

STATE OF CONNECTICUT



*AUDITORS' REPORT
CAPITAL REGION DEVELOPMENT AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2012*

AUDITORS OF PUBLIC ACCOUNTS
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Table Of Contents

INTRODUCTION	1
SCOPE OF AUDIT	1
COMMENTS	2
FOREWORD	2
Board of Directors and Administrative Officials	2
New Legislation.....	3
RÉSUMÉ OF OPERATIONS.....	3
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Net Assets	4
CONDITION OF RECORDS.....	6
Conflict of Interest Statements and Ethics Policy	6
RECOMMENDATIONS.....	7
INDEPENDENT AUDITORS' CERTIFICATION.....	9
CONCLUSION.....	11

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February 26, 2014

AUDITORS' REPORT CAPITAL REGION DEVELOPMENT AUTHORITY FISCAL YEARS ENDED JUNE 30, 2011 AND 2012

We have examined the books, records and accounts of the Capital Region Development Authority, formally known as the Capital City Economic Development Authority, as provided in Section 2-90, Section 1-122 and Section 32-605 subsection (c) of the General Statutes, for the fiscal years ended June 30, 2011 and 2012.

SCOPE OF AUDIT

This audit was primarily limited to performing tests of the Capital Region Development Authority's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the authority has complied with its regulations concerning the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

We also considered the Capital Region Development Authority's internal control over its operations and its compliance with requirements that could have a material or significant effect on the authority's operations, in order to determine our auditing procedures for the purpose of evaluating the authority's operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included the five areas identified above.

Our audit included a review of a representative sample of the authority's activities during the fiscal years in the five areas identified above and a review of such other areas as we considered necessary. The financial statement audits of the Capital Region Development Authority, for the fiscal years indicated above, were conducted by the authority's independent public accountants.

This report on our examination consists of the Comments, Condition of Records, Recommendation and Certification that follow.

COMMENTS

FOREWORD

The Capital City Economic Development 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, the authority is a body politic and corporate, constituting a public instrumentality and a political subdivision of the state. For the financial reporting purposes, the authority is a component unit of the state and its financial statements are included in the State of Connecticut's Comprehensive Annual Financial Report (CAFR).

Public Act 12-147, effective June 15, 2012, changed the name of the Capital City Economic Development Authority to the Capital Region Development Authority. For the last 15 days of the fiscal year ended June 30, 2012, the operations of the authority occurred under the banner of the Capital Region Development Authority.

The purpose of authority is to operate, maintain and market the convention center project; coordinate the use of all state and municipal planning and financial resources that are available for any capital city project; stimulate new investment in Connecticut; attract and service large conventions, tradeshows, conferences; encourage diversification of the state's economy; strengthen Hartford's role as the region's major business and industry employment center and seat of government; and encourage residential housing development in downtown Hartford.

Board of Directors and Administrative Officials

Pursuant to Public Act 12-147, the terms of all members of the board of directors of the Capital City Economic Development Authority serving on June 15, 2012, expired on said date. Members of the board of directors as of June 15, 2012, were as follows:

William McCue, chair
Joseph Gianni, vice chair
Mary Ann Hanley
Margaret Buchanan
Luis C. Caban
Brendan M. Lynch
Rodney O. Powell

James Abromaitis served as the executive director throughout the audited period and resigned September 28, 2012. Michael Freimuth was selected to fill the executive director vacancy as of October 1, 2012.

New Legislation

Public Act 12-147, effective June 15, 2012, created the Capital Region Development Authority, expanded the jurisdiction of the authority and replaced the Capital City Economic Development Authority board of directors with a 13-member board of directors.

Public Act 11-48 Section 12, effective July 1, 2011, eliminated the requirements that the executive director of the authority be a staff member of the Office of Policy and Management and act as the comptroller of the overall Adriaen's Landing project. The act restored the authority of the board of directors to appoint the authority's executive director, who shall be exempt from classified service.

RÉSUMÉ OF OPERATIONS

Balance Sheet

Based on the authority's audited financial statements, below is a summary of assets and liabilities for the audited period, as compared to the period ended June 30, 2010.

	<u>Fiscal Year Ended June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS:			
Current Assets	\$ 6,840,081	\$ 5,711,448	\$ 5,100,768
Noncurrent Assets	291,298,646	299,693,158	304,773,677
Total Assets	<u>298,138,727</u>	<u>305,404,606</u>	<u>309,874,445</u>
LIABILITIES:			
Current Liabilities	5,970,064	5,394,110	5,353,978
Noncurrent Liabilities	131,525,580	130,879,836	130,722,696
Total Liabilities	<u>137,495,644</u>	<u>136,273,946</u>	<u>136,076,674</u>
Total Net Assets	160,643,083	169,130,660	173,797,771
Total Net Assets and Liabilities	<u>\$ 298,138,727</u>	<u>\$ 305,404,606</u>	<u>\$ 309,874,445</u>

The authority's noncurrent assets decreased \$5,080,519 and \$8,394,512 due to reductions in construction in progress and capital assets during the fiscal years ended June 30, 2011 and 2012, respectively, while the authority's current assets increased \$1,739,313 due to the timing and use of funds for operating expenses during the audited period. Charges for depreciation expense on capital assets, reductions to construction in progress and changes in unrestricted cash and cash equivalents lead to an \$11,735,718 decrease in total assets during the audited period.

The authority is able to 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. During the prior fiscal years, the authority issued \$110,000,000 in four series of parking and energy fee revenue bonds and entered into a \$12,500,000 loan agreement with the Travelers Indemnity Company. Proceeds

from the bonds provide financing for the Adriaen's Landing project. As of June 30, 2012, the authority's bonds outstanding totaled \$97,209,778, while loans outstanding totaled \$10,768,558.

Pursuant to the provisions of Section 32-608 of the General Statutes, the state and the authority entered into a contract assistance agreement that was 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. Funds used to reimburse the state were \$8,238,885 less than the amount required to fully reimburse the state during the audited period. As of June 30, 2012, the authority is obligated to repay \$23,205,936 in contract assistance. Overall total liabilities increased \$1,221,698 in fiscal year 2012 compared to the prior fiscal year due to an increase in the obligation to the state for contract assistance, which was offset in part by a reduction in total debt outstanding as of June 30, 2012.

Statement of Revenues, Expenses and Changes in Net Assets

Based on the authority's audited financial statements, below is a summary of revenues and expenses for the audited period, as compared to the period ended June 30, 2010.

	<u>Fiscal Year Ended June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:			
Adriaen's Landing Facilities	\$ 19,578,411	\$ 17,145,288	\$ 15,486,125
State and Other Grants	6,267,230	11,286,378	6,185,195
Other Operating Revenue	-0-	5,430	32,091
Total Operating Revenues	<u>25,845,641</u>	<u>28,437,096</u>	<u>21,703,411</u>
OPERATING EXPENSES:			
Adriaen's Landing Facilities	20,667,511	18,260,461	19,486,501
Depreciation Expense	9,443,402	9,214,367	9,233,740
Authority Operations	946,165	662,837	892,425
Total Operating Expense	<u>31,057,078</u>	<u>28,137,665</u>	<u>29,612,666</u>
Income (Loss) from Operations	(5,211,437)	299,431	(7,909,255)
NON-OPERATING REVENUE/ EXPENSES:			
Interest Income	22,309	31,379	59,859
Interest Expense	(4,821,206)	(4,997,921)	(5,106,104)
Non-Operating (Expense), Net	(4,798,897)	(4,966,542)	(5,046,245)
Loss before Capital Transfer In	(10,010,334)	(4,667,111)	(12,955,500)
Capital Transfer In - State of CT	1,522,757	-0-	-0-
Change in Net Assets	(8,487,577)	(4,667,111)	(12,995,500)
Net Assets, Beginning of Year	169,130,660	173,797,771	186,753,271
Net Assets, End of Year	<u>\$160,643,083</u>	<u>\$169,130,660</u>	<u>\$173,797,771</u>

An annual General Fund appropriation funds the operating expenses of the authority and the unexpended balances are carried forward. The Office of Policy and Management and the

Department of Economic and Community Development fund the specific development costs related to the capital city and convention center project monitored by the authority. As of June 30, 2012, the authority's grant revenue declined \$5,019,148 primarily due to a \$5,000,000 restricted use gift from The Walt Disney Company and ESPN received during the fiscal year ended June 30, 2011. The restricted gift's purpose was to offer financial assistance for the eligible costs associated with the construction of the Front Street district. While grant revenues decreased, revenues from the Adriaen's Landing Facilities increased \$4,092,286, or 26 percent, due to continued increases in the utilization of the convention center for conventions and trade shows during the audited period.

As of June 30, 2012, the authority's operating income decreased \$5,510,868 due to the decrease in grant revenue described above. In addition, \$4,997,921 and \$4,821,206 in interest expenses contributed to the reduction in net assets at June 30, 2011 and June 30, 2012, respectively. Overall, total net assets decreased \$13,154,688, or eight percent, since June 30, 2010.

CONDITION OF RECORDS

Our review of the records of the Capital Region Development Authority revealed the following area needing improvement.

Conflict of Interest Statements and Ethics Policy

Criteria: The Capital Region Development Authority's Personnel Policy and Procedures Manual requires employees to review and sign a conflict of interest statement upon commencement of employment and annually on July 1st thereafter.

The authority's ethics policy requires the ethics compliance officer to conduct an annual update on ethics matters for existing directors, officers and employees. Furthermore, at the conclusion of the annual update, each participant should acknowledge that the current ethics policy was received and reviewed.

Condition: None of the five sampled employees reviewed and signed the conflict of interest statement as required by the Personnel Policy and Procedures Manual during the audited period.

We were informed that the ethics compliance officer did not conduct a formal, annual update on ethics matters, and none of the employees acknowledged receiving and reviewing the ethics policy on an annual basis.

Cause: Management did not monitor compliance with authority's Personnel Policy and Procedures Manual and the ethics policy for the conflict of interest provisions and ethics training requirements.

Effect: Lack of disclosure of potential conflicts of interest increased the risk that an employee's conflict may go undetected while serving in a professional capacity at the authority.

Recommendation: The Capital Region Development Authority should monitor compliance with its Personnel Policy and Procedures Manual for the conflict of interest provisions and ethics training requirements. (See Recommendation 1.)

Agency's Response: "CRDA agrees with this recommendation. The authority has corrected the condition provided above; additionally, the authority has taken steps to ensure future compliance with its personnel policy and procedures manual regarding said condition."

RECOMMENDATIONS

Our prior audit report contained six recommendations, all of which were implemented or otherwise resolved. One recommendation is being presented as a result of our current examination.

Status of Prior Audit Recommendations:

- The Capital Region Development Authority should segregate the duties of entering and processing the payroll and have another employee review the payroll. During the audited period, the chief financial officer authorized the payroll and the authority is now utilizing Core-CT to process its payroll instead of an outside vendor; therefore, this recommendation will not be repeated.
- The Capital Region Development Authority should revise what appears to be an unlimited sick time usage policy and begin tracking employees' sick time usage. Also, the authority should establish an accrued sick time procedure. The authority established an accrued sick time procedure and it now tracks employee sick time usage; therefore, this recommendation will not be repeated.
- Authority management should review all employee vacation leave to ensure that employees have an adequate amount of leave time before approving employee timesheets. During our testing, we did not note any vacation leave taken in excess of the time available and the authority has review procedures in place; therefore, this recommendation will not be repeated.
- The authority should follow its accounts payable procedures and contract signatures should include the date the contracts were signed to ensure business is not conducted before the contracts are executed. During our testing, we did not note any contracts that lacked the date of signature and nothing came to our attention indicating that business was being conducted prior to applicable contracts being signed; therefore, this recommendation will not be repeated.
- The Capital Region Development Authority should improve its supervisory review procedures of bank reconciliations and require such reviews be performed and documented on a monthly basis for each account. The authority has implemented procedures that require the chief financial officer to review the bank reconciliations; therefore, this recommendation will not be repeated.
- The Capital Region Development Authority should update all written procedures as required by Section 32-603 of the General Statutes, as necessary, and should adhere to its written procedures. The authority has established written procedures in accordance with Section 32-603 of the General Statutes and nothing came to our attention indicating that the authority did not adhere to its written procedures; therefore, this recommendation will not be repeated.

Current Audit Recommendations:

- 1. The Capital Region Development Authority should monitor compliance with its Personnel Policy and Procedures Manual for the conflict of interest and ethics training requirements to minimize the risk that an employee's action might result in personal gain while serving in the professional capacity at the authority.**

Comment:

Our review disclosed that the authority does not follow all of its written procedures concerning the conflict of interest and ethics training requirements as outlined in the Capital Region Development Authority's Personnel Policy and Procedures Manual and ethics policy.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90, Section 1-122 and Section 32-605 subsection (c) of the General Statutes, we have conducted an audit of the Capital Region Development Authority's operations for the fiscal years ended June 30, 2011 and 2012. This audit was primarily limited to performing tests of the authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, including but not limited to a determination of whether the authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grant agreements and other financial resources, and to understanding and evaluating the effectiveness of the authority's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grant agreements applicable to the authority are complied with. The financial statement audits of the Capital Region Development Authority, for the fiscal years indicated above, were conducted by the authority's independent public accountants.

We conducted our audit in accordance with the requirements of Section 2-90 and Section 1-122 of the General Statutes. In doing so, we planned and performed the audit to obtain reasonable assurance about whether the Capital Region Development Authority complied in all material respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Internal Control over Compliance:

Management of Capital Region Development Authority is responsible for establishing and maintaining effective internal control over its operations. In planning and performing our audit, we considered the Capital Region Development Authority's internal control over its operations as a basis for designing our auditing procedures for the purpose of evaluating the authority's operations and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control over operation and compliance. Accordingly, we do not express an opinion.

Our consideration of internal control included, but was not limited to, the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, unauthorized, illegal, or irregular transactions on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control that adversely affects the authority's ability to properly initiate, authorize, record, process, or report

data reliably consistent with management's direction, and/or comply with certain provisions of laws, regulations, contracts and grant agreements such that there is a reasonable possibility that material noncompliance with laws, regulations, contracts and grant agreements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over the authority's operations was for the limited purpose described previously and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies that we consider to be material weakness, as defined previously.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Capital Region Development Authority complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the authority's operations for the fiscal years ended June 30, 2011 and June 30, 2012, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including but not limited to the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our examination included reviewing all or a representative sample of the authority's activities in those areas and performing such other procedures as we considered necessary in the circumstances.

The results of our tests disclosed no material or significant instances of noncompliance. However, we noted a certain matter which we reported to authority management in the accompanying Condition of Records and Recommendation section of this report.

The Capital Region Development Authority's response to the finding identified in our audit is described in the accompanying Condition of Records section of this report. We did not audit the authority's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of authority management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited. Users of this report should be aware that our audit does not provide a legal determination of the authority's compliance with the provisions of the laws, regulations, contracts and grant agreements included within the scope of this audit.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Capital Region Development Authority during our examination.



Paulina Burek
Auditor I

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts