

STATE OF CONNECTICUT

**AUDITORS' REPORT
CAPITAL CITY ECONOMIC DEVELOPMENT AUTHORITY
FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS
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May 11, 2001

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We have made an examination of the books, records and accounts of the Capital City Economic Development Authority (CCEDA), as provided in Section 2-90, as amended, and Section 32-605, subsection (c), of the General Statutes, for the fiscal years ended June 30, 1999 and 2000.

SCOPE OF AUDIT:

The CCEDA is a quasi-public agency as provided for by Chapter 12 of the General Statutes. In addition to receiving annual financial audits by independent public accounting firms, CCEDA received compliance audits as required by Section 32-605, subsection (c), of the General Statutes. After having reviewed the reports and work of the outside firm and having satisfied ourselves as to the firm's independence, professional reputation, and qualifications, we have relied on those financial and compliance audits, in addition to internal control documentation.

We have limited our examination to such procedures as reviewing selected internal controls and adherence to various compliance requirements. This report on our examination consists of the Comments and Recommendations which follow.

COMMENTS

Foreword:

The Capital City Economic Development Authority, hereinafter referred to as CCEDA or the Authority, was established in 1998 under Title 32, Chapter 588x of the General Statutes. As a quasi-public agency under Section 1-120 of the General Statutes, CCEDA is a body politic and corporate, and an instrumentality of the State of Connecticut. For financial reporting purposes, CCEDA is a component unit of the State and its financial statements are included in the State's Comprehensive Annual Financial Report. The powers of the Authority are vested in a seven-member Board of Directors appointed by the Governor, the Speaker of the House of Representatives, the Majority Leader of the House of Representatives, the Minority Leader of the House of Representatives, the President Pro Tempore of the Senate, the Majority Leader of the Senate and the Minority Leader of the Senate.

The purpose of CCEDA is to stimulate new investment in Connecticut, to attract and service large conventions, tradeshow, conferences etc., to encourage diversification of the State's economy, to strengthen Hartford's role as the region's major business and industry employment center and seat of government, and to encourage residential housing development in downtown Hartford.

With regard to the convention center project, CCEDA is to construct, operate, maintain and market the project.

CCEDA was also created to coordinate the use of all State and municipal planning and financial resources that are available for any Capital City Project, as defined in Section 32-600 of the General Statutes.

Board of Directors and Administrative Officials:

Members of the CCEDA Board of Directors as of June 30, 2000 were as follows:

R. Bartley Halloran, Chair
Mary Ann Hanley
Eileen S. Kraus
Anthony March
Miguel Jose Matos
G. Robert O'Brien

One vacancy existed as of June 30, 2000.

The chief executive officer (Executive Director) of the Authority is appointed by the Board. Brendan M. Fox, Jr. was appointed on November 13, 1998 and served throughout the audited period.

Recent State Legislation:

During the audited period, the General Assembly passed several laws that affected CCEDA. The major ones are summarized below:

- Public Act 99-241, (Sections 17 through 25, 53 and 60), effective July 1, 1999, made numerous changes to the Authority's initial enabling legislation. Among these changes were the clarification of the status of the Authority's employees as being exempt from the classified service and eligible for participation in the State's retirement system, increases to the amount of authorized bonding for the various projects, requirements regarding a level of private development prior to spending any money on these projects, and a requirement that a master development plan be submitted to the Legislature prior to the awarding of contracts for the convention center, sportsplex, or parking facilities.

- Public Act 00-140, effective with its passage in May of 2000, implemented many of the provisions of the master development plan required by Public Act 99-241.

RÉSUMÉ OF OPERATIONS:

CCEDA receives annual operating funding from the State as part of the State's General Fund budget. For the years ended June 30, 1999 and 2000, CCEDA received funding of \$750,000 each year. Unexpended balances are carried forward. In addition, CCEDA receives funding through DECD and OPM to be utilized for specific development costs related to Capital City Projects.

CCEDA is authorized to issue bonds, notes and other obligations. Obligations of the Authority are not deemed to constitute debt of the State or any other political subdivision. To date, no such obligations have been issued by the Authority.

Based on the Authority's audited financial statements, below is a summary of the financial operations of the Authority for the years under review:

	<u>Fiscal Year Ended June 30,</u>	
	<u>2000</u>	<u>1999</u>
Revenues:		
State of Connecticut appropriation	\$ 750,000	\$ 750,000
Development costs funded	3,203,302	1,799,112
Interest income	<u>17,626</u>	<u>4,129</u>
Total Revenues	<u>3,970,928</u>	<u>2,553,241</u>
Expenses:		
Operating costs	577,865	298,826
Development costs	<u>3,203,302</u>	<u>1,799,112</u>
Total Expenses	<u>3,781,167</u>	<u>2,097,938</u>
Excess of revenues over expenses	189,761	455,303
Fund balance, beginning of year	<u>455,303</u>	<u>-</u>
Fund balance, end of year	<u>\$ 645,064</u>	<u>\$ 455,303</u>

In accordance with Section 32-305, subsection (d)(1) of the General Statutes, the Authority is entitled to receive 90 percent of the sales tax receipts from hotel and lodging occupancy within Hartford. The Authority has entered into an agreement with the Greater Hartford Convention and Visitors Bureau, Inc. whereby its rights to these amounts are assigned to the Bureau. As a result, \$1,060,000 and \$1,321,000 were transferred to the Bureau during the 1999 and 2000 fiscal years, respectively.

CONDITION OF RECORDS

Our limited examination of the records of the Capital City Economic Development Authority revealed certain areas requiring attention. These areas are detailed in this section of the report.

Adoption of Authority Procedures:

- Criteria:* Section 1-121, subsection (a), of the General Statutes requires that quasi-public agencies publish proposed procedures in the Connecticut Law Journal at least thirty days prior to adoption. Section 32-603 of the General Statutes provides that the Authority shall adopt procedures, in accordance with the provisions of Section 1-121, for various aspects of the Authority's operations.
- Condition:* The Authority did not have general written procedures in place covering the issuance of financial obligations, the provision of financial assistance, or the use of surplus funds.
- The Authority has adopted procedures governing financial assistance for new housing and the selection of consultants. However, none of these procedures were published in the Connecticut Law Journal as required.
- Effect:* Timely action by the Authority is made difficult by the absence of established procedures. The omission of the prior notice provisions of Section 1-121 of the General Statutes prevents the intended public comment period for those individuals that are affected by the procedures.
- Cause:* The Authority had adopted procedures for the other aspects of its operation as required by Section 32-603 of the General Statutes. The omission of certain procedures was the result of a lack of a perceived need for procedures in those areas. Administrative oversight contributed toward the adoption of procedures without the necessary public notice.
- Recommendation:* The Authority should take steps to ensure that procedures are adopted in accordance with Sections 32-603 and 1-121 of the General Statutes. (See Recommendation 1.)
- Agency Response:* "For actions that affected the general public at large, the Authority did advertise and publish notices of its intended actions in accordance with C.G.S. Section 1-121. With respect to the procurement of certain highly-specialized services by the Authority, the Authority was of the opinion that for actions that effected a well defined group of professional consultants rather than the public at large, compliance with the notice requirements

of C.G.S. Section 1-121 was not required. The Authority accepts the recommendation as valid and will take the necessary steps to ensure that C.G.S. Sections 32-603 and 1-121 are complied with.”

Management of Cash and Investment Income:

Criteria: General principles of cash management provide for the drawing down of available funds to be done in conjunction with the need to expend those funds. Sound business practices dictate that idle cash be invested in accordance with an approved investment policy so as to earn the highest possible rate of return. Section 32-602, subsection (b), of the General Statutes, grants the Authority the power to invest in a variety of financial instruments, including the State Treasurer’s Short Term Investment Fund (STIF).

Condition: During both of the years under review, the Authority received the entire General Fund budgeted appropriation (\$750,000) at the inception of the fiscal year. A review of the interest income earned by the cash resources of the Authority found that the rates of return were considerably below those that were attainable from investment vehicles such as the STIF. The Authority did not have an approved investment policy with which to guide its investment activities.

During our review, the Authority investigated the returns available from STIF and invested the majority of its idle cash.

Effect: The receipt of the entire General Fund appropriation at once results in idle cash in the custody of the Authority and denies the State the opportunity to maximize its own investment income. Opportunities to attain substantial increases in investment income do not appear to have been taken advantage of.

Cause: Despite the ability to invest in various investment vehicles, the Authority had not considered available opportunities. The aforementioned lack of procedures for the use of surplus funds resulted in the lack of an investment policy, which contributed to this condition.

Recommendation: The Authority should adopt an investment policy to improve cash management and investment income. (See Recommendation 2.)

Agency Response: “On June 16, 1999, the Authority did establish an investment account with the Office of the State Treasurer. However, given the need to have adequate reserves in its operating account in order to proceed with capital projects under its oversight, the Authority chose to maintain its funds in its operating account. As stated in this audit report, the Authority since has invested in excess of 50%

of its cash assets in the investment account previously established with the Office of the State Treasurer.”

Distribution of Semiannual Reports:

- Criteria:* Section 32-604, subsection (c) of the General Statutes requires that the Authority shall issue semiannual reports to the Governor and General Assembly on the achievement of its economic development objectives. Said reports are to be distributed in accordance with the provisions of Section 11-4a of the General Statutes. Section 11-4a requires that reports be filed with the State Librarian and the Office of Legislative Research.
- Condition:* While the Authority issues reports more frequently than required, they are not distributed to the State Librarian or Office of Legislative Research.
- Effect:* The reports are not distributed as intended by law.
- Cause:* Administrative oversight was the cause of this condition.
- Recommendation:* The Authority should ensure that the distribution of the semiannual reports issued under Section 32-604, subsection (c) of the General Statutes is done as required. (See Recommendation 3.)
- Agency Response:* “The Authority accepts the recommendation and will take necessary steps to comply with C.G.S. Section 11-4a.”

Documentation of Approved Salaries:

- Criteria:* Section 32-603 of the General Statutes provides for the establishment of written procedures for compensating employees, including the requirement for board approval prior to the creation or filling of a position. Section 32-602, subsection (b)(3), of the General Statutes authorizes the Authority to employ staff and fix compensation.
- Condition:* We were unable to obtain documentation of the authorized salaries for the Authority’s staff. Salaries were not budgeted for individual positions, and Board minutes did not document the employment terms for staff.
- Effect:* While nothing came to our attention to indicate that salaries were at other than approved rates, independent verification of salaries was not possible without documentation of Board approval.

- Cause:* The Authority apparently had not seen a need for documentation of the approved salaries.
- Recommendation:* Procedures should be established to provide documented approval for employees' salaries. (See Recommendation 4.)
- Agency Response:* "The Authority accepts the recommendation as valid and has established an appropriate procedure at the Board level. This procedure includes the establishment of a personnel subcommittee of the Board which is charged with the responsibility of overseeing Authority staffing, establishing and approving the terms of employment of the employees of the Authority, and ensuring that appropriate documentation of such terms is created."

Contract to Promote Greater Hartford:

- Criteria:* In accordance with Authority procedures, contracts for goods and services valued at more than \$20,000 should be awarded on a competitive basis.
- Condition:* As noted in the Résumé of Operations Section of this report, the Authority had entered into a three-year agreement with the Greater Hartford Convention and Visitors Bureau, Inc. for services promoting the Greater Hartford area. These services were not competitively procured. Receipts assigned to the Bureau for each of the years under review were in excess of \$1,000,000. The terms of the contract did not denote a specific cost for the contracted services, leaving the contract fee open to budget revisions that could be submitted if available revenues exceeded the original budget. The Authority's Board of Directors approved the contract, despite the fact that it was not competitively procured and the contract was not for a finite amount.
- Effect:* Without definitive costs, competitive bidding becomes difficult, as does the ability to control the final cost of the contract. The lack of competitive bidding places into question whether such services could be obtained in a more cost-effective manner.
- Cause:* The Authority decided to continue a relationship that had begun during the tenure of the previous Connecticut Convention Center Authority. The Authority entered into a contract with the Bureau that was detailed in most regards except for the cost component.
- Recommendation:* The Authority should consider contracting with the Greater Hartford Convention and Visitors Bureau, Inc. at a determined

cost, permitting competitive procurement in the future. (See Recommendation 5.)

Agency Response: “The Authority accepts this recommendation as valid. Currently, the Authority is planning for the opening of the Connecticut Convention Center which is anticipated to occur in the third quarter of 2004. Since the Authority is of the opinion that the mission and direction of the Bureau should change in order to prepare for the opening of the Connecticut Convention Center, the Authority intends to take action that will fix the cost of the Bureau contract at a finite amount as well as permit competitive procurement of certain marketing services in the future.”

RECOMMENDATIONS

Current Audit Recommendations:

- 1. The Authority should take steps to ensure that procedures are adopted in accordance with Sections 32-603 and 1-121 of the General Statutes.**

Comment:

Procedures were not in place to address the issuance of financial obligations, the provision of financial assistance, or the use of surplus funds. Some of the procedures that were adopted were not noticed as required by Section 1-121.

- 2. The Authority should adopt an investment policy to improve cash management and investment income.**

Comment:

The rates of return earned by the Authority were well below those available from sources such as the State Treasurer's Short Term Investment Fund.

- 3. The Authority should ensure that the distribution of the semiannual reports issued under Section 32-604, subsection (d) of the General Statutes is done as required.**

Comment:

Reports were not filed with the State Librarian as required by Section 11-4a of the General Statutes.

- 4. Procedures should be established to provide documented approval for employees' salaries.**

Comment:

We were unable to determine if salaries were being paid at rates that were approved by the Board.

- 5. The Authority should consider contracting with the Greater Hartford Convention and Visitors Bureau, Inc. at a determinate cost, permitting competitive procurement in the future.**

Comment:

Despite contract costs in excess of \$1,000,000 each year, the services were not competitively procured and the contract terms did not include a definitive cost.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the staff of the Capital City Economic Development Authority during the course of our examination.

Kenneth Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts