STATE OF CONNECTICUT

AUDITORS' REPORT
CONNECTICUT INNOVATIONS, INCORPORATED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT

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October 1, 2014

AUDITORS' REPORT
CONNECTICUT INNOVATIONS, INCORPORATED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

We have audited certain operations of the Connecticut Innovations, Incorporated (CI) in fulfillment of our duties under Sections 1-122, 2-90, and 32-42 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2012. The objectives of our audit were to:

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

2. Evaluate the corporation's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether Connecticut Innovations, Incorporated 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, grants and other financial assistance, as applicable; and

3. Evaluate the 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 corporation, as well as certain external parties; and testing selected transactions. 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 our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the corporation's management and was not subjected to the procedures applied in our audit of the corporation. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. No need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of Connecticut Innovations, Incorporated.

COMMENTS

FOREWORD

Connecticut Innovations, Incorporated (CI) operates primarily under Chapter 581, Sections 32-32 through 32-47a of the General Statutes. Pursuant to Section 32-35, it is a public instrumentality and political subdivision of the state. Pursuant to Chapter 12 of the General Statutes, CI is classified as a quasi-public agency subject to the requirements related to such agencies as may be found in Chapter 12. As a quasi-public agency, CI's financial information is included as a component unit in the State of Connecticut's Comprehensive Annual Financial Report (CAFR).

CI was established to stimulate and encourage the research and development of new technologies, businesses and products; the development and operation of science parks and incubator facilities; and to promote science, engineering, mathematics and other disciplines essential to the development and application of technology within Connecticut.

CI provides financial assistance to Connecticut businesses for the development and marketing of high-technology products, services, and processes. This assistance has been made in the form of loans, royalty agreements and equity (ownership) investments. CI also funds other organizations such as Connecticut universities and technology research or application centers. CI includes contingent payback provisions to those funds as a means of sharing in the royalties and other earnings from successful research projects.

CI targets early-stage high-technology enterprises. These include: advanced materials, aerospace, bioscience, energy and environmental systems, information technology, applied optics and microelectronics. CI utilizes a number of limited partnerships and financial investments to achieve its objectives of assisting qualified organizations.

CI provides several financial and technical programs to assist qualifying Connecticut companies, colleges and universities. These include:

Connecticut Emerging Enterprises Limited Partnership (CEELP) – CEELP is a partnership comprised of CI and a major commercial bank. The program invests in initial and subsequent rounds of financing for early-stage, technology growth enterprises with significant proprietary innovations or other unique, sustainable competitive advantages.

Eli Whitney Fund – This program may be used for risk capital investments in emerging and established companies to stimulate their development of high technology products, processes and services. The program also provides working capital to assist companies in marketing and launching technology products, processes and services.

Next Generation Ventures, LLC – This joint venture between CI and a major commercial insurer invests in start-up and young technology companies in Connecticut by providing seed or early-stage financing. This joint venture was dissolved during the 2011-2012 fiscal year and CI received its pro rata share of the investments held by the joint venture at the time of dissolution.

BioScience Facilities Fund – This program was developed to enable the development of laboratory space in Connecticut in order to encourage the growth of biotechnology research and development companies.

Seed Investment Fund and BioSeed Fund – These programs were developed to address the needs of entrepreneurs by promoting and investing in early-stage Connecticut-based emerging technology and biotechnology companies.

Pre-Seed Fund – This program was developed to provide support and assistance to prepare high-technology companies for future investments. Investments consist of two year promissory notes ranging from $25,000 to $200,000.

Clean Tech Fund – This program was developed to support the demand for alternative energy technologies that focus on energy conservation, environmental protection, or the elimination of harmful waste.

Mezzanine Fund – This loan program is designed to address the needs of Connecticut companies as they endeavor to grow sales and revenues and thus their job base and market share. The loans are used for working capital purposes.

Small Business Innovation Research (SBIR) Program – The SBIR program supports Connecticut-based innovators, entrepreneurs and small businesses to commercialize their new products. The program also provides matching grants to manufacturers to design and develop innovative technologies to diversify their portfolio of products, thereby retaining and increasing sales and employment in the state. The SBIR program also assists companies to obtain federal grants through the federal SBIR program.

In addition, in the footnotes to its financial statements for the fiscal year ended June 30, 2012, the following organizations are identified as blended component units of CI that, although legally separate entities, are in substance part of CI's operations:

Connecticut Technology Development Corporation (CTDC) – The CTDC was established to address the need by new biotech firms for wet laboratory space in move-in condition. The activities through the 2011-2012 fiscal year have pertained to the leasing and fit-out of laboratory space expenses at 25 Science Park in New Haven. The total expenses of CTDC during the fiscal year ended June 30, 2012, were $319,809. These amounts are included in CI's financial statements.

Organizationally, CI was divided into five major areas during the audited period:

- Finance and Administration – responsible for accounting, administration, finance, and information technology support.
- Investment Team – responsible for identifying opportunities that fall within CI's scope and providing, when appropriate, capital for invention and innovation when financial aid is not available from normal commercial sources.
- External Relations – responsible for communications, marketing and media relations.
- Business Development – responsible for developing and supporting business opportunities for CI and its portfolio companies.
- Small Business Innovation Research – responsible for helping businesses learn about the funds available to them from the federal Small Business Innovation Research program.

Effective July 1, 2011, CI is no longer responsible for the administration of the Clean Energy Fund. In accordance with Section 99 of Public Act 11-80, the Connecticut Clean Energy Finance and Investment Authority (CEFIA), a separate quasi-public authority, was created to oversee the Clean Energy Fund. CI performs administrative functions for CEFIA in accordance with a memorandum of understanding between the two agencies. CI expended $1,868,098 for the fiscal year ended June 30, 2012 on behalf of CEFIA, for which CI was reimbursed.

Significant State Legislation

Public Act 12-1 enacted in the June Special Session of the General Assembly merged the Connecticut Development Authority (CDA) with CI as of July 1, 2012, transferring CDA's statutory mission, powers, obligations and assets to CI. It also changed the composition of the board of directors, by increasing the number of directors from 15 to 17, increasing the number of members appointed by the Governor from eight to nine, adding provisions regarding three members having knowledge of financial lending or development of commerce, trade and business, and adding the State Treasurer as an ex-officio member. Public Act 13-247 requires the Governor to appoint a chairperson from among the board members. Prior statutory language required that the Commissioner of Economic and Community Development be the chairperson.

Board of Directors and Administrative Officials

Pursuant to Section 32-35 subsection (b) of the General Statutes, a 15-member board of directors governed CI during the audit period. Eight members were appointed by the Governor and four were appointed by various legislative leaders. In addition, the Commissioner of the Department of Economic and Community Development, the President of the Board of Regents for Higher Education and the Secretary of the Office of Policy and Management served as ex-officio members. Subsection (c) of Section 32-35 provides that the Commissioner of Economic and Community Development shall be the chairperson of the board. As mentioned previously, legislation was enacted changing the composition of the board, subsequent to the audit period.

The members of CI's board of directors as of June 30, 2012, were as follows:

Appointed by the Governor:
- Daniel Esty
- Louis N. George, Esq.
- John W. Olsen
- Paul R. Pescatello, J.D., Ph.D.
- Rafael A. Santiago
- George W. Schiele
- Two vacancies

Legislative Appointments:
- Alan K. Greene
- Mun Y. Choi, Ph.D.
- Stephen Norcera
- Drew Harris

Ex-Officio:
- Catherine H. Smith, Chairperson, Commissioner of the Department of Economic and Community Development
- Karen K. Buffkin, (designee) Secretary of the Office of Policy and Management
- Robert A. Kennedy, President of the Board of Regents for Higher Education

Peter L. Cashman, R. Carol Muradian, Harris L. Marcus, Mark Ojakian and Michael P. Meotti also served during the audited period.

In addition, the board has set up several committees and sub-committees to expedite certain business activities of CI and to maintain controls over its transactions. During the audit period, CI had the following three standing committees: Audit, Compliance and Governance Committee; Finance, Operations and Compensation Committee; and Eli Whitney Investment Committee. CI also has two advisory committees including the Eli Whitney Advisory Committee, and the Valuation Committee, which met throughout the audited period.

On March 1, 2012, Claire Leonardi was appointed chief executive officer and executive director and continues to serve in that capacity. Prior to her appointment, Peter V. Longo served as president and executive director and continued to serve as president during the audit period.

RÉSUMÉ OF OPERATIONS

State Accounts

The State of Connecticut provided significant initial financing for CI's programs through the proceeds of general obligation bonds. It is these bond proceeds and any net income from operations that are used to finance CI's investments.

State expenditures related to CI include bond fund proceeds to finance various grants and investments. They also include certain operating expenses processed through Core-CT, the state's accounting system. These transactions are processed through two special revenue funds (Grants to Local Governments and Others and the Connecticut Bioscience Collaboration Fund) and an enterprise fund (Connecticut Innovations, Incorporated Fund).

The Grants to Local Governments and Others Fund is a special revenue fund used to process certain grant awards authorized by the state legislature through various authorizing special acts and the action of the State Bond Commission. Bond payments are processed through Core-CT and are recorded on both the state's and CI's books. The State Comptroller records state bond proceeds to finance loans and investments as expenditures, while CI records them as investments and as contributed capital. During the audited period, $10,000,000 of special revenue funds was used to recapitalize various portfolio investment programs, $1,700,000 was used for the bio-facilities loan program, and $2,295,000 was used for pre-seed programs.

The Connecticut Bioscience Collaboration Fund is a special revenue fund established in accordance with Public Act 11-2. The purpose of the fund is to support the establishment of a bioscience cluster anchored by a research laboratory housed at the University of Connecticut Health Center. During the audit period, $4,953,680 was used for grants, facility loans and equipment.

The Connecticut Innovations, Incorporated Fund is an enterprise fund authorized by Section 32-41a of the General Statutes. That statute provides that this fund be used to carry out the purposes of CI and for the repayment of state bonds when required by the State Bond Commission. Total bond fund monies authorized by Sections 32-41, 32-41b, and 32-41o, amounted to $114,800,000 as of June 30, 2012. Core-CT is used by CI for the processing of enterprise fund payroll and other operating expenses. Expenditures charged to the enterprise fund during the audited period consisted entirely of the payroll costs of CI and the Clean Energy Finance and Investment Authority, which were funded by cash transfers by CI and CEFIA to the Connecticut Innovations, Inc. Fund. There were no state expenditures made from the enterprise fund for investment purposes.

Connecticut Innovations, Incorporated

Pursuant to subsection (b) of Section 32-41a of the General Statutes, all investment income, loan repayments, and grants with payback provisions are deposited into CI's operating account. The operating account is used to pay administrative expenses, including the transfers to the enterprise fund for reimbursements of personal services, fringe benefits and other administrative costs charged to the fund.

Any excess funds in the operating account are transferred to short-term investments and marketable securities, including the State Treasurer's Short Term Investment Fund (STIF), to earn investment income. It should be noted that CI may be required to repay the monies advanced by the State Bond Commission, including interest, under terms the commission might find desirable and consistent with the purposes of CI. As of June 30, 2012, the State Bond Commission had not requested repayment of any principal or interest.

The financial position of CI as of June 30, 2011 and 2012, per its audited financial statements, is presented below.

	Fiscal Years Ended June 30,	
	2012	**2011**
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 32,759,049	$ 39,365,379
Current portion of Investments	694,681	1,269,012
Due from Clean Energy Finance and Investment Authority, Net	94,340	131,919
Other Assets	326,286	780,870
Total Current Assets	33,874,356	41,547,180
Non-Current Assets:		
Portfolio Investments:		
Eli Whitney Fund Investments	39,281,411	34,671,967
BioScience Facilities Fund Investments	1,627,950	1,627,691
Seed Fund Investments	4,250,705	1,950,001
Clean Tech Investments	3,753,365	2,891,944
Mezzanine Fund Investments	1,475,000	0
Other Investments	994,461	17
Total Investments	51,382,892	41,141,620
Less Current Portion	(694,681)	(1,269,012)
Investments – Non-Current	50,688,211	39,872,608
CT Bioscience Collaboration Program loans	2,589,180	0
Capital Assets, Net of Depreciation	511,711	412,332
Total Non-Current Assets	53,789,102	40,284,940
Total Assets	**$ 87,663,458**	**$ 81,832,120**
Liabilities and Net Assets		
Liabilities:		
Accounts Payable and Accrued Expenses	$ 794,671	$ 614,042
Custodial Liability	94,484	0
Due to Department of Economic and Community Development, Net	48,743	0
Deferred Revenue	1,020,483	372,906
Total Liabilities	1,958,381	986,948
Net Assets		
Invested in Capital Assets	511,711	412,332

Unrestricted	85,193,366	80,432,840
Total Net Assets	85,705,077	80,845,172
Total Liabilities and Net Assets	**$ 87,663,458**	**$ 81,832,120**

CI makes risk capital investments in high-technology applicant companies. CI primarily makes investments in equity securities of emerging high-tech companies. It has essentially eliminated the use of royalty financing arrangements but continues to recover the costs and revenues of past royalty arrangements. CI has more than 70 percent of its investments in equity securities.

In the absence of readily determinable market values, investments are carried at fair value as estimated by the Valuation Committee of CI, using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group. As is commonplace with investments such as those held by CI, and as disclosed in CI's audited financial statements, due to the inherent uncertainty of valuation, those estimated values may differ significantly from the amounts ultimately realized from the investments, and the differences could be material.

CI also provides loans that are generally convertible into equity to Connecticut companies to bring new high-technology products to market. Loans may be used for any business-related purpose such as hiring, marketing, research and development, inventory buildup and capital expenditures.

A schedule of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2011 and 2012, follows. The information was obtained from CI's audited financial statements.

	Fiscal Years Ended June 30,	
	2012	**2011**
Operating Revenues		
Interest on Short-term Investments and Cash Deposits	$ 57,982	$ 90,922
Interest on Investments	1,164,358	324,276
Grant and Program Income	3,185,573	389,837
Other Income	421,295	171,157
Total Revenues	4,829,208	976,192
Operating Expenses		
Compensation, Benefits and Payroll Taxes	4,323,788	3,655,373
General and Administrative Expenses	1,454,892	1,603,506
Grants and Programs	3,935,132	225,049
Total Expenses	9,713,812	5,483,928
Operating Loss	(4,884,604)	(4,507,736)
Non-Operating Revenues (Expenses)		
Unrealized Gain on Investments	(608,410)	3,518,866
Realized Loss on Sale of Investments	(6,256,261)	(1,103,212)
Loss on Disposal of Assets	0	(197,577)

Total Non-operating Revenues (Expenses)	(6,864,671)	(2,218,077)
Change in Net Assets Before Capital Contributions	(11,749,275)	(2,289,659)
Capital Contributions	16,609,180	885,000
Change in Net Assets	4,859,905	(1,404,659)
Net Assets – Beginning of year	80,845,172	82,249,831
Net Assets – End of Year	**$ 85,705,077**	**$ 80,845,172**

Total operating revenues increased by $3.9 million to $4.8 million during the 2011-2012 fiscal year. Interest on short-term investments and cash deposits decreased by $32,940 during the 2011-2012 fiscal year due to interest rate decreases for the fiscal year. Interest on investments increased by $840,082 as a result of interest earned on debt investments converted to equity during the 2011-2012 fiscal year. Grant and program income increased by $2,795,736 primarily as a result of grant funds received from the state to be distributed under the Connecticut Bioscience Collaborative program. Other income increased by $250,138 as a result of proceeds received from portfolio company redemptions.

Compensation, benefits and payroll taxes increased by $668,415 during the 2011-2012 fiscal year, as a result of increased staffing, primarily for investment managers and analysts to support the planned increase in portfolio company investments.

General and administrative expenses decreased by $148,614 during the 2011-2012 fiscal year due primarily to decreases in office-related expenses.

Total expenditures for grants and programs during the 2011-2012 fiscal year were $3,935,000, an increase of $3,710,000 over the prior year. During the 2011-2012 fiscal year, $2,364,000 was disbursed under the Connecticut Bioscience Collaborative program. The remaining expenditures in the 2011-2012 fiscal year pertained to funding of SBIR programs and the Innovation Ecosystem program.

Net realized losses on investments for the year were $6,256,261, as compared to realized losses of $1,103,212 in the 2010-2011 fiscal year. The realized losses resulted from divestitures of investments, which were recorded as unrealized losses in previous years.

Net unrealized losses on investments for the 2011-2012 fiscal year were $608,410, as compared to net unrealized gains of $3,518,866 in the 2010-2011 fiscal year. In the 2011-2012 fiscal year, net unrealized loss was the result of net decreases in valuation reserves for privately held companies in CI's investment portfolio and public holdings. In the 2010-2011 fiscal year, the net unrealized gain was the result of net increases to valuation reserves for privately held companies in CI's investment portfolio and public holdings.

During the 2011-2012 fiscal year, capital contributions of $16.6 million were received from the state. These contributions were utilized as follows: $10 million to recapitalize various portfolio investment programs $2.6 million for facility and equipment loans under the CT

Bioscience Collaborative program, $2.3 million for the Pre-Seed Fund, and $1.7 million for the BioFacilities Loan program. Capital contributions of $885,000 were requested from the state in the 2010-2011 fiscal year for the Pre-Seed Fund.

CI's board approved $26.4 for new investments during the fiscal year ended June 30, 2012, and funded $25.6 million for investments in new opportunities and continued support of existing portfolio companies.

Other Examinations

Independent public accountants audited CI's financial statements for the year under review. That audit attested that the financial statements presented fairly, in all material respects, the financial position of Connecticut Innovations, Incorporated 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.

As an integral part of their financial statement audit, the independent public accountants also provided a report on compliance and on internal control over financial reporting. That report disclosed no instances of noncompliance concerning these requirements. The report on internal control indicated that no material weaknesses in internal control over financial reporting were identified.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our audit identified the following reportable conditions.

Statutory Reporting Requirements

Criteria: Section 1-123 subsection (a) of the General Statutes requires the board of directors of each quasi-public agency to annually submit a report to the Governor, the Auditors of Public Accounts, and the Legislative Program Review and Investigations Committee.

Section 1-123 subsection (b) of the General Statutes requires that, for the quarter commencing July 1, 2010, and for each quarter thereafter, the board of directors of each quasi-public agency shall submit a financial report to the legislature's Office of Fiscal Analysis.

Section 1-123 subsection (c) of the General Statutes requires that, for the quarter commencing July 1, 2010, and for each quarter thereafter, the board of directors of each quasi-public agency shall submit a personnel status report to the legislature's Office of Fiscal Analysis.

Section 32-41y subsection (d)(2) of the General Statutes requires that not later than April 15, 2012 and quarterly thereafter, the board shall provide a report to the joint standing committees of cognizance of the General Assembly. Such report shall contain available information on the status and progress of the operations and funding of the Connecticut Bioscience Collaboration program.

Section 32-41y subsection (d)(3) requires that the executive director of CI shall prepare for each fiscal year an operating and capital budget for the Connecticut Bioscience Collaboration program. Not later than 90 days prior to the start of the fiscal year, the executive director shall submit the budget to the board. The board shall submit the budget to the Governor, the Secretary of the Office of Policy and Management, and the joint standing committees of cognizance of the General Assembly.

Section 32-47a of the General Statutes requires that not later than January first in each year, CI shall submit a business plan containing a summary of it projected operations for the year to the joint standing committees of cognizance of the General Assembly.

Section 32-4h of the General Statutes requires that not later than August 1, 1997 and annually thereafter, CI shall submit a report to the joint standing committee of cognizance of the General Assembly, which details the amount of bond funds expended by CI during the previous fiscal year on each economic cluster in the state.

Condition: Our review disclosed that Connecticut Innovations Incorporated did not submit the following reports for the fiscal year ended June 30, 2012 in a timely manner:

- The annual report;
- Quarterly financial reports for the quarters ended September 30, 2011 and June 30, 2012;
- All quarterly personnel status reports;
- The Bioscience Collaboration Program operating and capital budget;
- Quarterly Bioscience Collaboration Report of Program Operations and Funding for the quarter ended March 31, 2012;
- The business plan.

Our review also disclosed that the Economic Cluster Bond Fund report had not been submitted.

Effect: There is non-compliance with the statutory reporting requirements.

Cause: The individual responsible for overseeing reporting for CI terminated employment in June 2012 and it appears that lack of oversight coupled with the merger of CI with another agency has caused reports to be submitted late or not at all.

Recommendation: Connecticut Innovations should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes. (See Recommendation 1.)

Agency Response: “Connecticut Innovations (CI) agrees with the finding. These submission delays were directly related to 1) the person responsible for overseeing the submission and generation of legislative reports was terminated in 2012 and 2) the due dates of these reports directly coincided with CI’s merger with the Connecticut Development Authority. Shortly after the merger and prior to the audit, the reports were identified, assigned to new staff, generated and filed appropriately. To further strengthen our internal controls CI has assigned overall responsibility of external reporting to the CFO; has developed a schedule of due dates and assigned personnel for each report; and will include timely submission of all reports in the appropriate employees’ annual performance goals.”

Contracts

Criteria: CI's operating procedures require that any solicitation of bids or proposals by the corporation, and any award of a contract by the corporation, shall be subject to all state procurement and contracting requirements applicable to quasi-public agencies of the state.

Section 31-57b of the General Statutes requires that no contract shall be awarded by the state or any of its political subdivisions to any vendor which has been cited for certain violations of the occupational safety and health act during the three-year period preceding the bid.

Section 4a-81 of the General Statutes requires that no state or quasi-public agency shall execute a contract with a value of $50,000 or more in any calendar or fiscal year, unless the agency obtains affidavits attesting as to whether any consulting agreement has been entered into in connection with such contract.

Section 9-612 subsection (g)(2) D of the General Statutes requires that no state or quasi-public agency shall award a contract having a value of $50,000 or more to a contractor who makes or solicits a campaign contribution as prohibited under Section 9-612 subsection (g)(2)A or B for one year after the election for which the contribution is made or solicited.

Section 4a-60a requires that for all contracts with the state or a political subdivision of the state with a value of $50,000 or more, the contractor shall provide a non-discrimination affidavit.

Condition: Our review of eight personal service agreements in effect during the fiscal year ended June 30, 2012, disclosed the following:

- Six agreements did not include provisions ensuring that the consultant had not been cited for occupational safety and health act violations;
- Six contracts over $50,000 did not include campaign contribution or consulting agreement affidavits. We noted that the six contracts did include a notice on campaign contributions and two included language regarding consulting agreements.
- One contract did not include a signed non-discrimination affidavit.

Effect: There is non-compliance with the General Statutes and CI's operating procedures.

Cause: Connecticut Innovations did not have adequate controls in place.

Recommendation: Connecticut Innovations should strengthen internal controls to ensure that contracts include all provisions required by the General Statutes. (See Recommendation 2.)

Agency Response: "Connecticut Innovations (CI) agrees with this finding. Prior to the audit, CI had already strengthened our internal controls by having its contracting language reviewed and updated by outside counsel to ensure compliance with the General Statues."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- Connecticut Innovations should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes. This recommendation is repeated. (See Recommendation 1.)

Current Audit Recommendations:

1. **Connecticut Innovations should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes.**

   Comment:

   Our review disclosed that several reports were not submitted in a timely manner.

2. **Connecticut Innovations should strengthen internal controls to ensure that contracts include all provisions required by the General Statutes.**

   Comment:

   Our review disclosed that several contracts did not include all of the provisions required by the General Statutes.

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Connecticut Innovations, Incorporated during the course of our examination.

Lisa G. Daly
Administrative Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts