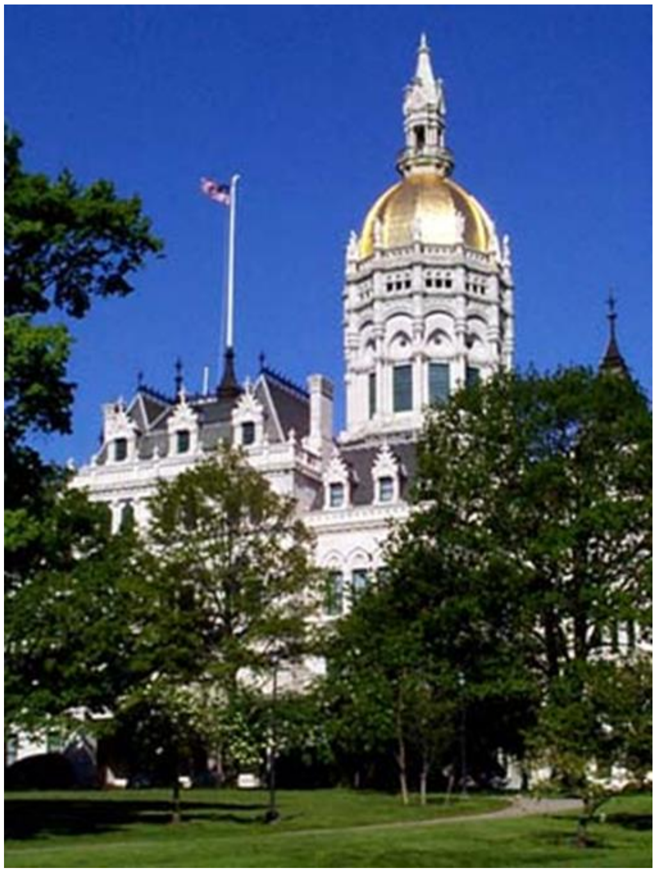
STATE OF CONNECTICUT



AUDITORS' REPORT
CAPITAL REGION DEVELOPMENT AUTHORITY
FISCAL YEARS ENDED JUNE 30, 2019 AND 2020

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

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October 27, 2021

EXECUTIVE SUMMARY

In accordance with the provisions of Sections 1-122 and 2-90 of the Connecticut General Statutes, we have audited certain operations of the Capital Region Development Authority for the fiscal years ended June 30, 2019 and 2020. Our audit identified instances of noncompliance with laws, regulations, and policies. The significant findings and recommendations are presented below:

Page 7	The authority has not established a compensation plan that provides salary rates and ranges for each job classification. The Capital Region Development Authority should establish sufficient salary grades for its employees in accordance with its operating procedures and good business practices. (Recommendation 1.)
Page 8	We reviewed personnel records for all 12 authority employees and did not find any current or prior performance appraisals on file. The Capital Region Development Authority should adopt and follow a policy that requires annual written performance evaluations for all permanent employees. (Recommendation 2.)
Page 9	The authority enrolled a new hire into its Core-CT leave accrual plans four months after the employee's start date. As a result, the employee received 39 hours in excess leave. As of December 31, 2020, the employee used 14 hours of extra personal leave that the authority should not have granted. The Capital Region Development Authority should accurately account for its employees' accrued vacation, sick and personal time and ensure that it correctly calculates manual adjustments. (Recommendation 3.)

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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October 27, 2021

AUDITORS' REPORT
CAPITAL REGION DEVELOPMENT AUTHORITY
FISCAL YEARS ENDED JUNE 30, 2019 AND 2020

We have audited certain operations of the Capital Region Development Authority in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2019 and 2020. The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;

2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions; and

3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority, and testing selected transactions. Our testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the authority's management and the state's information systems, and was not subjected to the procedures applied in our audit of the authority. For the areas audited, we:

1. Did not identify deficiencies in internal controls;

2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and

3. Did not identify a need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Capital Region Development Authority.

COMMENTS

FOREWORD

The Capital Region Development Authority (CRDA) was established as the successor to the Capital City Economic Development Authority in 2012 under Title 32, Chapter 588x of the General Statutes. As a quasi-public agency under Section 1-120 of the General Statutes, the authority is a body politic and corporate, constituting a public instrumentality and a political subdivision of the state. For financial reporting purposes, the authority is a component unit of the state and its financial statements are included in the State of Connecticut's Annual Comprehensive Financial Report.

CRDA was created to stimulate new investment within the capital region to create a vibrant multidimensional downtown; operate, maintain, and market the Connecticut Convention Center; coordinate the use of all state and municipal planning and financial resources that are available for any capital city project; strengthen Hartford's role as the region's major business and industry employment center and seat of government; manage facilities through contractual agreement; encourage residential housing development in downtown Hartford, and facilitate the relocation of state office buildings.

CRDA is responsible for the development and/or management of several major area venues, including the XL Center, the Connecticut Convention Center, the Connecticut Science Center, Front Street District, Dillon Stadium, Connecticut Regional Market as well as a few housing projects and parking facilities in and around downtown Hartford. Various contractors manage the day-to-day operations of these venues and report regularly to CRDA. CRDA is also responsible for managing the Stadium at Rentschler Field on behalf of the State of Connecticut Office of Policy and Management (OPM). CRDA and OPM entered a memorandum of understanding, detailing CRDA's responsibilities, which has been in place since July 1, 2013. CRDA contracted with a venue management firm to manage the stadium's day-to-day activities.

Board of Directors and Administrative Officials

In accordance with Section 32-601(b) of the General Statutes, the authority's board of directors consists of 14 members, as follows: four that serve as ex-officio members, four appointed by the Governor, two appointed by the mayor of the city of Hartford, two appointed by the General Assembly, and the mayors of Hartford and East Hartford.

Members of the Board of Directors as of June 30, 2020, were as follows:

Appointed members:

Suzanne Hopgood	Chairwoman
Andy Bessette	Vice Chairman
David Robinson	
Robert Patricelli	
Joanne Berger-Sweeney	
David Jorgensen	
Erik Johnson	

Other members:

Luke Bronin	Mayor, City of Hartford
Marcia Leclerc	Mayor, City of East Hartford

Ex-officio members:

Melissa McCaw	Secretary, Office of Policy and Management
Seila Mosquera-Bruno	Commissioner, Department of Housing
Joseph Giulietti	Commissioner, Department of Transportation
David Lehman	Commissioner, Department of Economic and Community Development

Other persons serving during the audited period include:

Benjamin Barnes, Evonne Klein, James Redeker, Catherine Smith, Kiley Gosselin, Glendowlyn Thames, and Michael Matteo also served on the board during the audited period. There was one board vacancy as of June 30, 2020, which the mayor of Hartford has since filled by appointing Randal Davis.

Michael Freimuth is the current executive director and served in that capacity throughout the audited period.

Significant Legislation

There were no legislative changes with any significant effect on the operations of the Capital Region Development Authority during the audited period.

RÉSUMÉ OF OPERATIONS

Statement of Net Position

Based on the authority's audited financial statements, a summary of assets, liabilities and net position for the audited period follows:

	Fiscal Year Ended June 30,		
	2018	**2019**	**2020**
Assets			
Current Assets	$ 35,230,527	$ 39,120,816	$ 35,670,065
Noncurrent Assets	337,970,545	355,505,805	355,701,800
Total Assets	373,201,072	394,626,621	391,371,865
Liabilities			
Current Liabilities	$ 27,180,713	$ 29,479,530	$ 32,526,641
Noncurrent Liabilities	122,576,005	122,383,215	122,048,380
Total Liabilities	149,756,718	151,862,745	154,575,021
Net Position			
Net Investment in Capital Assets	$ 161,079,913	$ 152,365,566	$ 141,347,983
Restricted	55,636,885	89,022,895	94,874,199
Unrestricted	6,727,556	1,375,415	574,662
Total Net Position	223,444,354	242,763,876	236,796,844
Total Liabilities and Net Position	**$ 373,201,072**	**$ 394,626,621**	**$ 391,371,865**

The authority's total assets increased by $21.426 million in fiscal year 2018-2019 (approximately 6%) and decreased by $3.255 million (0.8%) in fiscal year 2019-2020. The fluctuations were primarily due to timing differences in the funding of regional initiative projects and the renovation of Dillon Stadium.

The authority can issue its own bonds, bond anticipation notes, and other obligations to achieve the purposes outlined in Section 32-602 of the General Statutes. Obligations of the authority are not deemed to constitute debt of the state. As of June 30, 2020, the authority was authorized to issue up to $122,500,000 in bonds and other obligations. As of June 30, 2020, the authority issued $110,000,000 in four series of parking and energy fee revenue bonds, the proceeds of which provided financing for the Adriaen's Landing project. On September 13, 2018, the authority issued a fifth series of its Parking and Energy Fee Revenue Bonds, 2018 Refunding Bonds, with a par value of $16,365,000 in an aggregate principal amount of not more than the remaining outstanding principal amount of the prior bonds. CRDA also entered into a $12,500,000 loan agreement with the Travelers Indemnity Company prior to the audited period. As of June 30, 2020, the authority's bonds outstanding totaled $72,289,000. Loans outstanding totaled $6,243,000 as of June 30, 2020.

Pursuant to the provisions of Section 32-608 of the General Statutes, the state and the authority entered into a contractual assistance agreement equal to the amount of the annual debt service on the outstanding bonds. The authority is required to reimburse the state for any assistance received under this contract utilizing parking and energy fee revenues. There was $4,259,229 and $3,585,421 available from parking and energy fee revenues to reimburse the state for contractual assistance payments for the fiscal years 2018-2019 and 2019-2020, respectively. This was less than the amounts required to fully reimburse the state. As of June 30, 2020, the authority is obligated to repay $47,994,442 in contractual assistance.

Statement of Revenues, Expenses and Changes in Net Position

Based on the authority's audited financial statements, a summary of revenues, expenses and changes in net position for the audited period follows:

	Fiscal Year Ended June 30,		
	2018	**2019**	**2020**
Operating Revenues			
Grants-State of Connecticut	$ 6,301,621	$ 6,249,120	$ 6,249,121
Combined Facilities	38,624,724	43,333,522	31,628,305
Other Operating Revenue	466,635	1,042,025	596,199
Total Operating Revenues	45,392,980	50,624,667	38,473,625
Operating Expenses			
Personnel and General	1,491,090	1,661,827	1,629,432
Pension Expenses	691,349	813,623	809,885
Combined Facilities	39,474,365	42,939,088	33,831,355
Depreciation and Amortization	13,069,853	13,355,148	13,553,273
Total Operating Expenses	54,726,657	58,769,686	49,823,945
Income (Loss) from Operations	(9,333,677)	(8,145,019)	(11,350,320)
Non-Operating Revenue (Expense)			
Interest Income	705,522	611,212	2,458,362
Interest Expense	(2,637,631)	(2,608,339)	(2,013,410)
Non-Operating Revenue (Expense), net	(1,932,109)	(1,997,127)	444,952
Capital Contributions – State of CT	4,737,671	2,374,583	266,466
Transfer – State of CT Housing Loan Program	7,406,773	27,087,085	4,671,870
Change in Net Position	**$ 878,658**	**$ 19,319,522**	**$ (5,967,032)**

The State of Connecticut provides an operational grant to fund the authority's payroll and administrative costs. The authority carries forward any unexpended balances. State grants also assist with the operations of the Convention Center, XL Center, Rentschler Field and Front Street District. The combined facilities revenues increased by $4,670,601 in fiscal year 2018-2019 from fiscal year 2017-2018 due to increased XL Center event revenues over the prior year. The $11,705,217 decrease in revenues from facilities in fiscal year 2019-2020 from the prior fiscal year was primarily driven by the effects of the COVID-19 pandemic and the resulting state shutdown in March 2020.

During fiscal year 2013-2014, the State Bond Commission, through the Special Revenue Bond Fund, authorized $60 million for CRDA to provide grants or loans to encourage residential housing development under the State of Connecticut Housing Loan Program, as provided in Section 32-617g of the General Statutes. In fiscal year 2014-2015, the State Bond Commission established an additional $30 million to provide for the acquisition of property in Hartford. In fiscal years 2015-2016 through 2018-2019, the authority established $50 million per year for the purposes and uses in Section 32-602 of the Connecticut General Statutes. A summary of amounts established for CRDA use and amounts formally allocated follows:

	Fiscal Year Ended June 30,				
	2016	**2017**	**2018**	**2019**	**2020**
Amount Established	$ 50,000,000	$ 50,000,000	$ 50,000,000	$ 50,000,000	-
Allocated as of FYE 20	50,000,000	46,071,000	20,340,000	-	-
Unallocated as of FYE 20	$ -	$ 3,929,000	$ 29,660,000	$ 50,000,000	-

Other Examinations

An independent public accounting firm audited the CRDA financial statements for the years under review. The audits provided opinions that the financial statements presented fairly, in all material respects, the financial position of the Capital Region Development Authority for the audited period, and the results of the operations and cash flows during that period in conformity with accounting principles generally accepted in the United States of America.

The independent public accounting firm also separately audited the financial statements for the operations of the Stadium at Rentschler Field for the years under review. The auditors found that the financial statements presented fairly, in all material respects, the financial positions of the facility operations.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Capital Region Development Authority disclosed the following three recommendations, of which one has been repeated from the previous audit:

Lack of Established Salary Ranges

Criteria: The Capital Region Development Authority's operating procedures require its board of directors to establish a compensation plan, which consists of sufficient salary grades to provide compensation rates as may be determined to be necessary or desirable for all job classifications within the authority. Additionally, good business practices suggest that a market-based pay structure be established for all professional employees.

Condition: The authority has not established a compensation plan that provides salary rates and ranges for each job classification. The authority does not constrain its employee compensation levels within salary ranges established by an analysis of market conditions.

Effect: The compensation levels of professional employees could increase indefinitely.

Cause: The board of directors has not established formal constraints on compensation levels.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Capital Region Development Authority should establish sufficient salary grades for its employees in accordance with its operating procedures and good business practices. (See Recommendation 1.)

Agency Response: "CRDA management does not agree with the comment. The authority worked with the state's Office of Policy and Management and the Department of Administrative Services in 2009 in an attempt to create job classifications and salary grades for authority personnel. Ultimately, this concept was determined by all parties to be too unwieldy for such a small organization as the job descriptions that would accompany the job classifications and salary grades would encompass such wide-ranging tasks and duties that they would run contrary to the realities of CRDA's operational plan, affectionately described as "all hands on deck." The Board of Directors establishes appropriate constraints on compensation through the approval of the annual budget."

Auditor's Concluding Comment: The authority's response is inconsistent with its operating procedures, which explicitly require its board of directors to establish compensation rates for all job classifications. We also note the authority's payroll and administrative costs are funded by an operational grant from the state, and designated salary grades would provide safeguards against arbitrary pay practices.

Lack of Performance Evaluations

Criteria: The Capital Region Development Authority's personnel policy and procedures manual does not require annual written performance evaluations for its employees. Sound business practices suggest that regular written evaluations are necessary to support pay increases for positive performance or potential disciplinary action for poor performance.

Condition: We reviewed personnel records for all 12 authority employees and did not find any current or prior performance appraisals on file.

Effect: The authority cannot adequately support pay increases or potential disciplinary action without proper documentation of job performance.

Cause: The authority's policy does not require written performance evaluations for its employees.

Prior Audit Finding: This finding has been previously reported in the last two audit reports covering the fiscal years ended 2015 through 2018.

Recommendation: The Capital Region Development Authority should adopt and follow a policy that requires annual written performance evaluations for all permanent employees. (See Recommendation 2.)

Agency Response: "CRDA management does not agree with the comment and has previously responded to the auditors twice on this recommendation. Following an in-depth review in September 2018, the CRDA Board discussed and adopted its current Personnel Policy and Procedures Manual. CRDA management has operated in accordance with this Personnel Policy and Procedure Manual and its CRDA Board directives.

CRDA is a small authority consisting of 12 employees who work closely with each other routinely on a daily basis. All pay increases are approved by the Executive Director upon the Board of Director's budget approval. CRDA will continue to provide employees with timely and on-the-spot feedback as needed. CRDA will discuss this course of action with its Board of Directors as conducted previously and implement any additional Board recommendations."

Auditor's Concluding Comment: We are not indicating that CRDA management has not operated within its current policies and procedures. We recommend that the authority adopt and follow a policy that requires annual written performance evaluations for all permanent employees. Sound business practices suggest that regular written evaluations are necessary to support pay increases for positive performance or potential disciplinary action for poor performance.

Incorrect Leave Accrual Adjustment

Criteria: Capital Region Development Authority employees earn sick, vacation and personal leave in accordance with the rates established by the authority's personnel policy and procedures manual. The authority should enroll newly hired employees into the appropriate leave accrual plans within Core-CT, the state's system of record for all accrual balances.

Condition: The authority enrolled a new hire into its Core-CT leave accrual plans four months after the employee's start date. This resulted in manual leave accrual adjustments of 35 hours of sick, 23 hours of vacation and 32 hours of personal leave. However, the employee should have only received 20 hours of sick, 13 hours of vacation and 18 hours of personal leave. As a result, the employee received 39 hours in excess leave.

As of December 31, 2020, the employee used 14 hours of extra personal leave that the authority should not have granted. The excess sick and vacation hours remained in the employee's accrual balance.

Context: This was the only manual leave accrual adjustment the authority made during the period reviewed.

Effect: Employees may use leave time for which they are not entitled.

Cause: It appears that an incorrect leave accrual adjustment along with a lack of administrative oversight contributed to the condition.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Capital Region Development Authority should accurately account for its employees' accrued vacation, sick and personal time and ensure that it correctly calculates manual adjustments. (See Recommendation 3.)

Agency Response: "CRDA management agrees with this recommendation and will perform periodic internal audits of employee accrual balances and report discrepancies to the State's Core-CT management team.

CRDA utilizes the State's human resource and payroll system, Core-CT. This finding derived from adding a new employee to Core-CT. The authority should be able to have a reasonable expectation that its statewide human resource and payroll system contains adequate employee accrual controls."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Capital Region Development Authority contained three recommendations. Two have been implemented or otherwise resolved and one has been repeated or restated with modifications during the current audit.

- The Capital Region Development Authority should ensure that it meets the terms of its Board of Directors and the State Bond Commission prior to spending bond funds. **This recommendation has been resolved.**

- The Capital Region Development Authority should adopt and follow a policy that requires annual written performance evaluations for all permanent employees. **This recommendation is being repeated. (See Recommendation 2.)**

- The Capital Region Development Authority should strengthen internal controls to ensure that contracts include affidavits required by the General Statutes. **This recommendation has been resolved.**

Current Audit Recommendations:

1. **The Capital Region Development Authority should establish sufficient salary grades for its employees in accordance with its operating procedures and good business practices.**

   Comment:

   The authority has not established a compensation plan that provides salary rates and ranges for each job classification.

2. **The Capital Region Development Authority should adopt and follow a policy that requires annual written performance evaluations for all permanent employees.**

   Comment:

   We reviewed personnel records for all 12 authority employees and did not find any current or prior performance appraisals on file.

3. **The Capital Region Development Authority should accurately account for its employees' accrued vacation, sick and personal time and ensure that it correctly calculates manual adjustments.**

   Comment:

   The authority enrolled a new hire into its Core-CT leave accrual plans four months after the employee's start date. As a result, the employee received 39 hours in excess leave. As of December 31, 2020, the employee used 14 hours of extra personal leave that the authority should not have granted.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Capital Region Development Authority during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Jaimie Hubeny
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