development support. This diversity, in both clientele and projects, requires that we be flexible in the Department's contractual agreements. This flexibility manifests itself in the customized agreements for the Department's various funding programs that contain required terms as well as negotiated terms, and has been developed to meet the needs of the Department's diverse client base....”

Auditors' Concluding Comments:

We observed unnecessary contract language in certain circumstances, and varying degrees of budget detail, which did not reflect the unique nature of the client or the project. Furthermore, the lack of stated goals in most contracts makes it difficult to evaluate project results. Any changes that the Agency has made in developing its contracts since our audit have yet to be reviewed.

Item No. 3. The lack of relevant information in the Department's computer tracking system limits its usefulness in monitoring the projects.

The Agency uses a database application to track project compliance. This system, known as the Compliance System, utilizes a tickler file that provides for keeping track of such information as insurance expiration dates, job and project audit reminders, and financial statement due dates. Not all relevant data had been recorded in the Compliance System when we began reviewing project data. The lack of relevant information in the Compliance System limits its usefulness in monitoring the projects.

If information is going to be useful, it must be complete and accurate. If a variety of practices are followed relating to the quantity and quality of input, then timeliness, accuracy and compliance will be compromised.

With the exception of certain limited project initiation data (Bond Commission approval date, project name, project type, applicant name, contact, and address, project funding type, amount of funding, project manager), no one had been assigned specific responsibility to enter the relevant data. Furthermore, even if the information were entered, no one had been assigned the specific responsibility to track the information and ensure that all compliance terms had been met. In our review of compliance data on the Compliance System, we found that not all projects had equal coverage; there were gaps in some of the project information as recorded on the system. Recently a file review project was undertaken by the Department to determine what information was needed in the files and to update the system. This included data on annual financial statements, quarterly reports, insurance certificates, job audits, and the project audit if required. This project is nearly complete. Currently, only the Compliance Section within the Audit and Asset Management Division is using this system.

The Compliance System was designed to track only the general requirements outlined in the project assistance agreements. It was never intended to track specific requirements of a given project. These requirements are not tracked by any system.

The Agency also had a system referred to as the Client Tracking System, a Lotus Notes application for recording project information, usually in narrative form. This system has been replaced. Project managers used the Client Tracking System to varying degrees to track their projects.

The Client Tracking System and the Compliance System were developed for Department of Economic Development projects and did not include Department of Housing projects. For this reason and a general dissatisfaction with the two systems, a new project-related information system was designed for the Department. The Client Tracking System has been replaced by a new system, called Client Connections, a more comprehensive system for managing project information, from the inception of a project through program monitoring. The Agency has experienced some difficulties in

implementing the new system, which is not an uncommon occurrence. It was envisioned that the new Client Connections would encompass the functions of the Compliance System as well as those of the Client Tracking System, but this has not yet occurred. Therefore, some units, such as the Compliance Section, have had to rely on the old Compliance System for tracking information on projects, and monitoring select compliance issues. Some project managers reported extensive use of the former Client Tracking System, whereas some reported only minimal use. The same is true of the newer Client Connections system.

We perceive that the primary reason that there are such discrepancies in the system information is that there are no standardized procedures requiring managers to manage project information using the former and now the new information systems.

Thus, the project information available on the computer systems is inconsistent. The amount of information available on any given project is subject to individual circumstances and, sometimes, preferences. A project manager may lack an understanding of the technology, or may have other reasons for not using the computer system. The result is that the lack of consistent, accurate, relevant, complete data in the information systems severely limits their usefulness in monitoring the projects in a more uniform manner.

The use of the computer systems in recording project information can be a great benefit in project management. Some degree of standardization will enhance this benefit, enforcing a minimum prescribed level of project input. If the Client Connections system eventually fully replaces the Compliance System, standardized minimum project data will be more important than ever, as it will provide the basis for compliance monitoring activity. If data requirements are not identified, procedures not formalized by written policies, and the responsible parties not assigned specific responsibility for input and review, the usefulness of the system will not improve. Because this system is still in the implementation stage, its usefulness for monitoring projects must be subject to further review.

The Agency should review its project data requirements in light of existing technology. Management should develop a suitable technology training program, as well as procedures for more uniform use of existing technology for managing project information. The Department should continue its efforts to ensure that all project information is complete, and appropriately entered in the information system(s), to facilitate monitoring the requirements of the projects. In addition, the Agency should consider developing a system, or enhancing the Client Connections system, to monitor project-specific requirements. (See Recommendation No. 3.)

Agency Response:

“We disagree. The Department believes that the new Client Connection system, together with the Compliance system provides for a very adequate project management system. It

has been our experience that (as noted in our in depth interviews with several Connecticut Lending Institutions) there is not one system (that has been developed) that covers a project from intake to final closeout. None of the lending institutions that we have been involved with have a single system to handle all facets of a project. Each lender utilizes multiple specialized systems. In that regard, we believe that we are ahead of the game in terms of the development of this new Client Connection System.

The Department certainly agrees with the need for complete and accurate information in its computerized systems. Despite the uncertainty surrounding IT, we continue to invest significant amounts of time and money in the development of systems that will perform well, and we continue to train staff in the usage of those systems, and we make that usage mandatory. Our computerized data has been able to provide the Legislature with acceptable and flexible information for the last few years.”

Auditors’ Concluding Comments:

We do not criticize the Agency for having more than one computer system for managing its projects. Our recommendation is that the Agency develop a suitable technology training program along with procedures for more uniform use of the technology, ensure that project information in the system(s) is complete and appropriately entered, and that a means of monitoring project-specific requirements be developed. Far from insisting that the Agency develop one system to do everything, we point out that one possibility for monitoring project-specific requirements is to develop a separate system.

Although we have not reviewed the data in the Client Connections system, we observed that the Compliance System did not track project-specific requirements, which may include but are not limited to continuing contracts with key persons or organizations; specifically requested data, outside the usual data requirements; pledge and fundraising requirements; expenditure/support ratios; and inclusion of specific data in quarterly reports.

Item No. 4. The Department of Economic and Community Development does not meet the reporting requirements, as outlined in the General Statutes, for its financial assistance programs.

The Department of Economic and Community Development is required by statute to prepare two different reports on its programs. One of these, on financial assistance and jobs, is to be submitted biannually to the Auditors of Public Accounts and specified legislative committees. The other report, analyzing Agency performance in granting assistance, must be prepared annually. The requirements for the latter report are outlined in Section 32-1i of the General Statutes. According to the Agency the original report was issued, in January 1996, although there is no copy. Reports were not issued for the subsequent years. The requirements for the biannual report are found in Section 32-1h of the General Statutes. Copies of these reports were available, but did not include the information outlined in the statutes.

Section 32-1i of the Connecticut General Statutes states that the Commissioner of the Department of Economic and Community Development in consultation with directors of Connecticut Development Authority and Connecticut Innovations Incorporated and the Legislative Program Review and Investigations Committee, shall by July 1, 1995, develop improved objectives, measures of program success, and standards for granting of financial and non-financial assistance under programs administered by said Commissioner, Authority, or Corporation. Not later than October 1, 1995, and annually thereafter, the Commissioner and respective directors shall prepare reports analyzing the performance of such programs during the preceding fiscal year in accordance with such objectives, measures, and standards, and submit the reports to the Connecticut Economic Conference Board for its review and comments. The Board shall submit the reports, with its comments and recommendations, to the joint standing committees of the General Assembly having cognizance of matters relating to the Department of Economic and Community Development, appropriations and finance, revenue and bonding by January first of the following year.

According to Agency personnel, the original report was issued (January 1, 1996), but reports were not prepared in the subsequent years. Agency personnel could not provide a copy of the original report. The purpose of these reports was to analyze the performance of the three entities' programs in accordance with the identified objectives, measures, and standards. The effect of not issuing these reports is that the Department and other decision-making bodies, in addition to the citizenry, do not have all the information necessary to measure the success of a given project or the agencies' programs in general.

Section 32-1h of the General Statutes states that the Commissioner of Economic and Community Development shall, not later than March first and October first annually, submit a report to the Auditors of Public Accounts and the Joint Standing Committees of the General Assembly having cognizance of matters relating to the Department's appropriations and capital bonding. The reports should contain information regarding all new and outstanding financial assistance provided. The report should include the

following information with respect to new and outstanding financial assistance provided by the Commissioner for each financial assistance program he administers: (1) A listing of the names, addresses, and locations of all recipients, (2) for each such recipient (A) The business activities, (B) the standard industrial classification manual codes, (C) the gross revenues during the recipient's most recent fiscal year, (D) the number of employees at the time of application, (E) whether the recipient is a minority or women-owned, (F) a summary of terms and conditions for the assistance, including the type and amount of State financial aid, job creation or retention requirements, and anticipated wage rates, and (G) the amount of investments from private and other non-State sources that have been leveraged by the assistance. (3) The economic benefit criteria used in determining which applications have been approved or disapproved, and (4) for each recipient of assistance on or after July 1, 1991 a comparison between the number of jobs to be created, the number of jobs to be retained and the average wage rates for each such category of jobs, as projected in the recipient's application versus the actual number of jobs created, the actual number of jobs retained and the average wage rates for each such category. The report shall also indicate the actual number of full-time jobs and the actual number of part-time jobs in each such category and the benefit levels for each such category. The October first report shall include a summary of the activities of the Department, including all activities to assist small businesses and minority business enterprises.

The Department of Economic and Community Development prepares a two-part report biannually. One part, called *Active Business Assistance for Economic Development*, addresses only the funding provided under the Manufacturing Assistance Act (MAA) directly to for-profit companies. The second part is called *Active Financial Assistance for Infrastructure and Community Development* and addresses all other financial assistance projects. Our review of the report disclosed the following weaknesses:

- Section 32-1h states that the reports must track the performance of each entity that received assistance after July 1, 1991. They must compare the number of jobs these entities said they would create and retain when they applied for assistance, and the number of jobs they actually created and retained. The Department's policy is to track job statistics for financing given to some for-profit businesses under the Manufacturing Assistance Act. Municipal development projects, even those funded under the Manufacturing Assistance Act, are not monitored for job requirements. As of June 30, 1999, these represented 41.7 percent of the total MAA funding provided. Nor is financing provided by the Regional Economic Development program, the Urban Act, and Special Acts monitored for job requirements.
- This report includes only the financial assistance issued by the Department of Economic and Community Development. Therefore, the true cost per job cannot be calculated from this report because the report does not include money given out by the Connecticut Development Authority and Connecticut Innovations Incorporated. These three State and quasi-State entities often collaborate to provide a complete funding package for an economic development project.

- Entities that go out of business are dropped from the report. We identified 114 entities from a listing of entities, the *Financial Aid Job Audit Listing*, that had received financial assistance during the period January 1991, to July 2000, that were not found on either of the October 1999 or March 2000 Reports of Financial Assistance issued by the Department. Some of these businesses have been identified as “out-of-business.” The reason that the others are missing from the report is not known.
- Information for 189 entities was found on both the Report of Financial Assistance and the Financial Aid Job Audit Listing. When the category “jobs available at the time of application” were compared on the two documents, the information did not agree for 59 percent of the entities. When the category, “jobs to be created or retained” was compared, the information did not agree for 68 percent of the entities. We did not determine why the information, which should have been the same, was different.
- Some money is given to economic development entities that fall into the category of community development projects, and then is passed on to specific private corporations. This money is not included in the business assistance report.
- We compared the requirements outlined in the statutes with the reports issued by the Department. We found that 48 percent of the requirements were not met for Manufacturing Assistance Act funding. Only four out of 25 categories were covered for all other sources. Four additional categories of information are specifically required for the October report. These were not provided. The Department was cited in the APA Financial Audit for fiscal years ended June 30, 1995 and 1996 for not preparing and filing this report and in the June 30, 1997 and 1998 report for filing an incomplete report.

The primary purpose of the Manufacturing Assistance Act and the Regional Economic Development Act was to promote new manufacturing jobs in the State. Reporting requirements were established in the statutes to track the progress of the projects and to determine whether the goals were achieved. These requirements were often found in the required project plan and in the presentation made to the Bond Commission, but frequently the criteria (jobs to be maintained or created) were changed or never included as a condition of the funding.

The report issued under Section 32-1h does not provide the information that the Legislature felt was necessary to have a good understanding of these projects and to measure the success of the Manufacturing Assistance Act and other funding. The criteria and controls to be established under Section 32-1i of the General Statutes have not been established. Because one report is not done and one report is incomplete, the total cost of the program or the cost per job from inception of the program cannot be calculated. Why there are so many missing entities from the biannual report and why there are so many differences in what should be historical, static information is not known, but it is clear that the biannual reports issued by the Department are not complete and do not provide

the full picture of the State's financial assistance given to economic development projects.

There should be objectives and standards or criteria relating to improving the State's economy, as well as a method of measuring achievement of these objectives, for all State funding that has been set aside to improve the economic climate in the State. The statutes that established these controls should be followed. As important as the need for comprehensive objectives, measurements, and reporting tools is for the evaluation of any given project or the program as a whole, the need for the biannual job reports should be reviewed. One annual job report may satisfy the information requirements referenced in Connecticut General Statutes, Section 32-1h. Criteria, objectives, goals, and procedures need to be established and available; the success or failure of each financial assistance project should be measured, as well as the total success or failure of the program, in compliance with Connecticut General Statutes, Section 32-1i. (See Recommendation No. 4.)

Agency Response:

"We agree in part. For the last two years the Department has submitted required reports to the office of fiscal analysis and to the subcommittees of the Legislature concerned with finance revenue and bonding on an annual basis. Copies of those reports are available for review. The Legislature has requested separate and/or joint presentations from CDA/DECD/CII on different occasions. The Department has made every effort to comply with the wishes of the Legislature.

With regard to the reporting requirements related to the annual jobs report in Section 32-1h of the Connecticut General Statutes (CGS), the Department has contacted CDA and CII to evaluate how their reports are prepared and how information is collected. We have also enlisted the help of an outside consulting firm to develop a survey and assist in the data collection. Recognizing that some of this information is confidential, we are working on developing a format in which the information can be reported without harming the competitive advantage of companies providing this information. The Department has submitted its report and believes that its contents are in compliance with the statute.

Section 32-1i of CGS outlines reporting requirements of the Connecticut Economic Conference Board (CECB) to the General Assembly. It is our belief that we meet the aforementioned requirements in the following manner:

(1) ...Additional performance data is provided to OPM and OFA as part of the Department's budget submissions. The Department is developing a strategic plan to further refine our planning of goals and objectives and performance measures. This information is shared with the CECB. We will make every effort to ensure that this information is more clearly stated in the Board's future reports.

(2) The Department, through its representation on the CECB, presents information on the Department's economic development efforts, initiatives and their performance/progress at the Board's annual meeting. This information is captured and reported in the Board's Report. This Department provides significant research and information used in the compilation of this report.

(3) The CECB, with the Department's assistance, prepares an annual report as required by Section 32-4f. We believe that this report meets most of the requirements of Section 32-1I, if not all. Copies of those annual reports (issued by the Board) have been provided. Their cover letters list our research staff as the point of contact for information about the contents. The analysis and forecast provided by the Board are informed by this Department's research and statistics about economic development projects, and this Department funds the report. We believe that the other requirements of Section 32-1I is captured and reported in the Department's Annual Report, which provides information on the Department's activities, efforts and initiatives as well as performance data and is sent to the General Assembly. Additional performance data is provided to OPM and OFA as part of the Department's budget submissions."

Auditors' Concluding Comments:

The Agency provided us with the report issued in compliance with Section 32-1h; we determined that it did not provide all the information required by the statutes. Several staff members told us that the report to be issued in compliance with Section 32-1i had not been issued. After careful examination of all the material provided by the Department, we concluded that neither the intent nor the specific requirements of Section 32-1h or 32-1i of the General Statutes was met. If the Department believes that the requirements of the statutes can not be met or are met in some other fashion, it should seek changes to those statutes.

Item No. 5. The Agency's process for identifying entities that are required to file annual audit reports in compliance with the State Single Audit Act and/or the Municipal Auditing Act is weak.

There is no system in place to ensure that the Department of Economic and Community Development has received all the required State Single Audit reports. Although the Department does have a record of all the local housing authorities for which it is the cognizant agency, as well as a separate record of economic development projects, it does not track financial assistance distributed. Therefore, personnel do not know which entities receive \$100,000 or more, in State assistance and, consequently, should most likely be audited under the State Single Audit Act. This information is not available until they receive an audit report performed by an independent auditor or, for certain housing authorities, begin the research to perform an audit themselves.

It has been generally recognized, both at the Department and at the Office of Policy and Management, that one of the first needs of grantor and cognizant agencies, relative to monitoring audit activity, is to identify those organizations that should be filing annual audit reports. Pursuant to the State Single Audit Act, the Office of Policy and Management is the cognizant agency for municipalities and non-profit entities, including those that are funded by the Department of Economic and Community Development. If a State Single Audit is required, the report must be filed with both agencies. As we have previously reported in the performance audit of the Office of Policy and Management, there is no Statewide information system at this time from which the Office of Policy and Management can obtain the names of the entities that have received \$100,000 or more in State financial assistance, and so may be required to submit a State Single Audit report. That Agency looks to the grantor agencies for such information.

One of the primary problems we noted, and of which the Agency had also been aware, is identification of entities that should be filing annual audit reports. Many of the Department of Economic and Community Development-supported non-profit entities should be submitting annual audit reports in compliance with the State Single Audit Act. Housing authorities should be submitting annual audit reports to the Department in compliance with the Municipal Auditing Act and the State Single Audit Act or biennial reports in compliance with the Municipal Auditing Act alone. Though the problem is not unique to the Department of Economic and Community Development, the Agency has not ascertained whether every entity that should be audited annually is being audited and is filing the reports with the Agency as required.

We found that there were non-profit organizations and housing authorities that should have been filing State Single Audit reports, but were not doing so. Also, some of the organizations that did file the required audit reports filed late. We identified the following matters through our testing.

- The Department did not have a comprehensive record of non-profit entities that were supposed to submit audit reports to it in compliance with the State Single Audit Act. There is an access database system, the Compliance System, that has a more or less comprehensive record of economic development projects that have been funded by the Department, but this system has not been used to identify those entities that should be filing annual audit reports. Also, there is a database that tracks the audit reports for all housing authorities and some economic development projects, known as the Status Report. This system does not include all the entities that the Department has funded, however, and so is not a comprehensive record of entities that should be audited annually.
- The Audit Section does not currently have a procedure in place to track the money distributed to housing authorities or other entities. We found that one housing authority received in excess of \$390,000 during its fiscal year 1998-1999. A State Single Audit is required of entities that expend at least \$100,000 of State financial assistance in a fiscal year. This housing authority was not audited for that year in accordance with the State Single Audit Act. Although Agency personnel cannot track the amount spent by the entity, the distribution of State funding in excess of \$100,000 is a good indication that the entity may need to file an annual audit in compliance with the Act. Agency personnel report that this particular housing authority does not usually receive State funding. Audit tracking was based on the entity's prior audit history, without consideration of current Agency funding. As this situation reveals, past audit history is not always a reliable indicator of future audit requirements.
- For entities involved in one of the major construction projects in the eastern part of the State, one of eleven reports that should have been received was not received, five of the reports were received late, and one was filed with one agency but not the other as required.
- The State Single Audit Report for another non-profit in our sample was not received by the Agency on time. The report was due around October 31, 1998, but was not received by the Department of Economic and Community Development until October 8, 1999. The recipient had filed its State Single Audit Report with the State Single Audit cognizant agency (the Office of Policy and Management) for its fiscal year ended April 30, 1998, at the beginning of November 1998. However, the Department of Economic and Community Development, the grantor agency, did not receive a copy, and did not take action to obtain a copy until we began inquiring about the client's audits. The project manager had received audited financial statements for the client's fiscal year ended April 30, 1999, but there was no reference to the State Single Audit report.

- Eight entities in our sample of ten recipients of State funding should have filed the State Single Audit report with the Department for their fiscal years ending in 1998. Of these, six filed their reports late. Additionally, a related entity filed its fiscal year 1999 audit report late.

The result has been that there is no assurance that one of the key monitoring tools, the State Single Audit report, is available for tracking millions of dollars in State assistance. In addition, the Office of Policy and Management has been given the authority to fine a non-reporting entity, but if a recipient has not been identified, action cannot be taken.

The Department has taken steps to rectify the problem. Agency personnel started a project file review effort around December 1998. They were aware that there were problems with the project files and that information was missing. The goal has been to ensure that the paper files were complete and that all relevant data had been recorded in the Compliance System. This system can be a useful tool in monitoring audit activity, but cannot be relied on solely, as many of the active projects entered in the system are not being funded currently.

In addition, beginning July 1, 1999, project managers are required to forward the face sheet from all new contracts, both economic development and housing, to the Audit Section. If the new policy is carried out and the review is completed, the Audit Section personnel will be able to use this information to identify the population of financial assistance recipients, and to thereby monitor audit requirements more effectively. There are unavoidable weaknesses in this process. This system tracks approved grants and loans, but does not track the money distributed. Funding is often distributed in a different fiscal period from the one in which it was approved. In addition, some ongoing projects continue to be funded by the Agency, although the contract was approved prior to July 1, 1999. The funding to these entities will not be detected through the contract face sheet review process. Therefore, this procedure alone cannot be relied on to identify entities that must submit audits in compliance with the State Single Audit Act or other statutory annual audit requirements, but it provides another useful tool for obtaining that information.

The Department could improve its accountability by reviewing its grant and loan expenditures periodically, perhaps quarterly, to identify all payments to entities that might subsequently require a State Single Audit. The information thus derived should be compared with existing information to determine if there are any recipients of State financial assistance that have not yet been identified via past audit report experience, the file review project, or face sheets for new contracts. This step could also alert the Compliance Section to any projects that should have been recorded on the monitoring system, but were not. The information should also be forwarded to the Office of Policy and Management so that it can perform its duties as cognizant agency. (See Recommendation No. 5.)

Agency Response:

“We agree in part, in that, the identification process could be made stronger. The Department does have a system in place to track entities that are subject to audit requirements. The system will need to be modified to annually track those non-State entities that receive funding from the Department to further ensure that their State Single Audits are received when required.

As the auditors stated, the Department has taken steps to improve the identification process. We will continue to try to improve upon the identification process by using past history, reviewing our grant and loan expenditures periodically, and seeking ways to enhance our current systems ability to identify all payments to entities that might subsequently require State Single Audits.

The threshold for the State Single Audit is based on expenditures of total State financial assistance of \$100,000 or more in the non-State entity’s fiscal year, and not solely on the receipt of State financial assistance from the Department. Therefore, the problem identified is largely outside of the control of this Department. That is, even if, the Department identified those entities that receive \$100,000 or more from the Department in a fiscal year, this method may not identify *all* entities that are subject to the State Single Audit Act.”

Auditors’ Concluding Comments:

We acknowledge that it is the client’s expenditures, not receipt, of \$100,000 or more of State funding in the client’s fiscal year that triggers the State Single Audit. Therefore, the Agency cannot say with 100 percent certainty exactly for which fiscal year an entity may be required to submit the required audit. The Agency can only track what it has disbursed to the client. However, we believe that the Agency’s disbursement of \$100,000 or more to a client in a fiscal year is a very good indication that an audit report may be due from the client for that fiscal year.

Item No. 6. Audit report review is not always timely.

A delayed review, as with a report filed late, limits the usefulness of the audit report as a monitoring instrument. The length of time between the date the report was received and the date the report was reviewed was from nine days to twenty months for the ten projects in our sample. The average for reports in our sample, issued for client fiscal years ending in 1998, was three months. The average for one group of reports, which represented two entities over a five-year period, was eleven months.

Timely reviews of audit reports increase the usefulness of the reports and the chance of correcting identified errors.

Our test group consisted of ten clients that had received funding from DECD in State fiscal year 1998. Of these, eight were required to file State Single Audit reports for their fiscal year 1998. Five of the reports took from three to seven months from the date the report was received until Agency audit personnel reviewed it. Two reports were reviewed in a very timely manner, nine days to three weeks. One non-profit organization had not yet submitted a report for its 1998 fiscal year at the time of our audit, and therefore, review data was not available.

We conducted an additional test of two of the clients included in the test group of ten. These two clients, non-profit entities, were involved with one of the large construction projects over a period of about five years. We examined the reporting requirements and the Agency's review of the reports for that time frame. There were long delays between the report receipt date and review date by Agency personnel for the required audit reports. The reports were reviewed an average of 11 months after receipt, with a range of three to twenty months after filing.

Agency personnel have cited the workload as one reason for delayed audit report review. Audit personnel report that, at times, many reports are filed at once, creating an immediate backlog of reports to be reviewed. Furthermore, the staffing level in the Audit Section has decreased from nine in 1996 to six in 2000. In addition, in the past, the Agency waited for the cognizant agency review from the Office of Policy and Management, which contributed to the delay in reviewing audit reports.

The Department of Economic and Community Development should take steps to expedite the review and processing of audit reports. The Agency should re-evaluate its staffing needs regarding audit issues and modify its audit staffing level as necessary. (See Recommendation No. 6.)

Agency Response:

“We agree in part. It has been the practice of the Department to give priority to housing authorities that it has cognizant agency responsibility over and to municipalities with

federal programs that the Department administers. Therefore, those audits were reviewed timely. However, due to the back-log of economic development audits needing review, as well as to special reviews undertaken by the audit staff and staffing constraints, desk reviews were delayed and took longer than anticipated. Steps have been taken to review all audits on a “first in first out” basis and prioritize and expedite the review and processing of audits when ever possible. Currently, there is no backlog.”

Item No. 7. No one is held accountable to follow up on audit findings.

Timely resolution of findings is an important conclusion to an audit. The Department of Economic and Community Development does not consider it to be the Audit Section's responsibility to keep track of these findings or their resolution. The audit finding has to be resolved by the recipient of the funds. The determination that the problem has been solved has been assigned to the various program personnel within the Department, but no one is held accountable to ensure that the findings or other matters are resolved.

The Department of Economic and Community Development's Audit Section does not track the resolution of the audit findings or other matters identified in the housing authority or the economic development audits. The Department, as the cognizant agency for the local housing authorities, tracks the status of the housing authority audits through the audit process, but resolution of the findings becomes the responsibility of program personnel. They are responsible for accepting the recipient's solution to the problem and ensuring that the resolution of the issue is carried out, but no one is held accountable for making sure that this responsibility is fulfilled. Consequently, follow up appears to be inconsistent for the projects that we reviewed.

The audit review cover documents issued by Audit Section personnel for the six entities in our test group indicated that the reports contained no findings relative to the Agency. However, three of the cover letters indicated that there were matters in related documents or sections of the report that might require the attention of Agency program personnel. Such extra-finding matters related to the entity, especially to municipalities, are not deemed to be the responsibility of the Agency. Only project-specific findings are considered the responsibility of the Agency. Even if a finding is reported to project personnel for follow-up, they are not required to report on the resolution of the finding or problems that resulted in the finding.

Eleven reports issued for the housing authorities for fiscal year 1998, out of the 21 we reviewed, had audit findings. Findings for eight of these had not been resolved at the time of our review. Two of these reports had been issued by independent auditors. One report for fiscal year ended September 30, 1998, was still being reviewed and the findings for another report were related to two other State agencies. A Corrective Action Plan was requested but not received; there was no further follow up. According to Section 4-231 of the General Statutes, the Department of Economic and Community Development, as the cognizant agency, remains responsible for ensuring that findings affecting more than one agency are resolved. This appears to be true even when there is no funding from the Department. All of the audits performed by the Department had audit findings. The findings from six of the seven reports had not been resolved an average of 12.7 months after the reports were issued. The responsibility for obtaining a Corrective Action Plan and overseeing the resolution of these audit findings is the responsibility of staff from the Asset Management Section. The Director of the Audit and Asset Management Division sent follow up letters at the time of our inquiry.

Per the Department of Economic and Community Development's Audit Manual, the Corrective Action Plan is to be submitted with the Audit Report, but the Audit Section does not require its submission at the time the Audit is filed. The Corrective Action Plan is supposed to be collected, reviewed, and accepted by program personnel. Audit Section personnel do not know whether the findings or other matters have been resolved until the next year's audit, if an audit is performed for that entity.

The Corrective Action Plan is considered a necessary part of the client's audit requirements and should be submitted to the Department of Economic and Community Development with the audit report and audited financial statements and should be tracked by the Audit Section. Although the Audit Section may not be involved in deciding whether the Corrective Action Plan is acceptable, they should track the receipt of the Corrective Action Plan, the acceptance of the Plan by the Asset Management Section (housing audits) or Program Manager (economic development audits), whichever is appropriate, and the resolution of the audit findings as part of the audit process. In addition, the Department should be clear about its role as a cognizant agency and understand that it is responsible for the resolution of findings that involve more than one agency even though the Department itself is not a grantor. These changes would improve the use of the audit reports as a monitoring tool. (See Recommendation No. 7.)

Agency Response:

“We disagree. The responsibility rests with the respective executive directors responsible for program management, as is the case with the federal Small Cities program cited by the auditors as their standard. We also disagree that there is a need for a centralized location for tracking whether findings are cleared. The present system in place is sufficient to address audit findings.

Regarding the corrective action plan, it has been the practice of the Audit Section to request a Corrective Action Plan be forwarded to the Asset Management Section for those entities for which the Department is the Cognizant Agency. For those entities for which we have grantor agency responsibility, it has been the practice to advise the Program Division Director that a Corrective Action Plan is necessary and that a copy should be forwarded to the responsible Cognizant Agency (generally OPM).”

Auditors' Concluding Comments:

The tracking of the Corrective Action Plan by the Audit staff is only one possible solution to the problem of unresolved audit findings. The Department should establish a procedure that ensures the resolution of audit findings.

The Office of Policy and Management, as the cognizant agency for the municipalities and non-profit entities, is not required to ensure that Corrective Action Plans are followed

unless the Plan is addressing an audit finding or findings concerning more than one agency.

Item No. 8. The Agency's review of audit reports could be improved.

For the State Single Audit report to provide a useful monitoring tool, the complete audit package must be received and reviewed. We found that State Single Audit reports were not always accompanied by all the required reporting elements, and the review was incomplete, as the reviewer did not have a thorough knowledge of the terms of the related assistance agreement(s).

We reviewed a sample of audit reports, along with the Agency's review documents on these reports, issued from 1994 to 1998. We found that the reviews were typically not consistent from one report to another. Currently, every report is being desk-reviewed, using the grantor agency desk review form, and there seems to be some improvement in this area. However, other areas, such as obtaining a complete audit report package and making a thorough review of the reports for program issues continue to be a problem.

The entire audit report package can contain a great deal of useful information. Therefore, it is essential that all required information be submitted and reviewed. Furthermore, the Office of Policy and Management and the Department of Economic and Community Development require that audited entities submit certain items along with the State Single Audit report. This consists of the Audit Report on the General Purpose Financial Statements, and, if applicable, the Federal Single Audit Report, the Management Letter, and the Corrective Action Plan. However, this information is not always submitted with the State Single Audit report.

Per Agency practice, the Audit Section within the Audit and Asset Management Division, is responsible for reviewing the audit reports. However, personnel in that section have not been required to become familiar with the various contracts governing the projects for those entities submitting audits. Thus, Agency personnel most familiar with the audit reports are not generally well informed about the specific terms of the assistance agreements. Nor is it the Agency's policy to require program personnel, those persons most familiar with the projects and their assistance agreements, to review the audit reports, except for those parts brought to their attention by the Audit Section. We found, in the notes to the financial statements for one non-profit entity, a violation of specific terms of the related assistance agreement. This violation may have been noted and acted upon if a party familiar with the assistance agreement had read the report.

Review documentation for audit reports, prepared by both the Office of Policy and Management and the Department of Economic and Community Development, noted that there were no findings in the 1998 audit reports in our sample. However, we noted the following issues regarding the audit reports, footnotes, and management letters that have, or may have, some impact on the funded project(s).

- A separate report on internal controls, such as a management letter, should be referenced in the report on an entity's financial statements, according to the General Accounting Office's Government Auditing Standards. However, we

found that, although the separate report was referenced in the report for one non-profit entity, the Agency did not obtain the referenced management letter.

- Usually the Agency receives a complete audit report that includes audited financial statements and notes to the financial statements, as well as a segment that addresses the requirements of the State Single Audit Act. We saw one report submitted in fulfillment of the State Single Audit Act that did not include the entity's financial statements or notes thereto.
- We noted that the independent public accountant addressed the issue of matching funds in the footnotes of one non-profit entity's 1998 audit report. However, we did not observe any follow up on this issue. The matter was addressed subsequently in the entity's 1999 audit report as a finding.
- The notes in one report raised the issue of uncertain continuing funding, a matter that was not addressed in the State Single Audit segment of the report. The report used the wording "adverse impact" in describing the effect of loss of funding that is not guaranteed. Although this is not a finding, it is a matter of which program personnel should have been apprised.
- The notes to the financial statements of one non-profit entity that makes business loans in its targeted region showed a loan for less than \$100,000, which was clearly a violation of the terms of the assistance agreement. The Audit Section's transmittal letter was silent regarding "matters in the Notes to the Financial Statements." Therefore, program personnel were not apprised of this deficiency. We noted that two loans for less than \$100,000 each were made in the following fiscal year, but at the time of our review, the Agency had not yet had an opportunity to review that audit report.

The Agency should establish procedures to link audit review to a thorough knowledge of the assistance agreements. This means either requiring Audit Section personnel to thoroughly familiarize themselves with each contract for those audits being reviewed, or requiring program personnel, those persons most familiar with the assistance agreements, to review audit reports for references to the subject programs and contracts. Also, the Audit Section should take steps to ensure that all required parts of the State Single Audit report are submitted and reviewed. (See Recommendation No. 8.)

Agency Response:

"We disagree. The Department's Audit Section does not mainly focus on the State Single Audit findings. In addition, it is also the practice for the reviewer to note, highlight, and pass on to the applicable Executive Director, any information contained in the report that comes to the reviewer's attention that might be of concern to the Department or adversely affect the entities ability to administer the program. For a short period of time, the reports which had no findings applicable to the Department funding,

were not forwarded to the executive directors, however, these reports have always been available for their review and inspection when they ask to review them. We have re-instituted forwarding all reporting packages to Executive Director's for their information, review and distribution to the appropriate program personnel.”

Auditors' Concluding Comments:

Although the Department staff disagree with instituting a more formal review process, we note that they have re-instituted forwarding the reporting packages to the Executive Directors, who can distribute them to the program personnel.

Item No. 9. The Department has an opportunity to improve project monitoring through improved job audit performance.

Although many of the loans and grants funded through the Manufacturing Assistance Act have job requirements, job audits to determine if the requirements were met are not required for 32 percent of the for-profit entities that received funding. \$38,162,550 of State financial assistance was granted to these entities. In addition, the Department did not begin formal job audits for those entities requiring audits until July 1999. Fifty-four out of the 55 completed job audits were performed an average of three years after the job audit due date. Twenty-four audits are in process. Another 58 audits, due prior to October 2000, have not been started; these past due audits are, on average, 3½ years late and are part of the conditions to be met for an additional \$38,291,829 of State grants and loans.

Status of Entities Requiring Job Audits as of October 31, 2000*

Table 1

Job Audit Due	Audits Begun or Completed		Entities where need for audits was Identified but audits were not performed		Entities not identified as requiring audits		
	Complete	Pending	Audits Past Due	Audits Due Before December 31, 2001	Audits Past Due	Audits Due Before December 31, 2001	Audits Due After December 31, 2001
2004 and beyond							4
2002/2003							9
2001	1	1		23		1	
2000			5	2	1		
1999	1	4	8				
1998	12	6	4				
1997	8	3	7				
1996	10	2	15				
1995	14	4	7		3		
1994	5	1	6				
1993	4	3	1				
1992			1				
Total	55	24	54	25	4	1	13

*Source: Compliance Section of the Department of Economic and Community Development.

One of the basic tenets of economic development is to promote job creation and retention. A recent Department publication states that “*Creating and retaining quality jobs for the new economy is at the heart of Department of Economic and Community Development activities, because jobs are the lifeblood of every economy and every healthy community.*” The primary premise of the Manufacturing Assistance Act is that “the maintenance and continued development of the State’s manufacturing sector is important to the economic welfare of the State and to the retention and creation of job opportunities within the State . . .”

The eligibility of most of the economic development projects, particularly that of for-profit companies, is determined by Section 32-222, subsection (a)(2)(A) of the General Statutes. When this criteria is used, the Statute requires the client entity to create

not less than 10 new jobs or increase the number of persons employed at the facility by 20 percent, whichever is greater, within 24 months of initiation of a hiring program. When the Agency determined that this was the criterion upon which the grant or loan was given, the terms of the assistance agreement between the Department of Economic and Community Development and the recipient usually included specific employment goals. In some cases, a means to measure those goals, and often penalties to be imposed, if terms were not met, was included in the contractual agreement. In other cases, job creation and/or retention may have been among the reasons presented to the Bond Commission as the rationale behind the loan or grant, but specific employment goals were not included in the agreements between the entities and the Department.

In spite of its stated importance, the Agency did not have a formal system in place to monitor compliance with job creation and retention requirements until sometime after July 1999, when procedures were developed and job audits were started. Prior to this, job information was gathered from Department of Labor forms to determine a client's compliance with its job requirements. However, this information was not verified, and Department personnel knew that this employment data did not differentiate between part-time and full-time jobs. In December 1998, the staff began reviewing all Manufacturing Assistance Act projects, starting with projects begun in 1990, and ending with projects effective March 1999, to make sure that all the files were complete and, among other things, to determine which projects required job audits. It was planned that projects begun after March 1999 would include language that would require job audits to be done by independent outside auditors.

Prior to beginning the job audits, the Compliance Section, within the Audit and Asset Management Division, found that 23 entities, which had received grants and loans of \$12,804,000, had gone out of business. In addition, seven entities had paid off their grants and/or loans, and therefore, were no longer required to comply with the terms of the agreements. The Agency did not review these entities to determine if job audits were included in the assistance agreements.

In total, the Compliance Section identified 158 entities that were contractually obligated to create or retain a certain number of jobs and, therefore, needed job audits. By October 31, 2000, 55 (35 percent) of the audits had been completed. Fifty-four of these audits were performed an average of three years after the job audit due date. An additional 24 had been started. Of these, 22 were between nine months and seven years late. According to the Agency's staff an additional 84 entities remained to be audited before December 31, 2001. Fifty-eight out of the 84 (69 percent) were already an average of 3½ years late.

Of the job audits completed, 31 entities were found to be in compliance, and 22 entities, representing 29 job audits, were not in compliance. Of the 22 non-compliant entities, ten were out of business or had filed bankruptcy. Twenty-four audits were pending.

We reviewed the Agency’s job audit listing, provided by the Compliance Section, and the biannual report on *Active Business Assistance for Economic Development*. These documents contained information on job requirements and compliance. We then compared the information from these two documents with the listing of completed, scheduled, or to-be-scheduled job audits. We identified 182 additional entities that were reported by the Agency as having received Manufacturing Assistance Act funding but were not on the job audit schedules.

Analysis of Entities for Which Job Audits Were Not Planned **Table 2**

Reason	Number
Required Audits (not selected for audit due to erroneous data)	5
Audits to be Scheduled for after 12/31/01	13
Loans/Grants given out in conjunction with CDA. CDA monitoring.	4
Entities with Job Requirements Stated	58
Entities with no job Requirements Stated	19
Sub-recipient/Pass through	4
Not able to locate file	1
Funding Approved by the Bond Commission but not distributed	47
Entity was No Longer in Business	23
Grant or Loan was Paid Off	7
In compliance	1
Total	182

As Table 2 shows, 5 additional entities, requiring job audits prior to December 31, 2001, were found. These entities had been missed because of data entry errors. In addition, thirteen entities will require audits in the future (after December 31, 2001); these were also not included on the job audit schedule. The Connecticut Development Authority was monitoring four entities and four entities were sub-recipients and therefore not directly monitored by the Department. The file for one company could not be located and one large company was assumed to be in compliance. Why job audit requirements were not included in the assistance agreements of 58 private companies that have specific job creation and/or retention requirements and are reported on the Agency’s *Active Business Assistance for Economic Development Report*, is not known. Whether these entities and the other 19 entities with no job requirements should have received funding under the Manufacturer’s Assistance Act is a question for further review. Why entities that had either applied for funding or received Bond Commission approval, but never received any financial assistance, are still on the Job Audit Listing is also not known. When reports, whether designed for internal use or external reporting, are unclear and contain outdated or extraneous information, they are not very useful. Also, errors such as overlooking entities to be audited, as noted above, are more likely to occur.

The Compliance Section has spent considerable effort gathering information and compiling a job audit database. The Department has also instituted formal procedures and policies for performing job audits. In addition, the Compliance Section is now responsible for tracking job audit requirements, due dates of future project audits, and required quarterly financial statements. Consequently, there is every reason to believe that in the future the task of completing the job audits will be done more promptly and the information available for reporting purposes will be more accurate. The Department should continue in its efforts - data should be reviewed until it is completely accurate, all

outstanding audits should be complete, any outstanding issues should be resolved, and audits should continue to be scheduled as required. (See Recommendation No. 9.)

Agency Response:

“We agree in part... The Agency has always conducted job audits as staffing allowed, prior to July 1999. Prior to the merger of the Department of Economic Development with the Department of Housing in October of 1995, the Department of Economic Development had a Fund Management Division that was responsible for conducting the Job Audits. Our records indicate that they were performed as far back as 1996....

The Department has conducted 84 Job Audits out of 108 job audits required. This represents 78% of the total job audits conducted. The past due job audits only represent 22% with an average of less than 3 years past due.

In December 1998, the Department established a Compliance Section that became fully responsible for conducting file reviews, timely job audits and other monitoring and compliance related functions. There is a process in place to identify job audits when they become due and the financial assistance proposal now requires that applicants hire an independent public accountant to perform the job audits. Processes and procedures have been established. The Agency expects to be current in the near future. The Department provided the auditor evidence that some job audits, although not all were conducted prior to 1999.

It should be noted that the auditors make an assumption that we utilize [Section 32-222,] subsection (a)(2)(A) of the General Statutes to determine eligibility under the program. In fact, this is not the case. Most projects are eligible because they involve construction, renovations, acquisition of land and buildings and acquisition of equipment providing economic development infrastructure to support job creation.

Bond Commission documents contain a general description of the project. It is the contract that outlines the formal conditions of a project. We cannot put a town that is cleaning up contaminated property and redeveloping an old vacant building in a position to create jobs as well. By virtue of the fact that we are bringing this property on line, we are helping to remove blight in a community, and improving the quality of life in the community. The ultimate goal is to bring companies into these facilities, but the creation of jobs is not the goal, it is simply stated an added benefit of the project.”

Auditors’ Concluding Comments:

As stated in our comments, the Department’s staff provided us with evidence that reports had been collected from the Labor Department prior to 1999. However, these reports did not differentiate between part-time and full-time positions. Therefore, the job monitoring afforded by this information is inadequate. We acknowledge that the Agency appears to have made an effort to conduct some type of limited job monitoring.

It was not assumed by the Auditors that the reason for all assistance was based on the increase in jobs, but it was the reason stated in the legislation for establishing the Manufacturing Assistance Act and the reason most often offered in applications, Bond Commission presentations, proposals, and other written documents. It is also the most defensible reason for the assistance given to for-profit companies.

Item No. 10. If recipients of financial assistance are unable to attain their employment goals, the Department’s policy is to allow the recipients to change their job requirements.

One of the terms of many of the Manufacturing Assistance Act (MAA) assistance agreements signed by the recipients and the Department is to create and/or retain a certain number of jobs. Most contracts with job creation/retention requirements also include a requirement that the entity pay back the State, based on some pre-determined formula, for every job it fails to create/retain under the required minimum. According to Agency policy, an applicant may request an extension of the job creation/retention deadline, modification of the employment requirement, or a combination of the two.

Many Manufacturing Assistance Act grants and loans for for-profit companies have a job retention and/or creation component. That is, the entity must create and/or retain a certain number of jobs to comply with the terms of the assistance agreement.

The Compliance Section currently maintains records on job requirements. When the job requirement deadline approaches, the Audit Section determines if the entity requires a job audit, or if a desk review of the job requirements and documentation will be adequate.

In the case of an audit, the entity is notified of the results of the audit. The Executive Director of the program division that managed the project is also notified if the entity failed to meet its job creation and retention obligation outlined in the assistance agreement.

Most contracts with job creation/retention requirements also include a requirement that the entity pay back the State, based on some pre-determined formula, for every job it fails to create/retain under the required minimum. An applicant may request an extension of the job creation/retention deadline, or it may request that the employment requirement be modified.

According to the Agency’s procedures, the Regional Manager (program personnel) is responsible for reviewing requests from the entity for job requirement modification and for resolution of negative job audits. It appears that such modification of an entity’s employment requirements and/or timeframe may be allowed after the audit.

Ultimately, job information, among other data, is reported to the joint standing committees of the General Assembly having cognizance of matters relating to the Department of Economic and Community Development, appropriations, and capital bonding, as well as to the Auditors of Public Accounts. The information is included in a report entitled “Active Business Assistance for Economic Development.” (Refer to Item No. 4 for a further discussion of this report.) The statutes require the Agency to file the report biannually.

The job information, obtained either through desk review or audit, can be very useful to the Bond Commission, the Agency's administration, the Legislature, and the general public. Unaltered performance information is the only way to identify and measure the Agency's successes, and it provides a basis for future decision-making.

The specific cause for the Department adopting this policy is not known. It appears to be the practice of the Agency to be as accommodating as possible with recipients of State financial assistance, to give a project every chance of succeeding. To be fair, many of the projects run by the Agency are very risky, and statistically, not all projects will be successful. If the projects were totally risk-free, there would be many funding sources other than the State. It is possible that the penalty imposed for non-performance would create a hardship that could undermine the whole project, and nullify any gains that had been made. Thus, it seems that changing the job creation and retention goals is a way to avoid penalizing an already financially distressed client.

However, if job requirements are allowed to be modified when it is proven that an entity is unable to fulfill its contractual obligations, the record of the Agency's accomplishments and clients' compliance will be distorted. The Agency would know what each job created actually cost, but the Agency would not know whether the project succeeded and will not have a true picture of its success or failure in the area of job creation and retention. Furthermore, the Legislature and the general public will not be informed of the Department's record in this regard.

We recommend that the Agency change this policy. The job requirements should not be changed after an audit. Audit results should be compared with the original requirements so that undiluted information is available to the Legislature and the general public. If Agency personnel believe that a penalty for non-compliance will only exacerbate a client's problems, the Agency should address that issue rather than alter the original job requirements. (See Recommendation No. 10.)

Agency Response:

"We disagree. The Department, as a point of policy, makes every effort to work with client companies to reach a suitable resolution of any employment issues that may exist. We are sensitive to the unpredictable fluctuations that occur in economic markets. We are sensitive to the unpredictable fluctuations that occur in economic markets. Imposing penalties that are onerous on a company can make a bad situation worse, particularly if financial decline is already part of the problem. It is certainly not the intention of the Agency to change employment requirements to improve upon the success of its projects.

While [reduction, elimination, or deferral of the fine is] one of the options available... it is not the only option available. Enforcement of the current contract requirements is also available. We have collected on financial assistance agreements that have not met their requirements. Each individual project is reviewed on its own merits and changes are sometimes made based on the current situation of the company....

Company employment projections are also based on job numbers that are projected and developed for a two, three or even five-year period. There are numerous factors that can impact these figures, including technological innovations, economic factors, and business and industry forces. Job projections that may have seemed reasonable three years ago may have since been impacted by a downturn in their industry and economy and those numbers are no longer reachable....

Renegotiations of job creation estimates, either to lengthen the term or to cut down on the number of jobs, should not be abandoned. Such a rigid view of the job creation obligation could ultimately put a company out of business. Our job is help companies to grow in Connecticut.”

Auditors’ Concluding Comments:

We do not disagree with the Agency’s basic arguments, but only its final conclusion. It is not our intent to add the additional burden of the payment of job creation fines to a struggling company. It is our conjecture that it would be more helpful to reduce, delay, or eliminate the fines, if necessary, but to keep the established goals. Given that all projections are uncertain, although we admire the Department’s positive attitude and high expectations for each of its projects, maintaining the original target would allow the Department to measure its progress in this area and improve its ability to make projections.

Item No. 11. Employment goals are sometimes not formalized, and therefore, cannot be monitored.

The number of jobs to be created or retained is often the major reason given for promoting a project. This information is often found in presentations given to the Bond Commission, in addition to being included in most project proposals. In spite of this, job requirements are frequently not formalized or included in the final contracts. Consequently, the Department feels that these goals can not be monitored.

An arts and community functions facility project in the State's southeast received Urban Action and Inner City Cultural funding. Section 2 of the original assistance agreement indicates that the grant of \$4,500,000 is "subject to the terms and conditions set forth in the Commissioner's proposal letters dated December 30, 1993 and October 12, 1994. . . ." Thus, these letters are incorporated into the assistance agreement by reference. One of the points of the State financial assistance package, as included in the proposal, says that "this project is estimated to create 25 full time positions and 221 temporary construction jobs." A subsequent business assistance proposal, June 1998, reduced the job expectation to 5 full time and 20 temporary construction jobs. Per this proposal, the client is required to notify the Department of Economic and Community Development in writing if these jobs are not created and maintained. In addition, the client must report annually on its efforts to maintain these positions (presumably the 5 full time positions) for a period of ten years after final disbursement of Department of Economic and Community Development funds.

In another project Regional and Manufacturing Assistance funding was provided to renovate an old manufacturing site to be used for light manufacturing. The project proposal and the presentation to the Bond Commission estimated that the project would create 1250 new jobs. In addition, the assistance agreements in all four phases of the project required that an Employment Report be filed with the Commissioner 10 days after the end of the year stating how many jobs were retained or created as a result of the project. No reports were found in the files and by January 2001, only approximately 62 jobs had been created or retained.

We found, however, that the requirements were never formalized in the assistance agreement, even though the initial job projections were presented to the State Bond Commission for its consideration in both cases. The Agency presented a Capital Development Impact Statement for the arts and community functions project, which reads, in part, that the entity "expects its project to create 221 short-term construction positions and, at the project's completion, . . . 25 full-time jobs." The other project presentation included a projection of 1250 new jobs. However, the final assistance agreements for these projects did not include any specific number of jobs to be created or retained.

The result is that the client has not been made accountable for the expected benefits that were used to "sell" the project to the State Bond Commission. Because the

job projections never formally became part of the assistance agreement, it is not considered a requirement and, therefore, is not tracked. The client information system says nothing about job projections or job audits for these entities. Therefore, it is unlikely that further action will be taken on this matter.

It is apparently not Agency policy to make job projections part of an assistance agreement unless there is specific statutory authority to do so. State financial assistance distributed pursuant to the Manufacturing Assistance Act comes under this requirement, but Agency personnel contend that other types of funding do not.

In the case of the arts and community functions project, even though the assistance agreement does not specifically include job requirements, either the original 25/221 or the revised 5/20, the documents that outline the job projections are part of the agreement by reference.

The Agency should accurately represent to the State Bond Commission the purpose of the project. If specific employment figures are used to promote the project, those numbers should be included in the assistance agreement. Terms in the Business Assistance Proposal should be included in the assistance agreement, and enforced. (See Recommendation No. 11.)

Agency Response:

“We disagree. The Department is not statutorily required to formalize employment goals on every project. While it is typically the Department’s practice to require employment obligations in its contracts with businesses, it is less likely to be required for projects funded with Urban Act financing. These types of projects are developed to benefit the community and surrounding region and are considered not to be an employment generator at that specific project location.

Although a project may not have specific employment requirements, there are still benefits that the State’s economy derives from participating in the project. These benefits should still be stated in the bond commission documents because they are relevant and provide an understanding of the total project. The potential employment impact is a justification in support of the project. The potential for these benefits need to be reflected and provided to the bond commission even if they are not a contractual requirement. It is important to note that these benefits can take the form of not only direct employment gains, but also indirect job gains and other multipliers that are produced as a result of the project.

In addition, while a project may receive bond commission approval, it may not receive a contract until several months later. Due to the dynamic nature of the economy and changing industry trends, additional negotiation may sometimes be required during this time. As a result of these industry and market forces, employment numbers can be

impacted both up and down, and this can account for the discrepancy between bond commission documents and contractual requirements.”

Auditors’ Concluding Comments:

We do not disagree that there may be many reasons to promote any given project, but when the increase in the number of jobs in the State is the main or only reason presented to the Bond Commission for the project, we believe that this requirement should be included in the entity’s commitment to the State.

If the economic environment has changed so dramatically, then perhaps the project and the approval of the Bond Commission should be revisited.

Item No. 12. There are no written guidelines as to what constitutes matching funds or other matters relating to matching funds.

Clients are required to raise matching funds for many of the projects supported by the Agency. However, there are no written guidelines on matters relating to matching funds. Agency staff relates that the goal is to keep the definition flexible, as a matter for negotiation. This policy sometimes creates confusion, and sometimes results in unmatched State financial assistance.

Most grant and loan recipients are required to raise matching funds for their projects, rather than to rely solely on State support. For the good of each project and the security of the State's investment, it would be sound practice to define the requirements for the matching funds.

We found several examples of contractual requirements for matching funds. Two cases for entities that must rely on fundraising for their matching funds are compared here. The contractual requirements re: matching funds for an arts and community functions project did not seem to be very detailed. On the other hand, the assistance agreement for one of the State's major tourist and educational facilities gave some very specific and formal requirements for the matching funds. These are listed below.

I

Arts and community functions project

Contract date: December 7, 1995

“Prior to the State's disbursement of the \$2,500,000 awarded under the provisions of S.A. 93-2, Section 22(c)(1), the Applicant shall demonstrate, to the satisfaction of the Commissioner, that it has obtained commitments to the project totaling \$1,000,000, as a result of its fund-raising activities.”

II

Tourist and educational facility

Contract Date: June 11, 1997

“At no time shall the amount of the Funding to be disbursed to the Applicant be in excess of the total amount of all donations of money made by third parties to the Applicant. Each donation made by way of pledge shall be evidenced by a written pledge agreement in form and substance acceptable to the Commissioner, in his sole discretion. A summary of all cash and pledged donations, setting forth the name, address and social security number of each individual donor together with such additional information as the Commissioner, in his sole discretion, may from time to time request, shall be furnished by the Applicant to the State each time that a requisition for payment of a portion of the Funding is made by the Applicant to the State.”

Projects that do not rely on fund-raising seem to be less specific about matching funds. Two examples of language for this type of contract read as follows.

III

For-profit entity

Contract dated April 30, 1998

“The State hereby agrees, subject to the terms of the Agreement and its Exhibits, to provide financial assistance to the Applicant for the Project in the total amount of \$3,500,000.00 in the form of a Grant and a Loan each in an amount not to exceed \$1,750,000.00, which Loan shall be evidenced by a Note (hereinafter the “Funding”); provided, however, that the aggregate principal of the Funding shall not exceed fifty percent (50%) of the cost of the Project.”

IV

Non-profit entity, does not rely on fund-raising

Contract dated November 4, 1998

“The State hereby agrees, subject to the terms of this Agreement and its Exhibits, to provide financial assistance to the Applicant for the project in the form of a grant in an amount not to exceed SEVEN MILLION FIVE HUNDRED FORTY-TWO THOUSAND SEVENTEEN DOLLARS (\$7,542,017.00), (hereinafter the “Funding”); provided, however, that the aggregate principal of the Funding shall not exceed ninety percent (90%) of the cost of the Project.”

In the second case, above, it appears that the project manager reviewed the summary of all cash and pledged donations before comparable State funding was released. The client raised all necessary matching funds to complete the project.

In the first instance, there is some ambiguity concerning the client’s fund-raising requirements. The Business Assistance Proposal of December 1993 includes an estimate of the client’s fund-raising of \$16,115,395 for fiscal year 1995, in addition to \$1,000,000 for the prior year. A second Business Assistance Proposal, dated October 12, 1994, stipulates only that “the company shall raise one million dollars to match the State grant prior to distribution of said grant. No State funds shall be released until the company demonstrates that it has raised at least one million dollars in cash for this project.” Only the \$1,000,000 requirement is included in the contract. The client presented a letter, dated August 2, 1995, stating that it had raised in excess of \$1,000,000. The Agency released the first payment January 30, 1996. In a November 5, 1996 letter, about nine months after the first payment was released to the client, the Agency appeared to be questioning the validity of the client’s fundraising and the nature of its matching funds. Apparently, some of the pledges are to be paid over a number of years, some up to ten years. In addition, some of the donations are restricted to cover operating costs. This means that the funds would not be available to pay project costs.

Although these are valid concerns, the Agency addressed them too late to prevent the release of funds contingent on the client’s ability to provide non-State funding for the project. Furthermore, at an early stage in the project the Agency is unsure of the client’s ability to raise its share of the project funding.

In comparison, it seems that the more detailed and specific requirements resulted in fewer problems than the more loosely defined requirements, although there are other factors that may have impacted the project. Time and experience may be the reasons for the improved assistance agreement terms. The more detailed agreement, re: matching funds, was signed one and a half years after the one with the more poorly defined terms. Also, the differences in managerial and administrative experience between the two entities may have been a factor.

Even though the preciseness of the second agreement seems to be an improvement over the first, there are still problems relating to matching funds. We found that there are no written guidelines as to what constitutes in-kind matching funds. Agency personnel report that they try to be flexible regarding matching funds, as this is one of the negotiating tools in working out the details of a proposal.

Although it may be necessary to be creative to make a deal work, the Agency is putting millions and millions of dollars of State money at risk if clients cannot meet their matching fund requirements in a reasonable manner. We found two examples of the uncertainty as to what constitutes matching funds. There was one inquiry concerning in-kind matching funds. The question was whether, if a contractor is able to lower its final cost of construction, the difference could be considered an in-kind contribution. In a second instance, a request was made to consider funding from another agency as the matching portion for the Department of Economic and Community Development grant. As far as we can determine, neither of these situations was allowed for the projects we reviewed. However, neither were the questions answered, nor a definition of what constitutes appropriate matching funding addressed.

The Connecticut General Statutes place limitations on the proportion of funding to be provided from various funding sources. Section 32-328, subsection (b), regarding Regional Economic Development, indicates that “The commissioner may fund not more than ninety percent of total project costs in targeted investment communities, not more than seventy-five percent of total project costs in the case of a project in a region that includes a targeted investment community or not more than sixty-six and two-thirds percent of total project costs in the case of a project in a region that does not include a targeted investment community.”

Section 32-223, subsection (c) of the Connecticut General Statutes, regarding Manufacturing Assistance Act funding, states that “. . . No financial assistance shall exceed: (1) Except as otherwise provided in subdivisions (2) to (5), inclusive, of this subsection, fifty percent of the total project cost, (2) in the case of financial assistance to any project in a targeted investment community, ninety percent of the project cost, (3) when two or more municipalities which are not targeted investment communities jointly initiate a municipal development project in accordance with the provisions of subsection (3) of Section 32-224, seventy-five percent of the total project cost, (4) in the case of a municipal development project jointly initiated by two or more municipalities at least one of which is a targeted investment community, the sum of: (A) Seventy-five percent of the portion of the total project cost allocable to the participation of the municipality or

municipalities which are not targeted investment communities and (B) ninety pr cent of the portion of the total project cost allocable to the participation of any targeted investment community or communities and (5) in the case of a defense diversification project, ninety percent of the total project cost if the project involves a municipal development project or the acquisition or development, or both, of real property for an unspecified occupant, and one hundred per cent in the case of any other defense diversification project. A municipality's share of the total project cost, if any, may, with the approval of the commissioner, be satisfied entirely or partially from non-cash contributions, including contributions of real property, from private sources, or, to the extent permitted by federal law, from moneys received by the municipality under any federal grant program.”

We found that the matching portion of one phase of a project had not been paid, in part because the municipality, which was to contribute the major portion to the entity through tax forgiveness, was in litigation over the subject property, with the prior owners. The project budget period was originally to end in 1993. The second phase of the project had not been closed, because the matching portion has not been realized, even though the State has provided the agreed upon funding, which the entity has expended. The 1997 and 1998 Audit reports for the entity stated in the footnotes that matching funds had not been realized for the third phase of the project, and an extension of the project ending date to June 30, 1999, had been requested. As of November 1999, the matching portions still had not been raised for any of the three phases. A Federal grant from the Small Cities Program for \$500,000 had been received. This was part of the matching funds expected for that phase of the project. We also observed that additional State funding does not seem to be adversely affected by the lack of compliance with earlier agreements regarding raising matching funds.

The result of this lax consideration of the matching fund requirements is that the entity and the Agency are non-compliant with the Connecticut General Statutes and with the terms of the assistance agreements. Only State money had been spent at the time of our review for the first three phases of the project. None of the beneficiaries had taken economic responsibility for the project.

We have identified a weakness of the Agency in not defining what constitutes matching funds. We have seen that this applies not only to in-kind contributions, but to cash contributions as well. The Agency has not specified, as a matter of policy, what will be allowed or disallowed as matching in-kind contributions or acceptable or unacceptable sources of cash contributions. Furthermore, there are no written procedures on matching fund deadlines or verification (monitoring). Therefore, it is left to each project manager to decide how to address the matter of matching funds.

The Agency should define what constitutes matching funds, especially non-cash contributions. The Agency should also specify those sources of cash contributions to the project that will be unallowable. In addition, the Agency should develop procedures addressing timelines for raising matching funds, monitoring this aspect of the contract, and enforcing statutory and contractual requirements. Further, additional funding for a

project should be contingent upon compliance with the terms of existing contracts, especially relating to matching requirements. (See Recommendation No. 12.)

Agency Response:

“We disagree. The Department needs flexibility in the management of projects. This need for flexibility is affirmed and authorized in Section 32-223 (e) which provides the commissioner the authority and flexibility to “*establish the terms and conditions of any financial assistance...*” and reaffirms this flexibility in Section 32-233 (a) *Broad Interpretation of powers* which, defines the intent of the Legislature (when enacting this statute), stating: “*(a) The powers enumerated in Sections 32-220 to 32-234, inclusive, shall be interpreted broadly to effectuate the purposes thereof and shall not be construed as a limitation of powers*”.

Specifically, in the case of municipalities, matching funds are defined in Section 32-223 (c)(5) which states: “A municipality's share of the total project cost, if any, may, with the approval of the commissioner, be satisfied entirely or partially from non-cash contributions, including contributions of real property, from private sources, or, to the extent permitted by federal law, from moneys received by the municipality under any federal grant program”. In the case of business assistance projects the Department may under Section 32-223 (e) and 32-233 (a) structure the matching funds arrangement in any form that the commissioner deems necessary and appropriate for the effectuation of the purposes of this statute. Further the statute offers as a guide Section 32-223 (c)(5) (for municipal projects) a model for structuring matching requirements in other project types. The Department has, in most of its matching arrangements in its non-municipal projects, utilized this standard.

Further, matching funds amount and definitions are required in two documents related to business, economic and municipal development projects. Once established in the application stage, the Proposal of Funds language includes a definition and listing of Sources and Uses of Funds and via the Project Financing Plan and Budget terms of which are accepted and executed by the Applicant. Housing and Community Development projects also require that the applicant certify to the Bond Commission’s Tax Questionnaire. Acceptance of the terms of the Proposal including the Sources and Uses of Funds and the Project Financing Plan and Budget are both inclusive of the definition of the match and the amount of the match, both of which are then integrated into the assistance agreement. While there may be instances of loosely defined matching funds; the Applicant / Recipient of funds in all cases executes a contract which guarantees their “share” of the funds in order initiate and complete the project.

Typically the State funds are not given over in allocations or entirety to the Applicant unless the Requisition of Funds indicates the recipient “share” is put into the project as either a cash contribution or in-kind as designated in the previously mentioned documents.”

Auditors' Concluding Comments:

In the sample that we reviewed the State turned over all or proportionately more than its fair share before the recipient demonstrated that it had fulfilled the "matching funds" requirement.

From the examples that we reviewed it appeared that there was some confusion as to what constituted "matching funds" by both municipal and other recipients. This confusion was noted after the signing of the assistance agreement.

The Legislature provided that "matching funds" should be part of most financial assistance packages. In the case of the municipalities, the "matching requirement" is reduced in amount and the definition provided is very broad. It should be noted that the Legislature has not eliminated the requirement and that this definition should be the broadest interpretation.

We recognize the need for flexibility, but there is also a need for guidance. The examples of non-cash contributions mentioned in the Statutes are measurable assets. For instance, "matching funds" should be available for the project, should be available within the project period, should be measurable, and should not have known contingencies restricting them from use.

Item No. 13. The Department of Economic and Community Development routinely puts millions of dollars in State funding at risk by subordinating the State's lien position in favor of other funding sources.

Customary business practice requires that a borrower provide the lender with some type of collateral. It is a common practice for the Department of Economic and Community Development to subordinate the State's lien position to another entity so that a financial assistance recipient can obtain a loan from another source. This increases the risk that the State will lose some or all of its funding if the subject project fails.

In some ways, the State through the Department of Economic and Community Development resembles a lending institution. Some of the State support for projects is in the form of loans. However, there are also qualities that do not resemble those of a financial institution. One of these qualities is that, as the State agency responsible for fostering economic growth, it is necessary try to leverage project funding from other sources. When this happens, the new lenders generally insist on the primary collateral position.

Customary business practice requires that a borrower provide the lender with some type of collateral. The lender thereby has some recourse, and receives some assurance that the borrowed money or some part thereof, may be recovered in the case of default by the borrower. When the State acts as a lending or granting agent, it is reasonable that it should be provided with some recourse in the case of default.

The Agency is in a unique position regarding financial support of its projects. Unlike most other lending institutions, it is a common practice for the Department of Economic and Community Development to subordinate the State's lien position to another entity so that a financial assistance recipient can obtain additional loans from other sources. This increases the risk that the State will lose some or all of its funding if the project fails.

Between 1994 and 1998, the State granted and loaned financial assistance for a substantial renovation and economic development project. The funds for the first two phases of the project originated via the Regional Economic Assistance Act. In both cases, the assistance was a straightforward grant. Neither of the assistance agreements required that the State have any ownership rights in the property in return for the assistance. Both agreements included provisions that prevented the developers from taking on any additional debt without the written consent of the Commissioner of the Department of Economic and Community Development. Additional funding (grants and loans) was provided via Manufacturing Assistance Act funding. The assistance agreements for these financing arrangements, totaling \$16,624,042 in assistance as detailed below, all required security for the financial aid. At the time the agreements were signed, the State had a very strong position on the property.

Summary of Financial Assistance **Table 3**

Date of Assistance	Description	Amount
7/19/93	To develop plans	\$ 117,000
6/15/94	Phase I	\$ 3,000,000
7/7/95	Phase II	\$ 2,700,000
5/2/97	Enterprise Loan	\$ 1,782,025
8/20/97	Phase III Loan	\$ 7,300,000
10/22/97	DEP Grant	\$ 975,000
11/4/98	Phase IV Grant	\$ 7,542,017
TOTAL		\$23,416,042

Beginning July 1997, the State subordinated its collateral position on a loan it granted to the client in May 1997 for a \$1,000,000 bank loan. In September 1998, the State again subordinated its collateral position on selected client properties, giving up its first position on both the Enterprise loan and the Phase III loan to allow the organization to seek private funding of \$660,000. With the Phase IV grant, the organization paid off these two loans, and the State regained its primary collateral position. In July 1999, the State again gave up its position on a portion of the collateral so that the organization could take out another loan for \$2,000,000 on July 8, 1999. Again on August 27, 1999, the State subrogated its position on all three financial agreements for a \$4,800,000 loan from a private source. The \$2,000,000 borrowed the month before was to be paid off with the proceeds from the \$4,800,000 loan, although the Department of Economic and Community Development files did not contain evidence of this fact. In addition, the terms of the Phase III loan had to be renegotiated. The recipient was given 15 years, instead of ten, to repay the loan.

In addition to the State's loss of recourse in the event of default, the State is helping to pay for high interest and legal fees in these financing transactions. Interest expense for the entity was \$918,970 for fiscal year 1998, and \$323,011 for fiscal year 1997, for a combined total those two years of \$1,241,981.

In the case cited above, the recipient needed additional funding to continue the renovation project. Initially, it hoped to find companies that would pay for the interior renovation of the space that they would use in return for very inexpensive lease rates. This did not happen, and the organization had to spend more money fixing up the individual spaces before it could attract new tenants. Project administrators used some of the \$7,300,000 loan, originally earmarked for capital improvement, for tenant fit outs and, therefore, they needed more money to finish the planned renovations and demolitions. The private lenders would not lend the Corporation the money unless they held first position on the collateral. The result is that the State has limited its ability to recoup some of its investment if the project fails. The State's current investment in the project is over \$23,300,000.

In another case, it cost the State over \$2,000,000 to re-assume the primary lien position for a client for which it had subordinated its lien position. In 1995, during the time of the major renovation project mentioned here, the Agency funded an educational/recreational project in the southeast region of the State, with a direct grant of

\$2,400,000. There was also indirect funding for the benefit of the project. The Department gave the municipality \$2,200,000 for property acquisition for the project, and approximately \$2,000,000 was spent on environmental remediation of the site.

In September 1995, the State obtained a \$2,400,000 mortgage from the client to ensure that the State would at least partially recover its investment if the client did not comply with the terms of its assistance agreement to provide the services for which the funding was granted. In June 1996, the State subordinated its lien position to another funding resource so that the client could obtain a loan from that source.

This meant that the State was no longer in the primary lien position. The second lender, who had assumed the primary lien position as a condition of the loan, could effect foreclosure if the client defaulted on the loan, and the property could fall into the hands of the lender. This would make the property unavailable for the purposes for which it was purchased and re-mediated. As it happened, the project failed, and it cost the State an additional \$2,119,000 to pay off the mortgage, thereby buying back the primary lien position. Although the Agency acted in a way the administration deemed necessary at the time to protect the State's interests, this transaction opens the door to the undesirable possibility of future bailouts.

In fact, this is a risk the Agency takes every time it subordinates the State's collateral position on a project. If the client defaults on the second loan, the State must either spend additional money to rescue a project and protect the investment to date, or withhold additional support and risk losing the benefit to the State of the money that has already been expended. On the other hand, if the Department does not subordinate its lien position, it is not likely that a client will be able to obtain additional funding. If the client cannot obtain additional funding, then the State could still end up in a position where it must decide to step in with additional funding of its own, or lose the investment that has already been made.

It will be difficult for the Department to avoid this dilemma in its projects. The very nature of the Department's activities entails risk, and it is highly unlikely that the Agency will be able to select and fund only those projects that will succeed or that it will maintain a solid collateral position. The State needs to have a very clear picture of a client's position and prospects before surrendering its interests to another funding source. Consistent ongoing monitoring is one way of doing this, and reaching an objective decision on whether or not to further risk the State's financial interest in a project by subordinating its lien position. Bearing this in mind, the Department should exercise great care in selecting projects for State funding, as hundreds of millions of dollars of the State's money, raised through bonded debt, is at stake. Especially, the Agency should take greater care in subordinating the State's lien position to other lenders for its projects. (See Recommendation No. 13.)

Agency Response:

“We strongly disagree. We are primarily a gap financier on economic development projects. A gap financier means a lender that steps in when all conventional sources (i.e. banks, finance companies) of funds have been exhausted and alternative sources need to be identified. Typically a gap may exist because cash flow is insufficient to service additional conventional debt or there is inadequate collateral to protect additional bank financing. ... Without the State’s participation these deals would not get done. Throughout the country, state and local economic development entities are utilized for their below market rate financing with extended terms and subordinated collateral positions. Connecticut is no different. Although we provide debt and grant financing, our mission is significantly different than that of a bank, whose mission is to create a profit for its shareholders.

When we decide to take the role of majority financier on projects, it is because the proposed direct and indirect benefits of the project outweigh the risks involved. In cases such as those, 100% of State financing is not practical and alternative sources of debt and equity needs to be utilized. With the inclusion of these other sources comes the requirement for the State to subordinate its position. In some situations, additional funds may be needed to help a project survive. When given the choice of helping a project to succeed, subordination is the mechanism that makes additional financing possible.

It is not our position to blindly subordinate (its) our collateral position on projects. Various factors are reviewed, including current collateral value and position, cash flow, likelihood of project success, and direct and indirect benefits to both the State and local community as well as the consequences of the Department not subordinating (will the company go out of business, will additional jobs be lost, etc...). In various cases, we seek to receive additional alternative collateral or guarantees from responsible parties...”

Auditors’ Concluding Comments:

It is not our intention to imply that the Agency blindly subordinates its collateral position on projects or that, although it may not be good business practice, it is inappropriate, but to recommend that the Department’s subordination policy be considered when the decision to finance a project is being made. Although collateral may be available at the beginning of the project, it should not be used as a factor in deciding to finance a project if the intention is not to maintain a secure position on such collateral.

Item No. 14. Controls over financial assistance passed through to sub-recipients are weak.

It is reasonable to expect a minimum level of assurance that recipients of State financial assistance are achieving the goals of the funding, through project monitoring. The Department of Economic and Community Development provides State financial assistance to entities that subsequently pass this funding on to other organizations, but the Department does not require the primary recipient to provide evidence of adequate monitoring procedures for sub-recipients of State financial assistance.

The Connecticut General Statutes, Sections 4-230 through 4-236, have placed auditing requirements on non-profit entities that expend State funding of at least \$100,000 in a fiscal year. In addition, it is reasonable to expect a minimum level of assurance that recipients of State financial assistance are achieving the goals of the funding, through project monitoring.

From time to time, the Department of Economic and Community Development provides State financial assistance to entities that subsequently pass this funding on to other organizations, to achieve the objectives of the project or program. The Department does not require the primary recipient to provide evidence of adequate monitoring procedures for sub-recipients of State financial assistance.

We found that Agency program personnel do not, as a general rule, review or even inquire as to a recipient's procedures and practices for monitoring any subsequent recipients of passed-through State funding. Project managers with whom we spoke expect that the primary recipients will be responsible for monitoring its sub-recipients. Funding that is passed through to any sub-recipients is supposed to be based on a secondary contract between the primary recipient and the sub-recipient, referred to as a delegate agency contract. This contract is expected to mirror the terms and conditions of the primary contract. All monitoring is deemed to be the responsibility of the primary recipient, not an unreasonable expectation. However, the Agency does not seek reasonable assurance that the primary recipient has procedures and practices in place that will facilitate monitoring.

We reviewed a delegate agency contract for one sub-recipient, and found that it did reflect the terms of the original contract. This entity, a sub-recipient of one of the State's major urban centers, is a non-profit organization that has received millions of dollars in State funding since 1994. According to the Connecticut General Statutes, Section 4-232, subsection (b)(1), ". . . the non-state entity shall file copies of the audit report with the State grantor agencies, the cognizant agency and if applicable, pass-through entities." Therefore, this sub-recipient should have been filing audit reports with the Office of Policy and Management, the Department of Economic and Community Development and the pass-through entity in compliance with the State Single Audit Act. The delegate agency contract omitted this important requirement, and no reports have been filed.

In addition, the primary recipient of the funding was cited, in its own audit report, for not having adequate standards for ensuring compliance with State and Federal grant requirements. We found this condition to exist for other recipients of State financial assistance as well. This bodes ill for primary recipients' monitoring of sub-recipients as well as tracking and managing their own projects and programs.

The project referred to above was a major construction project. We found no evidence that the Agency evaluated the primary recipient's capacity or procedures for ongoing monitoring of such an endeavor.

We also noted that specific aspects of economic development projects, such as job creation and/or retention, were not required or monitored when the original recipient was a regional non-profit organization. This is true even when the sub-recipient was a for-profit entity.

The Agency's Federal programs do have monitoring requirements for sub-recipients, but this is not true for sub-recipients of State financial assistance. The principal reason for the lack of sub-recipient monitoring is that the Department does not have any standardized requirements for communicating to the primary recipients the need and responsibility for monitoring. There is no standard training in or communication of what steps a primary recipient should take to ensure that funding passed on to a sub-recipient is adequately monitored and reported, via the State Single Audit report. It is true that individual program managers *may* try to pass the necessary information on to their clients who fund sub-recipients, but there are no Agency-wide standards, no written procedures, and no uniform requirements.

The Agency should develop written guidelines to aid primary recipients in monitoring sub-recipients of State financial assistance and making sure that they are in compliance with State law. Furthermore, the Department should develop written procedures for project managers to follow in obtaining some assurance that sub-recipients are, in fact, being adequately monitored. (See Recommendation No. 14.)

Agency Response:

"We disagree. Just as the federal government relies on the Department to insure that its sub-grantees meet their obligations, the State requires its grantees to monitor their sub-grantees in order to insure that they meet their obligations.

We believe that our assistance agreements and our monitoring of direct grantees protect the State's interests. The Primary recipient, usually a municipality, has little capacity to conduct the project and has opted for the sub-recipient arrangement. These are usually not for profits experienced in development projects and working with State or Federal funding agencies.

Sub-recipients are responsible for conducting the day to day functions of the project and for assuring that the project is completed as prescribed in the contract and budget. They respond and report on all project activities to the Department staff directly. Prior to project approval, the Department does assess the project administrative structure and capacity of the entity implementing the project to assure that the appropriate skills are available to conduct the given project. Problematic sub-recipients are required by the Department to correct any project management or reporting issues as needed.

The Department believes that the comprehensive due diligence process exercised by the Department staff, provides the Department with the requisite insight into the capabilities of its funding recipients and is confident that the provisions of the Department's assistance agreements offer the broad authority necessary to assure that project monitoring and reporting to the Department is achieved on all projects. All assistance agreements contain a section on project administration that provides this broad authority."

Auditors' Concluding Comments:

We found one example in which the oversight appeared to be adequate and others in which it did not. As in several other areas of our review, there did not appear to be a standardized approach to this matter.

Item No 15. The monitoring controls over funding to for-profit clients are weaker than controls over funding to government and non-profit clients, in that there are no statutorily required annual audits for for-profit companies.

Because the Statutes contain a number of laws relating to audit requirements of State financial assistance recipients, it is apparent that audits of State-funded projects are an important part of the total monitoring process. However, the monitoring process for for-profit recipients of State financial assistance does not include annual audits. Furthermore, the annual financial statements that the Agency may request of its for-profit clients are not subject to a consistent review process.

To verify compliance with the terms of an assistance agreement, and eventually to assess the success or failure of a project to meet its objectives, it is necessary to monitor and evaluate the project. This is equally true for all types of clients.

State law requires audits of most entities that receive State financial assistance, in any year in which the State-sponsored entity expends \$100,000 or more in State funding. The State Single Audit Act, codified in Sections 4-230 through 4-236 of the Connecticut General Statutes, is the basis for audits of non-profit recipients of State financial assistance. Additional requirements are outlined in the Connecticut General Statutes, Sections 7-391 through 7-397, known as the Municipal Auditing Act, for municipalities. The Office of Policy and Management has prepared regulations and procedures for reviewing the resulting audit reports. Among the procedures is an audit review process for the agencies that provided the State financial assistance, known as the grantor agency review.

However, the monitoring process for for-profit recipients of State financial assistance does not include annual audits or any other consistently required annual financial review. Rather, the assistance agreements for the for-profit entities generally require a project audit, the report of which is due 90 days after the conclusion of the project. Project periods are of varying lengths. This means that a project could go for a number of years without a financial review.

If a recipient of State funding seeks a loan from other sources, it is customary for Agency personnel to complete a financial review as part of the process for approving this action. This process may be the only interim review of a client's financial position, occurring between the project initiation financial review and the concluding project audit. This financial review process does not address compliance issues, as the State Single Audit report does for non-profit recipients of State funding.

The Agency's financial reporting requirements of for-profit entities are not clearly stated in the assistance agreement, leaving some doubt as to whether annual financial statements are required. The wording of one contract with a for-profit entity stated: "The Applicant shall furnish upon request to the State within ninety (90) days of the end of each fiscal year, or earlier as determined by the Commissioner of Economic

Development: (1) its balance sheet and the related statement of earnings and retained earnings, including all supporting schedules and comments, all of which shall be prepared by an independent public accountant of recognized standing using, at a minimum, the standards for a ‘Review’ as that term is used in the reporting standards of the American Institute of Certified Public Accountants along with a statement of such accountants that, in making the examination necessary for the preparation of the financial statements required above, they have obtained no knowledge of any default by the Applicant in the performance of the Project or disclosing all defaults of which the accountants have obtained knowledge. . . .”

The assistance agreements for all projects that we reviewed required that financial statements be submitted to the Agency upon request. However, the language leaves room for doubt about when financial statements may be required. Indeed, the principals of one for-profit entity we reviewed appeared to be unaware that they were expected to file their annual financial report, indicating that the Agency had never requested audited financial statements. Audited financial reports were subsequently supplied to the Agency. Furthermore, there is no formal review process for these financial statements, and they do not address compliance issues.

There may be a gap in monitoring information on State-funded projects that are operated by for-profit entities. This may be a very sizeable gap if the project is a long-running one.

Annual financial reports benefit the Agency, as well as the State and its citizens in general, because they may enhance the chance of project success. The audit reports can provide reasonable assurance that the financial statements accurately reflect the entity’s financial activity and that State funding is being accounted for.

The Agency should clarify the need for annual reporting and compliance measures, if applicable, for for-profit companies that receive State funding for their programs and projects, clearly state the financial reporting requirements in the assistance agreements, and develop procedures for reviewing this information. (See Recommendation No. 15.)

Agency Response:

“We disagree that controls over funding to for-profit clients are . . . weaker than controls over funding to government and non-profit clients. It is true, annual audits are not required of for-profit clients. The federal government does not require annual audit of for-profit clients either. Audits are done at the completion of the project.

We believe the auditors may be under the impression that the Annual State Single audit for non- profit recipients of State funding always addresses compliance issues. It does so only when the State funding is tested as a major program. When the State funding is non-major, compliance may not be tested. For-profit client project audits are subject to compliance testing, using the Department’s audit guide program compliance supplement.

An Agency committee is completing their work on the development of a semi-annual financial statement submission requirement that will provide financial “project” information. Once implemented, this submission will provide the Department with a monitoring tool over financial compliance.”

Auditors’ Concluding Comments:

Although the Agency disagrees with our finding, we are pleased to note that they are in the process of implementing additional controls in the form of semi-annual financial statement reporting. We wish to emphasize that procedures for the Agency’s review of the information should be included in this process.

The Connecticut General Statutes, Section 4-230 (12), defines a major State program, which the Agency references and of which we are fully aware, as “any program . . . for which total expenditures of state financial assistance by a nonstate entity during the applicable year exceed the larger of (A) one hundred thousand dollars or (B) one per cent of the total amount of state financial assistance expended. . . .” Section 4-233 (b) requires that each major program must be tested for the State Single Audit. Section 4-233(c)(1) further addresses audit coverage by requiring that a State Single Audit must include at least fifty percent of an entity’s State funding in the audited fiscal year, by including non-major programs in the audit if necessary. The point of the legislation is to ensure accountability for the significant amounts of money awarded to non-State entities. We are also aware that a project audit for the Agency’s for-profit clients does cover compliance issues *at the end of a project’s active phase*. If a for-profit client has a long-running project, it may be quite some time before the Agency can obtain the assurances provided via a project audit. The Agency can require some degree of accountability from its for-profit clients’ in the interim through the entities’ financial statements, even if such information is not compliance-oriented. To achieve this, the Agency must clearly state its financial reporting requirements in the assistance agreements, and develop procedures for reviewing this information.

Item No. 16. Urban Act contract language could be clearer.

Each type of financial assistance recipient, municipality, non-profit, or for-profit, has a different financial reporting requirement. The legally binding assistance agreement is not specific as to the type of audit report that is required. This language may lead to confusion about what type of audit is required, and who may perform the audit.

The State Single Audit Act, Connecticut General Statutes, Sections 4-230 through 4-236, requires that all non-profit entities that expend \$100,000 or more in State funding in the recipient's fiscal year shall have an audit in compliance with the Act. The Municipal Auditing Act, Connecticut General Statutes, Sections 7-391 through 7-397, requires municipalities to have an audit in compliance with the State Single Audit Act. Only independent public accountants can perform these audits. It is Agency policy that clients must be audited. If a client does not have to be audited in accordance with any other audit policy or statute, that client must have a project audit 90 days after the end of the project period.

For-profit entities never have to be audited according to the State Single Audit Act or the Municipal Auditing Act; these always require a project audit. Municipalities always must be audited according to the Municipal Auditing Act. Non-profits must have either a State Single Audit or a project audit.

The Agency provided for our review different contract templates for each category of recipient of Urban Act funding – municipalities, non-profits, and for-profits. The contract language regarding audits for each type is the same, creating the potential for confusion about what type of audit may be required. The audit requirement language reads:

“If the Applicant is subject to a federal and/or state single audit, it must have an audit of its accounts performed annually. The audit shall be in accordance with the Department of Economic and Community Development Audit Guide and the requirements established by federal law and State statute. If the Applicant is not subject to a federal and/or state single audit, then it shall be subject to a Project-specific audit of its accounts within ninety (90) days of the completion of the Project, unless otherwise required by the Commissioner or his designee. Such audit shall be conducted by the examiners from the Department of Economic and Community Development, or by an independent public accountant as defined by generally accepted government auditing standards (GAGAS), at the discretion and with the approval of the Commissioner.”

This audit requirement language may lead to confusion about what type of audit is required, and who may perform the audit.

In fact, this contract language is an improvement over the old contract language, which usually referred to audit in compliance with the Municipal Auditing Act, regardless of the type of entity involved. Agency audit personnel informed us that this was because in the early days of this type of funding, municipalities were the usual

recipients. Agency personnel instituted the change in contract language. However, we believe that the contract language could be clearer still.

If each type of recipient entity of Urban Act funding – for-profit, non-profit, and municipality – does indeed have its own contract, the contract should state specifically what type of audit will be required for recipients that are municipalities and for-profits. The only uncertainty is which type of audit a non-profit entity may require, either a State Single Audit or a project audit. This should be clarified in the assistance agreement. If there is to be only one basic contract for all types of entities, the audit-requirement language should be stated as clearly as possible. In addition, the contract should state clearly that, although Department audit personnel may conduct the project and/or program audits, only an independent public accountant can conduct audits in accordance with the State Single Audit Act. (See Recommendation No. 16.)

Agency Response:

“We disagree. The current language appears to have generated little, if any confusion for the Agency’s clients since it was put into use two years ago. However, we are in the process of further clarifying the contract language to address any potential confusion.

Proposed revision to standard audit language in assistance agreements is as follows:

“AUDITS

Each applicant subject to a federal and/or State single audit must have an audit performed of its accounts annually. The audit shall be in accordance with the Department’s audit guide and the requirements established by federal law and State statute. All applicants not subject to a federal and/or State single audit shall be subject to a project specific audit of its accounts within ninety (90) days of the completion of the project or at such times as required by the Commissioner. Such audit shall be in accordance with the Department’s audit guide. An independent public accountant as defined by generally accepted government auditing standards (GAGAS) shall conduct the audits. At the discretion and with the approval of the Commissioner, examiners from the Department of Economic and Community Development may conduct project specific audits.”

Auditors Concluding Comments:

Although it was our hope that the assistance agreements could be written so that the requirements for each grant or loan would apply to that specific financial assistance project, we hope that the changes planned by the Department will make the audit requirements clearer.

Item No. 17. The Agency has an opportunity to improve its financial closeout process.

Although the Department's procedures require that the project manager request a closeout audit upon completion of the project, the Department has not defined the term "completion of the project." None of the projects in our sample had been reviewed for a financial closeout although of the sixteen undertakings, the project period had ended for all but one, by a period of eight months to nearly six years. The Department's financial closeout process would be improved if it were clarified when the closeout process should occur, in addition to what should be included in the review.

The Department's procedures as stated in the "Financial Closeout Process for State Funded Programs" require the project manager to request a closeout audit upon completion of the project. These procedures became effective July 1, 1999. Using previously issued audit reports of the subject entity for the closeout review, the Audit Section prepares the Certificate of Approved Program Cost and State Funding, and related documents, upon resolution of all relevant findings. That Certificate relates only to "the funding provisions of the contract relative to the approved cost" of the program. Its purpose, then, is to certify that approved project expenditures were made, and the State has disbursed to the entity the agreed-upon funding.

We reviewed seven projects with sixteen different funding sources and/or contracts. Of these sixteen undertakings, the project period had ended for all but one, by a period of eight months to nearly six years. However, none of the projects has been reviewed for a financial closeout. Therefore, in order to review the closeout process, we chose three unrelated projects that had been closed out. For these three projects, there was a long delay between the budget period end dates and the dates of the Certificate of Approved Program Cost and State Funding. The closeout certificates and related documents for these three projects were issued one year and three months, two years and eight months, and six years and three months after the budget end dates. This is too long after a project's funding should be expended to determine if all the funding was disbursed to the entity and appropriately expended.

Although the closeout document does not make assertions that the entity has fulfilled all contractual obligations of the assistance agreement, the closeout certificate for one project was not issued until the residency requirement specified in the assistance agreement (five years) had been met. The result of this delay is that the project was not closed out on a timely basis.

In the cases we reviewed, there was no monetary effect as all funds appeared to have been spent appropriately. However, the possibility exists that the delay in closing out a project could result in funds due the State not being identified in a reasonable time. Conversely, if project closeout is not tied into the budget period, there is also a chance that project funding that has not been disbursed to the entity will not be identified in a reasonable time. Such funding may be due to the entity, or it may be that it is no longer

needed by the entity for the contracted project, and should be appropriately accounted for and released to reduce the State's bonded debt.

There is another potential consequence to long-delayed project closeout. A client may dispose of its records, including project documentation, and an audit firm may dispose of its working papers. Documents may be archived and/or lost, and therefore, be difficult to locate. If this occurs, and questions arise in the course of a project closeout, it would certainly limit the possibility of a satisfactory conclusion to the process.

The Agency requires project closeout upon completion of the project, but has not defined the term "completion of the project." It apparently does not relate to the end of the budget period, nor is it associated with the performance requirements of the agreement. It is up to program personnel to request a closeout, but they are not held accountable for doing so in a reasonable time.

The term "completion of the project," which is the factor that should activate the closeout process, should be defined. Aligning project completion with the end of the budget period is a possibility. A central unit should be required to follow up on delayed project closeout requests, holding project managers accountable for undue delays in closing out their projects. If a project cannot be closed out, the project manager should document the reasons for this, and suitable follow up should be planned. In addition, the Agency should develop specific procedures for a project closeout. Where the closeout depends on prior audit(s), the process should include testing audit working papers to verify that those items have been covered in the audit, and to take additional steps as necessary if they have not been covered. (See Recommendation No. 17.)

Agency Response:

"We agree. We will seek to improve the closeout process that became effective July 1, 1999. The closeout process was developed to ensure that all DECD State funded programs were receiving consistent financial closure because prior to this formal procedure's adoption, only housing programs were receiving a consistent financial closeout by the Audit Unit through the vehicle of a Certificate.

The project manager who is in the best position to know when the project has been completed and that all funds have been expended initiates the request. The Audit Unit does not initiate the request for financial closeout.

In the case of for-profits, a project audit would be used. In the case of not-for profit and governmental and housing authority audits, several annual single audits may be used to close a project. Because the completion may actually take place prior to the budget end date a request may actually be initiated earlier than project budget end date. It is possible that when a project is considered contractually complete, may be defined by a particular contract or program policy and therefore could be actually different then when all funds have been expended."

Item No. 18. The Agency does not have a vehicle for addressing the closeout of client compliance matters.

The project closeout process at the Department of Economic and Community Development addresses only financial issues. It does not answer the question of whether a project has fulfilled its performance obligations. Projects should be evaluated to determine whether they were successful or not and to provide information that can be used for future decision making.

The financial closeout process, culminating in the Certificate of Approved Program Cost and State Funding, serves a very specific purpose. As indicated, it addresses only the matter of project funding. It does not answer the question of whether a project has fulfilled its performance obligations. For example, some entities may be required to create jobs, all entities must agree to remain in the State for a certain length of time, and some entities may be required to pay royalties over a period of time. On a broader scale, the financial closeout process does not address whether the original purpose and goals of the project, as presented to the Bond Commission, were met.

It is sound business practice to evaluate the results of any undertaking, not only to determine success or failure on a given project, but to provide information that can be used in future decision-making.

The Department is taking positive steps in monitoring the projects after the active phase of the contract is finished. The term “active phase” can be generally defined as the period when the State is involved in financial input and the entity is putting into place those things needed to achieve the project objective(s). This might include, but is not limited to construction, equipment purchases, or program improvements. For example, the Agency has begun conducting job audits of clients that are supposed to create or retain jobs. The job audit activity is one way to evaluate the results of the various projects. However, this covers only certain Manufacturing Assistance Act projects, and is only one piece of information for those projects.

The Agency needs a performance equivalent to the financial closeout process and its resulting Certificate of Approved Program Cost and State Funding, to occur at the end of the period when an entity is supposed to have achieved certain goals as a result of the State’s financial assistance. The information obtained via the job audits can be used as one piece of the ending project performance closeout process, in much the same way that audit reports are used for the financial closeout process. This process would give a final reporting on the success or failure of each project, and that information can be used in developing future projects.

The Department of Economic and Community Development should develop a procedure for performance review of each project, to determine if an entity has complied with all performance requirements and to determine if the original intent of the project has been realized. (See Recommendation No. 18)

Agency Response:

“The Department disagrees. The financial closeout process uses audits, which are required to follow the Department’s audit guide, or OPM’s State Single Audit guide. In both cases, a compliance supplement is provided for the CPA’s to use to test for compliance.”

Auditors’ Concluding Comments:

As the Department noted in its response to Item No. 15, the State Single Audit may not include all State funded projects. Furthermore, these audits are required only in those years in which the recipient expends \$100,000 or more in State funding. Some compliance issues do not come into question until much later, when the entity may not be required to have a State Single Audit. These matters are *not* addressed in the financial closeout process. Therefore, we maintain that the Department should develop a procedure for performance review of each project to verify contract compliance and to determine if the original goals of the project have been attained.

Item No. 19. The Department of Economic and Community Development could improve its master file maintenance.

A well-planned filing system should make finding documentation a relatively trouble-free process. We found that files were not always maintained on a consistent basis, information was sometimes missing, and information was scattered among related files.

A well-planned filing system should make finding documentation a relatively trouble-free process. Where project master files are maintained for each project, it makes sense for these files to be the repository for all project information, on a consistent basis.

The files for the two different granting sources for an arts and community functions project are in different locations, and there are seven files. Two of these are located in the Inner City Cultural file sub-system, and five are located in the Urban Action file sub-system. Required progress reports were filed in different locations among these files, with more than one copy of several of the reports filed in different locations.

In addition, we found that not all payment records were contained in the project master file for a major tourist and educational facility project. Also, seven progress reports, which the entity had submitted to the Agency, were absent from the master file. At times, files were removed from the filing cabinets, and there was no way of identifying who might have the file.

We note that the Agency has taken steps to abate the file problem. At the beginning of our audit, there was no consistent method for identifying files that had been temporarily removed from the filing cabinets. At the end of our fieldwork, Agency personnel had instituted a sign-out sheet for each file drawer. In this system, any party removing a file is required to identify him/herself and the file being removed, along with the date. When the file is returned, the responsible party simply crosses off the entry.

Many people have access to the files; indeed, the files are all in a somewhat open location. Having many people handling files, even for legitimate reasons, can lead to chaos in maintaining files. It appears that no single person or work group has been assigned responsibility, with the accompanying authority, for maintaining the files. This combination of factors has likely contributed to the disruption of file maintenance.

The Agency should continue its efforts to improve file maintenance, by establishing standards for maintaining the integrity of the filing system, and assigning a single person or work group the responsibility and necessary authority for the files so that retrieval of information in hard-copy form is relatively trouble-free. (See Recommendation 19.)

Agency Response:

“We agree. We will continue our efforts to improve file maintenance, by establishing standards for maintaining the integrity of the filing system, so that retrieval of information is relatively trouble free. File maintenance has been improved by:

- a) the refinement of existing checklists and the devising of new ones;
- b) an inspection and rectification of the contents of all the MAA files;
- c) the decision that Finance & Administration Division will manage master files; and
- d) the decision that one person in that division will control access to the files.”

Item No. 20. The Department of Economic and Community Development does not review a sample of working papers from the auditing firms submitting audits under the State Single Audit Act, the Municipal Auditing Act, or the assistance agreements.

Although the concept of the State Single Audit was patterned after the Federal Single Audit, the Department of Economic and Community Development does not use some of the assurances required by the Federal cognizant agencies. The Department does not review a sample of working papers from the auditing firms to determine whether the supporting working papers for those reports are adequate to meet the Agency's information needs, or if the financial statements and other information are in compliance with the law.

The Secretary of the Office of Policy and Management has designated the Department as the cognizant agency for the State Single Audit for the local housing authorities. These responsibilities are outlined in Section 4-235, subsection (b) of the General Statutes and Section 4-236-6 of the Regulations. They include the following:

- Ensure, through coordination with State grantor agencies, that audits are made and reports are received in a timely manner and in accordance with the Act.
- Ensure that corrective action plans are transmitted to the appropriate State officials.
- Coordinate, to the extent practicable, audits done by or under contract with State agencies that are in addition to audits pursuant to the State Single Audit Act. Help coordinate the audit work and reporting responsibilities among independent auditors and State accounts examiners to achieve the most cost-effective audit.
- Provide technical advice and liaison to housing authorities.
- Promptly inform other affected State agencies and appropriate State and/or law enforcement and prosecuting authorities of any violation of law, including illegal acts and irregularities.
- Notify the grant recipients if their audits are found to be deficient.
- Ensure the resolution of audit findings that affect the programs of more than one agency.

As cognizant agency, the Department reviews the housing authorities' audit reports using the Office of Policy and Management's Uniform Desk Review Checklist. All of the housing authority audit reports done by independent auditors and submitted to the Agency undergo a desk review. This responsibility is assigned to the Audit Section. This review ensures that the form of the report is correct and that all necessary parts of the report are included. If information is missing or unclear, audit personnel request that the auditor remedy the problem. The Audit Section has written procedures for processing reports issued by independent public accountants. If there are findings in the report, the housing authority is required to submit a Corrective Action Plan. The responsibility of

following up on the Corrective Action Plan is assigned to the Asset Management Section. The report is not considered complete until all corrective actions have been accepted.

The Department of Economic and Community Development has developed tracking, and review procedures for the audit reports of the local housing authorities. For the specific areas of responsibility examined for this audit, we found that the Department was, to a significant degree, fulfilling its responsibilities as a cognizant agency for the State Single Audit and as required by the Municipal Auditing Act. We identified a weakness however, which if addressed, could improve the Department's performance as cognizant agency.

The deficiency rate of the audit reports tested was 28.6 percent. These deficiencies, in some instances, result from minor misunderstandings and can easily be corrected. They do not reflect the quality of the work performed. In other cases, the deficiencies in the reports are a reflection of weaknesses in the underlying audit work. Unfortunately the quality of an audit cannot be accurately determined by reading the reports alone. We noted that all of the audits performed by the Department's staff had audit findings, but only 29 percent of those completed by independent public accountants (IPA) had findings. Deficiencies in the audit reports, which required corrections or additional information or statements, were found in four of the 14 reports performed by IPAs. The difference between the number of findings in reports issued by the staff and the number of findings in reports issued by IPAs tends to support the need for quality control reviews by the Department in its role as both cognizant and grantor agency. The number of IPA reports requiring correction also supports the need for such reviews.

The *Federal Cognizant Agency Audit Organization Guidelines* set forth standards for Federal cognizant agencies in this area. Essential to the responsibility of a cognizant agency is the review of audit work performed. This includes reviews of audit reports as well as quality control reviews of the audit work performed by non-governmental auditors. While the desk review is effective for determining whether the audit report meets the requirements of the Federal or State Single Audit Act, a desk review does not provide an assessment of the quality of the audit work performed. The purpose of a quality control review is to make a determination that the underlying work supporting the audit report is not substandard and that the audit was conducted in accordance with applicable auditing standards.

Section 4-233 of the Connecticut General Statutes specifies how the audit is to be conducted and what the scope of the audit is to be. Section 4-236-17 in the current Regulations (Section 4-236-13 in the newly drafted copy) allows for the retention of working papers and reports for a minimum of three years and gives the cognizant agency or its designee the right to review these papers. The Department of Economic and Community Development's Audit Manual states that audit reports and working papers should be held for three years and that the Agency or its representative has the right to review these documents.

The performance of the Department of Economic and Community Development as a cognizant agency could be improved if it had some assurance that the underlying work supporting the audit reports is of a high quality. There is an additional benefit to the Agency in conducting quality control reviews. All projects need to be closed out eventually, both housing authority projects and economic development projects. The information obtained through quality control reviews can provide assurance that the information needed for a closeout review has been covered through routine audits of the subject entity, or will alert Agency audit personnel that additional information is needed. See Item No. 17 for a discussion of this matter.

As cognizant agency and primary grantor agency for the local housing authorities, the Department is in a unique position. The details associated with the loans and grants relating to this financial assistance can be accessed relatively easily, thereby aiding the Department in its role as cognizant agency. Although the Department manages the two functions, they are managed by two different units. Fulfilling both roles adequately requires the cooperation of both the granting unit and the auditing unit. The Department of Economic and Community Development relies heavily on the State Single Audit report, as well as other audit reports, as monitoring tools. The cognizant agency for economic development grants and loans is the Office of Policy and Management. That agency would have the central responsibility for performing quality control reviews of the working papers supporting these audits. However, the input and cooperation of the Department of Economic and Community Development as the agency most familiar with the details of the laws and agreements relating to the funding would be required.

The Department of Economic and Community Development, as a cognizant agency, should develop criteria and procedures for conducting quality control reviews and should then conduct selected reviews. Focusing on those firms with identified deficiencies, the Agency should establish criteria for selecting audits for a quality control review. A sufficient number of quality control reviews should be conducted to provide reasonable assurance of the overall quality of the audit work performed. (See Recommendation No. 20.)

Agency Response:

“We agree in part. We will attempt to conduct workpaper reviews for audits of housing authorities, as staffing allows. We have taken the position that OPM is responsible for the quality of all not-for profit and municipal audits. Although we have conducted work paper reviews in the past, (it) we have (has) not conducted work paper reviews of auditing firms submitting audits for housing authority audits recently due to work constraints. However, a complete desk review is conducted for 100 % of authority audits and auditors are required to correct audits found to be deficient. We also have required copies of workpapers when questions or concerns arise as a result of a desk review.”

Auditors' Concluding Comments:

As stated in our finding, a review of the audit report alone does not determine the adequacy of the supporting documentation. A small sample of working papers should be selected from the audit reports on a regular basis. We agree that most of the responsibility of working paper reviews for the non-profit entities falls on the Office of Policy and Management. The Department of Economic and Community Development should have some input or accept the responsibility to review compliance issues that may be unique to the Department.

Recommendations

- 1. The Department of Economic and Community Development should develop standards for the monitoring of the State funded economic development grant and loan program. These practices and procedures should be put into writing.**

Comment:

The Department should determine which aspects of their projects need to be tracked to ensure that the project meets its objectives. Assurances should be defined so that the terms of the agreement, provisions in the law, and accounting and record keeping pronouncements are followed. These requirements should be committed to written standards for project managers and other personnel to follow.

- 2. The legally binding contracts between the recipients of State financial assistance and the Department should be specific to each project.**

Comment:

The assistance agreements, the contract signed by the recipient and the Department, are largely “boiler-plate” agreements.

- 3. The Department should review its project data requirements and develop procedures for more uniform management of project information.**

Comment:

The Agency uses a database application to track project compliance. Not all relevant data had been recorded in the system when we began reviewing project data. The lack of relevant information in the Department’s computer tracking system limits its usefulness in monitoring the projects.

- 4. The reporting standards found in the Connecticut General Statutes Sections 32-1h and 32-1i should be followed.**

Comment:

Certain reporting standards for the economic development programs managed by the Department are found in the Connecticut General Statutes. Section 32-1h addresses reporting on new and outstanding financial assistance granted by the agency, with special focus on job creation and/or retention. Section 32-1i addresses reporting on improved objectives, measures of program success, and standards for granting assistance. These reports are not issued as outlined in the Statutes.

- 5. The Department should improve its accountability over its grant and loan program by identifying all recipients that are required to file audit reports under the State Single Audit Act.**

Comment:

There is no system in place to ensure that the Department has received all the required State Single Audit reports.

- 6. The Department of Economic and Community Development should take steps to expedite the review and processing of audit reports.**

Comment:

The length of time between the date the report was received and the date the report was reviewed was from nine days to twenty months for those projects in our sample. Department personnel report that they have taken steps to eliminate this problem.

- 7. The Audit Section should track the receipt of a Corrective Action Plan, the acceptance of the Plan, and the resolution of the audit findings as part of the audit process.**

Comment:

Timely resolution of findings is an important conclusion to an audit. The Department does not consider it to be the Audit Section's responsibility to keep track of these findings and their resolution; neither has the responsibility been assigned to program personnel.

- 8. The Agency should establish procedures linking audit report review to a thorough knowledge of the assistance agreements, and take steps to ensure that all parts of the State Single Audit reporting package are submitted and reviewed.**

Comment:

Although the required audit reports, footnotes, and management letters contain a wealth of information, these documents are not always obtained. In addition, the Agency does not have a policy linking the audit report review to a thorough knowledge of the related program(s) or assistance agreement(s).

9. The Department should continue in its efforts toward more complete and timely job audits.

Comment:

Although many of the loans and grants funded through the Manufacturing Assistance Act have job requirements, job audits to determine if the requirements were met, were not required for 32 percent of the entities that received funding. In addition, the Department did not begin formal job audits for those entities requiring audits until July 1999.

10. The Department of Economic and Community Development should not change the job requirements established in the assistance agreement.

Comment:

If recipients of financial assistance are unable to attain their employment goal, the Department's policy is to allow them to change their job requirements. This policy distorts the information presented to the Legislature and general public, in addition to weakening the Department's controls and self-evaluation.

11. Terms presented to the Bond Commission and included in the project proposal, as part of the reason for the project, should be included in the assistance agreement.

Comment:

Although the number of jobs to be created or retained is often the major reason given for promoting a project, employment goals are not always formalized, and therefore, cannot be monitored.

12. The Agency should define what constitutes matching funds, especially non-cash contributions.

Comment:

There are no written guidelines as to what constitutes matching funds or other matters relating to matching funds. Agency staff relates that the goal is to keep the definition flexible, as a matter for negotiation, but this policy sometimes creates confusion.

- 13. The Department should keep in mind its policy of subordinating its collateral position when selecting a project, and should subsequently subject its projects to consistent ongoing monitoring prior to subordination.**

Comment:

Customary business practice requires that the borrower provide the lender with some type of collateral. Unlike other lending institutions, the State frequently subordinates its lien position to another entity or entities so that additional money can be obtained. Given the environment in which the Agency functions, this is most likely unavoidable. This practice increases the risk that the State will lose some or all of its funding if the project fails. However, the risk may be minimized through careful screening of projects initially, and ongoing monitoring of projects before subordination is requested.

- 14. The Agency should develop procedures to help ensure that State funding passed on to sub-recipients is used to achieve approved objectives, including written guidelines to aid primary recipients in monitoring sub-recipients and for the project managers' review and assessment of a primary recipient's monitoring capabilities.**

Comment:

Controls over financial assistance passed through to sub-recipients are weak. The Department provides State financial assistance to entities that subsequently pass this funding on to other organizations, but the Department does not have any standardized procedures to ensure adequate monitoring of sub-recipients.

- 15. The Agency should clarify the need for annual reporting and compliance measures, if applicable, for for-profit companies that receive State funding for their programs and projects. These requirements should be clearly stated in the assistance agreements, and procedures should be developed for reviewing information submitted by for-profit entities.**

Comment:

The monitoring controls over funding to for-profit clients are weaker than controls over monitoring funding to government and non-profit clients. Financial reports provided by for-profit clients are not subject to a standardized review process.

- 16. The Department should ensure that Urban Act contracts, entered into with the recipients of State's financial assistance, are clear.**

Comment:

Each type of financial assistance recipient, municipality, non-profit, or for-profit, has a different financial reporting requirement. The legally binding contract is not specific as to the type of audit report that is required. In addition, it is not clear who may perform the audit.

17. The Department should improve its financial closeout process by clarifying when the closeout process should occur.

Comment:

Although the Department's procedures require that the project manager request a closeout audit upon completion of the project, the Department has not defined the term "completion of the project." None of the projects in our sample had been reviewed for a financial closeout although of the sixteen undertakings, the project period had ended for all but one, by a period of eight months to nearly six years.

18. The Department of Economic and Community Development should develop a procedure for performance review of each project, to determine if an entity has complied with all performance requirements and to determine if the original intent of the project has been realized.

Comment:

The Agency does not have a vehicle for addressing the closeout of client compliance matters. The financial closeout process addresses only financial issues. It does not answer the question of whether a project has fulfilled its performance obligations.

19. The Agency should continue its efforts to improve file maintenance, by establishing standards for maintaining the integrity of the filing system, and assigning a single person or workgroup the responsibility and necessary authority.

Comment:

We found that files were not maintained on a consistent basis; sometimes information was missing and/or scattered among related files.

20. The Department of Economic and Community Development, as the cognizant agency for the local housing authorities, should develop criteria and procedures for conducting quality control reviews and should then conduct selected reviews.

Comment:

The Department does not review a sample of working papers from the auditing firms submitting audits under the State Single Audit Act, the Municipal Auditing Act, or the assistance agreements. Although the concept of the State Single Audit was patterned after the Federal Single Audit, the Department does not use some of the assurances required by the Federal cognizant agencies. The Department does not review a sample of working papers from the auditing firms to determine whether the supporting working papers for those reports are adequate to meet the Agency's information needs, or if the financial statements and other information are in compliance with the law.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the Department of Economic and Community Development during this examination.

Carolyn Z. Newell
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

APPENDIX

The Department of Economic and Community Development projects summarized below were included in our testing and review.

VEEDER ROOT PROJECT

One large construction project involved the rehabilitation of an old factory building in the Asylum Hill Section of the City of Hartford. The building is owned by a private, non-profit corporation, and was to be renovated for light industrial and commercial use. The Project was started in September 1994, and was expected to be completed by December 1996. The initial project cost was \$13,845,000. The Department of Economic and Community Development signed an assistance agreement with the City of Hartford to provide \$3,500,000 as a grant-in-aid through the Regional Economic Development Program toward the initial cost of the project. The Department of Environmental Protection was to provide \$1,140,000. The Union Trust, Aetna Life and Casualty, ITT, and the City of Hartford would provide the remaining \$9,205,000 to complete the project. It was expected that 245 jobs would be created within five years.

The project ran approximately 2½ years behind schedule, and the building received a certificate of occupancy on June 8, 1999. The original investors, other than the State and the City of Hartford, decided not to participate. Between September 1997, and May 1999, the City of Hartford requested and received an additional \$11,452,300 in State funding from the Department of Economic and Community Development. The funding came from Urban Action Bonds. Other funding came from the Department of Environmental Protection, Federal grants (\$1,000,000), the City of Hartford (\$400,000), and a private source (\$30,000). In addition, the City of Hartford invested \$387,000 in the neighborhood. As of June 2000, four entities occupied the building: Easter Seals, a Hartford Police Substation, the Iron Workers' Training Center, and HART. Initially, a for-profit cellular phone company was to be the key tenant. Although the company had been given \$4,225,000 (Manufacturers Assistance Act funding of \$2,200,000) of additional funding by the State, the City, and the Building owner, it filed for bankruptcy and never moved into the building. Although it is difficult to say that any new jobs were created, 65 employees were working in the building in August 2000.

WINDHAM MILLS DEVELOPMENT CORPORATION

Another large renovation project that we reviewed was located on the former American Thread Mill property in the Town of Windham. When the project began the property consisted of 45 acres of land and more than 20 buildings with over 958,000 square feet of space. The complex, a unique example of historic nineteenth century mill buildings, was designated as a Heritage State Park in 1992.

The Mill, which at one time was one of the area's major employers, was closed in 1985. The property was purchased by a general partnership from Bloomfield, Connecticut, and sold again in 1987, to another general partnership from New Haven, for \$2,700,000 plus

taxes. Its plans to develop the complex never materialized. In order to preserve and develop this asset the Town initiated a municipal development project at the site, which included renovating the mill buildings to lease to light manufacturing companies. A Master Action Plan was completed in December 1993, and the Board of Selectmen approved the plan and the application for further grant funding. Originally the town hoped to work with the owners but in July 1994, the property was taken over by the town through eminent domain. The town created a local development corporation to own the property and to handle project management. In November 1994, the town turned the property over to the Windham Mills Development Corporation for \$1.

The Corporation, in partnership with the Northeast Connecticut Economic Alliance secured \$3,000,000 in State funding from the Regional Economic Development Program managed by the Department of Economic and Community Development. This was to be Phase I of what was to be a \$12,000,000 project. It was recommended that the project be carried out on a fast tracked “phased basis.” Buildings or support infrastructures would not be renovated or built unless it directly created jobs. The demolition, environmental clean up, and building stabilization would have to be exceptions to this approach. In June 1994, it was felt that “timing was crucial due to the high interest in industrial Space.” When the project was complete over 700,000 square feet would be available for lease and over 1,250 new jobs would be made available to the residents of the region.

In March 1995, the Windham Textile and History Museum, which had been instrumental in developing plans for the Heritage State Park, in addition to aiding the Connecticut Historical Society in documenting the mill site, closed its doors due to financial difficulties. On June 10, 1995, a massive fire gutted Mill Number 4, a 400,000 square-foot building. Prior to the Town assuming ownership, it had obtained a Phase I environmental study, but before the site clean up was finished, it is reported to have cost in excess of \$15,000,000. Between November 1993, and 1999, the State contributed \$23,412,042 toward the renovation of the site. In addition, the Federal government had granted \$3,195,000 and guaranteed a loan for \$4,800,000.

At the time of our site visit in November 1999, 75 individuals were employed at the site. One building containing approximately 50,000 square feet had been renovated and was in use. A second large building had had extensive work. It had been made structurally sound, new windows had been installed, major renovations had been complete and it was ready to have the interior outfitted for tenants. According to the newspaper, as of July 2000, the employment figure had increased to 95. As of July 2000, fifty-eight percent of the building use would be for other than “light manufacturing.” The purpose of the Windham Mills project has changed from one of creating jobs to one of making Windham Mills financially independent.

In July 2000, the Corporation was requesting additional funding from the State. The State has allocated an additional \$199,983 for the Corporation’s operating expense. In addition, the State has subrogated or given up its collateral position on any property rights that had been obtained throughout the financing process.

SEA RESEARCH FOUNDATION (MYSTIC MARINELIFE AQUARIUM)

Mystic Marineline Aquarium is a Division of Sea Research Foundation, Inc., a non-profit corporation. The marine science center is dedicated to providing exhibits and displays of marine mammals, fish, and other forms of aquatic life and to engage in such related educational and scientific activities that contribute to an increased public knowledge and appreciation of these forms of life.

By 1994, the Aquarium was severely overcrowded during peak summer months. In addition a world-renowned marine scientist was interested in relocating his operations to Mystic. New exhibits would be constructed and a new Institute for Exploration was to be established. In November 1994, Public Act 94-3 was passed by the Connecticut General Assembly, which authorized \$15,000,000 for establishing a marine exploration institute at the Mystic Marineline Aquarium and for making other improvements there. The basis for significant State investment in this project was the establishment of the Institute for Exploration by 1999. The Institute for Exploration was to serve as a center for deep-sea research, robotics research and development. Through education it was to satisfy its mission of public outreach by showcasing expeditions and discoveries.

Previously, two smaller grants for \$250,000 each were approved by the Legislature (Public Act 89-55 Sec. 29(b)(7) and Special Act 90-34 Sec 23(e)(35)). One grant was for a Whale Study Center. It had an original project period beginning July 1, 1989 and ending April 30, 1992. The second grant was specifically designated for large windows, which were to be part of the main pool of the Whale Study Center. The Aquarium board was unable to raise matching funds and consequently requested an extension; both of the \$250,000 grants were put on hold. In 1994, the Aquarium management realized, as related above, that more extensive renovations were needed. The funding for the Whale Study Center was included in the much larger project.

The original description of the project included construction of headquarters and research laboratories for the Institute for Exploration and a new 30,000 square foot exhibit relating to undersea exploration, which included a new entrance and gift shop, classroom expansion, and site improvements.

At the conclusion of our audit fieldwork, the State's financial involvement in the project had ended. The headquarters of the Institute for Exploration had relocated to Mystic, the exhibit area had been renovated, and new exhibits had been installed, but the headquarters and the labs for the Institute had not been started. According to correspondence, bids for construction of the Institute for Exploration's offices and labs were to be sought beginning August 14, 2000.

GARDE ARTS CENTER

The Garde Arts Center is a non-profit, regional, performing arts center, established in 1985, and governed by a board of trustees. Between 1989 and June 1993, the Garde received three small grants from the Department of Economic and Community Development, totaling \$1,608,600. The Board's plan was to purchase, restore, and operate the historic Garde Vaudeville/movie Theater, with a seating capacity of 1,530, as a regional center for the arts. The Garde Arts Center project involved renovation, including handicap accessibility and expansion, and financial stabilization. It included the renovation of the lobbies and offices, stage and stage support, auditorium and backstage of the old Garde Theater located in the center of the City of New London. In addition, components for arts, education, and related commercial activities would be developed. The Department of Economic and Community Development granted \$4,500,000 under the Inner City Cultural Act (Special Act 93-2, Section 50 (b)(1)). The grant was not to exceed 50 percent of the total project cost. Matching funds would be obtained by private contributions. By June 1998, \$2,993,388 had been disbursed, but it was clear that additional funding would be needed. Another assistance agreement, which superceded and included the first, was entered into. The total funding given by the State was to be \$6,500,000, which included the original \$4,500,000 and an Urban Action grant of \$2,000,000. The State's funding was fully expended by October 1999. The theater, classroom, entrance, restrooms, and meeting rooms have been completely renovated. The last phase of the project, the new backstage, was not complete under the budget and, currently, the board of directors is trying to raise money to complete this phase of the project.

(5) MALLEY'S SITE

The former Edward Malley Company building was vacated with that department store's bankruptcy in 1981. The Malley building, located at the entrance to downtown New Haven, had been vacant for the past decade and a half, and had visibly deteriorated. For several years legal action had been pending against the City by the building's owner for the City's role in the failure of a proposed flea market there in the late 1980's. The City and the owner finally arrived at an agreement regarding settlement of the suit, disposition of the property, and payment of overdue taxes on the property. The City was to pay the owner \$6,150,000 for the legal settlement and to acquire the property. In return the owner would pay the City \$2,750,000 for overdue taxes. The City assumed responsibility for any environmental problems. It was to cost about \$3,000,000 to demolish the building and landscape the site. In October 1997, a Department of Economic and Community Development Urban Act Grant was given to the City of New Haven for \$4,600,000 to purchase the land and building, complete site remediation, demolish the existing building, and complete approved landscaping. This would be an interim step toward future private development. The program manager told us that the project was completed. As of June 30, 1999, an audit report stated that \$3,611,566 of the \$4,600,000 had been spent and that \$988,434 remained at the conclusion of our review.

HALOX

We reviewed one for-profit company that received direct funding from the Department. This development stage company is a for-profit manufacturer of new technology purification and filtration systems. The Company's founders leased a building in Bridgeport's Enterprise Zone and relocated their business from Texas to take advantage of the skilled labor in the area. It was projected that the Company would create 150 full-time manufacturing employment positions by 2002, the completion of the project's fifth year.

The project consisted of the relocation of the company's assets, the purchase of new machinery and equipment, the renovation of a leased building, the training of new employees, and the further development of products, product applications and markets. The Department of Economic and Community Development provided a \$1,750,000 loan at 2 percent interest compounded annually, for a term of ten years. Principal and interest could be deferred for the first nine years with a balloon payment for the outstanding balance in year ten. In addition, a \$1,750,000 grant in support of land and building costs and related infrastructure expenditures was provided through the provisions of the Urban Act. Connecticut Innovations also gave the company \$374,000 in an investment grant.

SECTER (SouthEastern Connecticut Enterprise Region)

In addition to giving loans and grants directly to for-profit, non-profit, and governmental entities, the Department of Economic and Community Development provides financial support to regional development corporations. As part of our review, we examined the monitoring of financial assistance that was given to a regional loan administrator to be distributed to other for-profit and non-profit companies. SECTER (formerly SEA-RED) was incorporated in 1992 as a non-profit company to stimulate and support economic development and diversification within Southeastern Connecticut. Initially, SECTER was to manage the "Regional Revolving Loan Fund" and the "Small Business Loan Fund." funded by two Federal Economic Development Authority grants matched by two Connecticut Development Authority grants. These two funds total \$2,000,000 and were created in 1993 and 1994, respectively.

In 1996, an additional \$5,000,000 grant, given through the Department of Economic and Community Development, augmented the existing loan fund. In addition to providing additional funds for the revolving loan fund to further help non-profit and for-profit businesses in Southeastern Connecticut, SECTER was to manage a revolving loan fund for the Garde Arts Center. The Department of Economic and Community Development had an agreement with Garde Arts Center for \$2,000,000 of the \$5,000,000. The stated purpose for the remaining \$3,000,000 was to help fund new business by providing loans of between \$100,000 and \$500,000.

TECHCONN

TECHCONN was established in 1992. It is a State supported, private, non-profit entity that promotes the creation of technology jobs and assists start-up companies with funding, management advice, property protection (patents), product development, and financing. For the project period April 1, 1998 to March 31, 1999, it received \$1,000,000 of State financial assistance. Prior to receipt \$500,000 of the \$1,000,000 had been budgeted for the continued development of education software called Mentor and accompanying computer systems, \$200,000 was to continue the commercialization of technology products, and \$300,000 for general administration.

OCEAN WORLD LEARNING (OCEAN QUEST), INC.

The City of New London purchased twenty-four acres of land from the Bank of Southeastern Connecticut for \$2,200,000 in December 1994 with a grant from the State. In September 1995, the land was transferred to Ocean World Learning, Inc, a non-profit company. Ocean World Learning, Inc. was to build and manage a marine sciences camp and exhibit. Ocean World Learning, Inc. received a \$2,400,000 grant as seed money for the project from the Department of Economic and Community Development in September 1995. As part of the grant the State received mortgage rights on the property. The Department of Environmental Protection and the Department of Economic and Community Development invested \$1,426,374 for remediation of the property. Ocean World Learning, Inc. was to find somewhere between \$23,000,000 and \$28,000,000 in additional private funding to carry out the project. Ocean World Learning, Inc. experienced difficulty in obtaining further financing and applied for a one year, \$2,000,000 bridge loan from Kennedy Funding Inc. In July 1996, the Department subordinated the State's mortgage position in preference to Kennedy Funding so that Ocean World Learning, Inc could borrow an additional \$2,000,000 to assure the continued development of the project. Ocean World Learning, Inc. failed to meet the first City deadline to acquire permanent, private mortgage financing, and in November 1996, the city granted an extension. The Department of Economic and Community Development declared Ocean World Learning, Inc. in default of their obligations under the assistance agreement and the mortgage agreement. After the May 1997, deadline, the City filed notice of termination on the land records to retake the Ocean World Learning property. The City of New London has subsequently turned the property over to the Pfizer Corporation for their new Global Development Headquarters.

FEDERAL SMALL CITIES PROGRAM

The Federal Community Development and Block Grant projects include the rehabilitation of existing housing, additions (to senior centers for example), fishing piers, facades to help businesses, rehabilitation related to compliance with the Americans with Disabilities Act. It does not include new housing. All projects funded through this Federal grant program must meet one of the three benefit criteria. It must be for the benefit of Low to Moderate income parties; for urgent need (such as flood, state of emergency, or fire); or for the rehabilitation of a slum or blighted area.

Our purpose in reviewing this grant program was to compare the monitoring requirements of this Federally funded program with the monitoring policies and requirements of State funded grant and loan programs.