

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT INNOVATIONS, INCORPORATED
FISCAL YEARS ENDED JUNE 30, 2017 AND 2018*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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May 5, 2020

EXECUTIVE SUMMARY

In accordance with the provisions of Sections 1-122, 2-90 and 32-42 of the Connecticut General Statutes, we have audited certain operations of Connecticut Innovations Incorporated. The objectives of this review were to evaluate the corporation's internal controls; compliance with policies and procedures, as well as certain legal provisions; and management practices and operations for the fiscal years ended June 30, 2017 and 2018.

The key findings and recommendations are presented below:

Page 19	CTNext did not publish its proposed operating procedures in the Connecticut Law Journal. Connecticut Innovations, Incorporated (CI) could not provide documentation that it published its revision to the Connecticut Bioscience Innovation Fund's operating procedures in the Connecticut Law Journal. CTNext should ensure that any procedures adopted by its board of directors in accordance with Sections 32-39h and 1-121 of the General Statutes are published in the Connecticut Law Journal. CI should retain documentation of the Connecticut Law Journal publication. (Recommendation 2.)
Page 20	CI overpaid leave time to an employee who resigned for reasons other than retirement. Two employees were paid for 88 hours for a pay period instead of the 80 they actually worked. CI should ensure that payments to separating employees are accurate and that employees properly complete their timesheets by reporting the correct work hours. (Recommendation 3.)
Page 21	There were internal control weaknesses in the use of company credit cards including lack of adequate supporting documentation and approvals for some charges. CI should establish a credit card policy and maintain all documents necessary to support monthly credit card charges. CI should also document international travel approvals for its chief executive officer. (Recommendation 4.)
Page 24	CI and the Department of Economic and Community Development (DECD) did not have a memorandum of understanding in place for a CI employee who was primarily located at the DECD. CI should enter into memorandum of understandings when its employees assist state or outside agencies at other locations. (Recommendation 5.)
Page 25	Although legislation was passed in 2005 to create the Connecticut New Opportunities Fund, CI did not establish the fund and it appears it may not be necessary. CI should seek legislation to eliminate Section 32-41v of the General Statutes regarding the establishment of the Connecticut New Opportunities Fund. (Recommendation 6.)
Page 25	We found that some board members were absent 3 consecutive times. There were vacancies for some committee and board positions for extended periods. CI and CTNext should adopt attendance procedures for its board of directors and committees, and should notify legislative leaders of vacancies in their appointments (Recommendation 7.)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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May 5, 2020

AUDITORS' REPORT

We have audited certain operations of the Connecticut Innovations, Incorporated (CI) in fulfillment of our duties under Section 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 years ended June 30, 2017 and 2018. 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 corporation 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 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 corporation; 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 the state's information systems, 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 policies and procedures or legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

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

COMMENTS

FOREWORD

Connecticut Innovations, Incorporated

Connecticut Innovations, Incorporated (CI) operates primarily under Chapter 581, Sections 32-32 through 32-47a of the General Statutes. In accordance with Section 32-35 of the General Statutes, CI is a public instrumentality and political subdivision of the state. CI is a quasi-public agency of the state under Chapter 12 of the General Statutes, and is, therefore, subject to the requirements related to such agencies. As a quasi-public agency, the CI 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; to encourage the creation and transfer of new technologies; to assist existing businesses in adopting current and innovative technological processes; to stimulate and provide services to industries that will advance the adoption and utilization of technology; to achieve improvements in the quality of products and services; to stimulate and encourage the development and operation of new and existing science parks and incubator facilities; and to promote science, engineering, mathematics, and other disciplines that are essential to the development and application of technology within Connecticut by the infusion of financial aid for research, invention, and innovation in situations in which such financial aid would not otherwise be reasonably available from commercial or other sources.

Additionally, Public Act 12-1 transferred the operations of Connecticut Development Authority (CDA) to CI. CDA was created to stimulate industrial and commercial development

within the state. The incorporation of CDA into CI is a vertical extension of the CI overall economic reach.

The mission of CI is to be a leading source of financing and ongoing support for Connecticut's innovative, growing companies. CI seeks to fulfill this mission through the provision of flexible financing, strategic guidance, and introductions to valuable partners. CI operates 3 core programs: venture, loans, and innovative programs. The CI venture portfolio includes equity and debt investments in early-stage technology companies; the CI loan program helps early-stage and later-stage companies with capital expenditures and working capital; and the CI innovative programs focus on supporting research commercialization activities at universities and other research institutions, the pipeline of start-up companies, and talent retention.

Financial and Technical Programs

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

- **Eli Whitney Fund:** CI uses this program 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.
- **BioScience Facilities Fund:** CI created this program to enable the development of laboratory space in Connecticut to encourage the growth of biotechnology research and development companies.
- **Seed and BioSeed Funds:** CI developed these programs to address the need of entrepreneurs by promoting and investing in early stage Connecticut-based emerging technology and biotechnology companies.
- **PreSeed Fund:** CI developed this program to provide support and assistance to prepare high technology companies for future investments. Investments consist of 2-year promissory notes ranging from \$25,000 to \$200,000.
- **Clean Tech Fund:** CI developed this program to support the demand for alternative energy technologies, which focus on energy conservation, environmental protection, or the elimination of harmful waster.
- **Mezzanine Fund:** CI designed this loan program 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 for working capital.
- **Small Business Innovation Research (SBIR) Office:** The Connecticut SBIR Office seeks to support Connecticut based innovators, entrepreneurs, and small businesses to commercialize new products. The program also provides matching grants to manufacturers to design and develop innovative technologies to diversify their

portfolio of products, thereby retaining or increasing sales and employment in the state. The SBIR program also assists companies in obtaining federal grants through the federal SBIR program.

- **Self-Sustaining Bond Program:** Under the Self-Sustaining Bond Program, CI accommodates the financing for specific industrial and certain recreational and utility projects through the issuance of special obligation industrial revenue bonds. These bonds are available for financing projects such as the acquisition of land or the construction of buildings, and the purchase and installation of machinery, equipment, and pollution control facilities.
- **Insurance Program:** Under the Insurance Program, CI may insure loans made by other lending institutions to companies for acquisition of industrial land, buildings, machinery, and equipment located within the state. In addition, CI insured all of its umbrella program loans under this program.
- **Growth Fund:** Under the Growth Fund, CI has the authority to issue individual loans up to \$4,000,000. This program provides financial assistance for any purpose CI determines will materially contribute to the economic base of the state by creating or retaining jobs, promoting the export of products and services, encouraging innovation in products or services, or supporting existing activities that are important to the state's economy. Financing may be used to purchase real property, machinery and equipment, or for working capital.
- **Connecticut Works Fund:** The Connecticut Works Fund includes direct loans and a loan guarantee program with participating lenders to encourage them to provide more credit on terms that are more favorable. Eligible projects include most manufacturing-related projects and any project that materially supports the economic base of the state through jobs, defense diversification, exporting, and the development of innovative products or services. Loan types and amounts include revolving credit lines, fixed asset loans and, in some cases, refinancing.
- **Connecticut Works Guarantee Fund:** The Connecticut Works Guarantee Fund provides commitments to guarantee loans made by participating financial institutions. The fund determines eligible projects by the due diligence principles set forth in the loan presentation guidelines and underwriting considerations for the loan guarantee program of the Connecticut Works Fund.
- **Connecticut Capital Access Fund:** The Connecticut Capital Access Fund provides portfolio insurance to participating financial institutions to assist them in making loans that are somewhat riskier than conventional loans. This assistance is funded by the two branches of the Connecticut Capital Access Fund, the Urbank Program and the Entrepreneurial Loan Program. The financial institution making the loans usually determine the projects eligible as long as they meet the requirements specified in the participation agreements.

Component Unit

In addition, the following organization is a component unit of CI that, although a legally separate entity, is in substance, part of CI operations:

- **Connecticut Brownfields Redevelopment Authority (CBRA):** CBRA is a quasi-public agency created by the former Connecticut Development Authority in May 1999 to carry out the remediation, development, and financing of contaminated property within the state. CBRA was a wholly owned subsidiary of CI during the audited period. CBRA provides loans, grants, or guarantees from CI assets and the proceeds of its bonds, notes, and other obligations. Any net gain from the subsidiary flows back to CI as an addition or reduction to the earnings. Public Act 19-22, effective June 19, 2019, dissolved CBRA, and made CI the successor agency, assuming all of CBRA's powers, rights, interests and obligations.

Organizational Structure

Organizationally, CI consisted of these major areas during the audited period:

- **Finance, Operations and Compliance:** The finance, operations, and compliance unit, overseen by a chief financial officer, is responsible for financial reporting, budgeting, strategic planning, debt management, and treasury functions.
- **Venture:** The venture team, overseen by a chief investment officer, is responsible for managing the investment function at CI, which includes staffing, portfolio and risk management, outreach, budget, planning, and performance measurement.
- **Marketing & Communications:** The marketing and communications unit, overseen by a director of marketing and communications, is responsible for public relations strategy and execution for CI. The team's role is to create key messages and convey the CI story and news to stakeholders and the public. The team also counsels CI portfolio companies on messaging, positioning, pitching, public speaking, web development, thought leadership, social media, and more.

Board of Directors and Administrative Officials

A 17-member board of directors governs CI. Nine members are appointed by the Governor, 6 of whom shall be knowledgeable in the development of innovative start-up businesses and 3 of whom shall be knowledgeable in the field of financial lending or the development of commerce, trade, and business. Four of the members are the Commissioner of Economic and Community Development, the president of the Connecticut State Colleges and Universities, the State Treasurer, and the Secretary of the Office of Policy and Management, who serve ex-officio. Ex-officio members may designate any member of their staff to represent them at board meetings with full power to act and vote on their behalf. Four members are appointed as follows: one by the president pro tempore of the Senate, one by the minority leader of the Senate, one by the speaker of the

House of Representatives and one by the minority leader of the House of Representatives. The Governor appoints a chairperson from among the board members.

The members of the board of directors as of June 30, 2018 were as follows:

Governor's Appointments:

Michael A. Cantor, Chairperson
Mostafa Analoui
Valarie Gelb
John Olsen
Alexander D. Pencu, Esq.
Paul R. Pescatello, J. D. Ph.D
Rafael A. Santiago
David M. Siegel
Vacant

Legislative Appointments:

John Pavia, by the minority leader of the Senate
Richard T. Mulready, by the speaker of the House of Representatives
Christopher D. Bandecchi, by the minority leader of the House of Representatives
Vacant

Ex-Officio Members:

Catherine Smith, Commissioner of Economic and Community Development
Mark Ojakian, President of the Connecticut State Colleges and Universities
Denise Nappier, Treasurer
Benjamin Barnes, Secretary of the Office of Policy and Management

During the audited period, Mun Y. Choi and Ashley Bekton Lathrop also served as board members.

In addition, the board established several committees and subcommittees to expedite certain CI business activities and maintain controls over its transactions. During the audited period, CI had 4 standing committees:

- Audit, Compliance and Governance Committee
- Eli Whitney Investment Committee
- Finance, Operations and Compensation Committee
- Loan Committee

CI also has 5 advisory committees which met throughout the audited period, including:

- Connecticut Bioscience Innovation Fund Advisory Committee
- Eli Whitney Advisory Committee

- Regenerative Medicine Research Fund Advisory Committee
- Regenerative Medicine Research Fund Advisory Subcommittee
- Valuation Committee

Matthew McCooe served as chief executive officer and executive director during the audited period.

CTNext

Public Act 16-3 of the May 2016 Special Session, required CI to form a subsidiary that would be a separate quasi-public agency named CTNext. CTNext was formed with its filing with the Office of the Secretary of State on July 1, 2016. CTNext operates under Chapter 581, Sections 32-39f through 32-39i of the General Statutes.

The primary purpose of CTNext is to foster and oversee the growth and improvement of a statewide entrepreneurial system that is supportive of Connecticut innovators and entrepreneurs. It also supports the growth of start-up and growth stage businesses in various ways; facilitates the establishment of innovation places and innovation and entrepreneurship at institutions of higher education.

The CT Next Fund was established as a separate non-lapsing fund to be held outside the General Fund and administered by CI. CI also must provide staffing, office space and systems, and administrative support.

CTNext Board of Directors

A board of 11 members governs CTNext. The majority of the board must be serial entrepreneurs representing a diverse range of growth sectors of the Connecticut economy. The members must be qualified in at least one of the following: Start-up business development, growth stage business development, investment, innovation place development, urban planning and technology commercialization in higher education.

The members of the board of directors as of June 30, 2018 with the appointing authority or by statute are as follows:

<i>Board member</i>	<i>Appointment by</i>
Michael Cantor	Governor
David Kinsley	Speaker of the House of Representatives
Craig Crews	President Pro Tempore of the Senate
Jessica Bailey	Majority Leader of the House of Representative
Oni Chukwu	Majority Leader of the Senate
George Mathanoool	Minority Leader of the House of Representatives
Todd Vavieri	Minority Leader of the Senate
Hadi Bozorgmanesh	Chairperson, Committee on Finance, Revenue and Bonding

Revell Horsey
Chairperson, Committee on Finance, Revenue and Bonding

Ex officio members:

Matthew McCooe, Chairperson	General Statute Section 32-39f(b)
Catherine Smith, Commissioner DECD	General Statute Section 32-39f(b)

In addition, legislation established the Higher Education Advisory Committee within CTNext to review applications for higher education entrepreneurship grants.

Glendowyn Thames was appointed executive director of CTNext effective October 14, 2016, and continued to serve in that capacity during the audited period.

Significant Legislation

Public Act 15-5, June Special Session –

- Allowed CI to use no more than 5% of the total amount allotted for the year in the operation budget of Bioscience Innovation Fund for its administrative costs. These expenditures do not need to be approved by the fund’s advisory committee.

Public Act 15-222 –

- Made revisions to the Regenerative Medicine Research Fund (RMRF) which included awarding additional forms of financial assistance and expanding eligibility to include businesses in operation between 3 and 7 years. It limited eligibility to businesses in certain clinical trial phases. It eliminated the RMFR peer review committee and required the RMRF advisory committee to contract with a third party to select financial assistance application peer reviewers.
- Folded the Business Environmental Clean-Up Revolving Loan Fund and the Environmental Assistance Revolving Loan Fund into the Connecticut Growth Fund, which provides capital to businesses for equipment purchases and working capital.

Public Act 16-204 –

- Allowed CI to use moneys in its unrestricted funds and the Bioscience Innovation Fund to invest in private equity investment funds under certain conditions.

Public Act 16-3, May 2016 Special Session –

- Established CTNext as a subsidiary of CI to foster innovation and assist entrepreneurs and start-up and growth-stage businesses and gave it certain powers and duties;
- Established that CTNext be governed by an 11-member board of directors who have certain education and experience;

- Established the CTNext Fund as a nonlapsing fund outside of the General Fund and requires CI to administer it;
- Established a grant program to foster innovations and entrepreneurship in compact, mixed use geographic areas;
- Earmarked \$90 million in previously authorized bond funds for CTNext and other innovation and entrepreneurship programs;
- Requires CI to consider relocating its main office and establish satellite offices in innovative places;
- Allows CI to invest in certain private equity investment funds, solicit investments from state residents, provide capital to later-stage businesses and requires CI to involve private partners in certain investment agreements;
- Requires CI to undergo a performance audit conducted by an independent accounting or management consulting firm and submit it, along with a response, to the Commerce and Finance, Revenue and Bonding Committees;
- Requires CTNext to award a grant to an eligible organization to analyze innovation and entrepreneurship in the state;
- Established the Higher Education Innovation and Entrepreneurship Working Group to foster innovation and entrepreneurship at Connecticut colleges and universities;
- Established the Higher Education Entrepreneurship Advisory Committee to review applications for entrepreneurship grants to higher education institutions;
- Required CTNext to create a website to advertise Connecticut start-ups that are crowdfunding or seeking angel investments; and
- Extends the sunset date for angel investor tax credits through 2019 and allows them to be sold, assigned, or transferred.

Public Act 16-212 –

- Eliminated prior laws that placed the Connecticut Green Bank within CI for administrative purposes only and required a member of the CI board to serve on the Connecticut Green Bank’s board.

Public Act 17-164 –

- Required the CTNext board of directors to select and oversee a private research organization to provide specific services to continually analyze economic and business conditions, and provide legislators with periodic reports that recommend legislative and programmatic actions effective July 7, 2017.

RÉSUMÉ OF OPERATIONS

State Funding

The State of Connecticut provides significant funding for CI and CTNext programs through the issuance of general obligation bonds. CTNext also receives Manufacturing Assistance Act bond funds and federal grants.

Connecticut Innovations, Incorporated

The CI state expenditures include bond fund proceeds applied 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 three special revenue funds: Grants to Local Governments and Others, the Connecticut Bioscience Collaboration Fund, and the Bioscience Innovation Fund. CI also processes transactions through 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 special acts and the State Bond Commission. CI processes bond payments through Core-CT and they are recorded on both the state and CI books. The State Comptroller records state bond proceeds to finance loans and investments as expenditures, while CI records them as investments and contributed capital. During the audited period, CI received \$14,500,000 for financing CTNext programs, \$15,000,000 to recapitalize various portfolio investment programs, and \$16,000,000 for grants for regenerative medicine research.

The Connecticut Bioscience Collaboration Fund is a special revenue fund established in accordance with Section 32-41cc of the General Statutes. The purpose of the fund is to support the establishment of a bioscience cluster anchored by a research laboratory at the University of Connecticut Health Center. During the audited period, CI received state funding of \$38,875,356. Of that amount, it used \$15,375,356 for facility and equipment loans and \$23,500,000 for operating assistance to the Jackson Laboratory for Genomic Medicine.

The Connecticut Bioscience Innovation Fund (CBIF) finances a wide range of commercially viable bioscience projects, that will create jobs while lowering health care costs and improving the health care service delivery. It capitalizes the fund by authorizing up to \$200 million in general obligation bonds over ten years and allows the proceeds to be used for grant or loans to, or investments in, projects proposed by start-up or early stage businesses, colleges and universities, and nonprofit organizations. CBIF received \$29,500,000 in state funding during the audited period. The fund's operating expenses were \$12,901,440, including \$11,387,522 in grants, \$1,475,000 in CI administrative fee, and \$38,918 in other expenses.

The Connecticut Innovations, Incorporated Fund is an enterprise fund authorized by Section 32-41a of the General Statutes, which provides that CI use this fund to carry out its purposes and to repay state bonds when required by the State Bond Commission. Total bond funds authorized by Sections 32-41, 32-41b, and 32-41o amounted to \$114,800,500 of which \$114,300,319 CI

issued as of June 30, 2018. CI uses Core-CT to process its payroll and other operating expenses. Expenditures charged to the enterprise fund during the audited period consisted mainly of CI payroll costs, funded by cash transfers by CI to the Connecticut Innovations, Incorporated Fund.

Pursuant to subsection (b) of Section 32-41a of the General Statutes, CI deposits all investment income, loan repayments, and grants with payback provisions into the CI operating account. CI uses the operating account to pay administrative expenses, including transfers to the enterprise fund to reimburse personal services, fringe benefits, and other administrative costs charged to the fund.

CI transfers any excess funds in the operating account to short-term investments and marketable securities to earn investment income, including the State Treasurer's Short Term Investment Fund. It should be noted that CI may be required to repay funds advanced by the State Bond Commission, including interest, under terms the commission might find desirable and consistent with CI's purpose. As of June 30, 2018, the State Bond Commission had not requested repayment of any principal or interest.

The financial position of CI as of June 30, 2017 and 2018, per its audited financial statements, is presented below.

	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$35,289,097	\$27,035,383
Committed Cash and Cash Equivalents	31,558,454	33,333,292
Total Cash and Cash Equivalents	<u>66,847,551</u>	<u>60,368,675</u>
Current Portion of Loans	5,136,256	5,884,403
Current Portion of Portfolio Investments	973,170	798,809
Due from Connecticut Bioscience Innovation Fund	-	613,189
Interest and other Receivables	652,782	540,450
Prepaid Expenses	81,034	260,929
Due from State of Connecticut	103,373	484,147
Total Current Assets	<u>\$73,794,166</u>	<u>\$68,950,602</u>
Noncurrent Assets		
Restricted Assets:		
Restricted Cash and Cash Equivalents	36,067,903	14,854,444
Total Restricted	<u>36,067,903</u>	<u>14,854,444</u>
Portfolio Investments, Net of Current Portion	88,986,913	103,586,251
Loans – Noncurrent, Net of Allowance for Loan Losses	37,544,440	29,357,935
CT Bioscience Collaboration Program Loans, Net of Allowance for Doubtful Accounts	-	-
Capital Assets, Net of Depreciation	111,869	82,314

	June 30, 2017	June 30, 2018
Other	96,500	94,050
Total Noncurrent Assets	<u>162,807,625</u>	<u>147,974,994</u>
Total Assets	<u>\$236,601,791</u>	<u>\$216,925,596</u>
Deferred Outflows of Resources		
Deferred Bond Issuance Costs	\$55,198	\$37,541
Deferred Amount for Pensions	9,287,725	6,987,279
Total Deferred Outflows of Resources	<u>\$9,342,923</u>	<u>\$7,024,820</u>
Liabilities		
Current Liabilities		
Current Portion of Bonds Payable	\$555,000	\$585,000
Custodial liability	10,112,062	8,708,048
Accrued Expenses and Liabilities	3,531,752	2,888,475
Due to Connecticut Bioscience Innovation Fund	9,682,324	-
Due to CTNext	8,764,600	-
Reserve for Guarantee Losses	1,792,966	1,792,966
Deferred Revenue	4,561	5,835
Total Current Liabilities	<u>34,443,265</u>	<u>13,980,324</u>
Noncurrent Liabilities		
Net Pension Liability	28,379,878	23,370,173
Net Other Post Retirement Benefits Liability	-	23,597,482
Escrow Deposits	2,754,299	2,213,820
Bonds Payable, Net of Current Portion	1,180,000	595,000
Total Noncurrent Liabilities	<u>32,314,177</u>	<u>49,776,475</u>
Total Liabilities	<u>66,757,442</u>	<u>63,756,799</u>
Net Position		
Net Investment in Capital Assets	111,869	82,314
Restricted	13,972,420	12,496,403
Unrestricted	158,427,487	137,247,319
Total Net Position	<u>172,511,776</u>	<u>149,826,036</u>
Total Liabilities and Net Position	<u>\$239,269,218</u>	<u>\$213,582,835</u>
Deferred Inflows of Resources		
Deferred Amount for Pension	\$6,675,496	\$7,064,036
Deferred Amount for Other Post Retirement Benefits	-	3,303,545
Total Deferred Inflows of Resources	<u>\$6,675,496</u>	<u>\$10,367,581</u>

The CI portfolio investments consists of shares of publicly traded securities as well as promissory notes, and equity and debt financing instruments extended to various companies to create jobs and further the economic base of Connecticut. In the absence of readily determinable market values, CI carries investments at fair value as estimated by an independent valuation committee using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group. As is commonplace with investments like those held by CI, and as disclosed in the audited financial statements, due to the inherent uncertainty of such valuations, those estimated values may differ significantly from the amounts ultimately realized from the investments, and those differences could be material. As of June 30, 2018, the CI portfolio investments, measured at fair value, totaled \$87,408,464 in equity securities and \$16,976,596 in debt securities. The total value of the CI investment portfolio increased by \$14.4 million in the 2017-2018 fiscal year. This increase consisted mainly of new investments.

CI also extends commercial loans to Connecticut customers to advance certain economic development objectives consistent with the CI mission and contractual obligations with the state. As of June 30, 2018, the CI direct loan portfolio consisted of 74 loans (gross), totaling \$41,754,582. The CI direct loan portfolio decreased \$7.4 million in the 2017-2018 fiscal year mainly due to loan pay downs.

A schedule of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2017 and 2018 follows. We obtained the information from the CI audited financial statements.

	June 30, 2017	June 30, 2018
Operating Revenues		
Investment Interest Income	\$1,782,238	\$2,033,980
Interest on Loans	2,280,595	1,909,762
Realized and unrealized gain on investment-net	6,082,489	8,233,604
Loan Fee Income	752,289	631,181
Other Income	927,874	1,185,127
Total Operating Revenues	11,825,485	13,993,654
Operating Expenses		
Salaries	4,555,276	4,610,191
Benefits and Payroll Taxes	3,533,275	3,637,740
Provision for Loan and Guarantee Losses	450,000	375,000
General Facility and Office	993,833	875,347
Professional Service Fees	1,252,264	1,347,753
Interest	99,127	70,448
Marketing, Conferences, Development	481,623	612,741
Depreciation and Amortization	229,499	106,103
Other	4,884	15,370
Total Operating Expenses	11,599,781	11,650,693
Operating Income	225,704	2,342,961

	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Non-Operating Revenues		
Connecticut Public Act 11-1	15,000,000	--
Pension and Other Post Retirement Expense Recapture	-	1,270,805
Grant and Program Income	5,887,938	1,404,480
Connecticut Bioscience Collaboration Funding	20,317,259	18,558,097
Total Non-Operating Revenues	<u>41,205,197</u>	<u>21,233,382</u>
Non-Operating Expenses		
Grants and Programs	21,392,079	12,352,873
Connecticut Bioscience Collaboration Loan Write-Down	7,317,259	8,058,097
Total Non-Operating Expenses	<u>28,709,338</u>	<u>20,410,970</u>
Non-Operating Income	<u>12,495,859</u>	<u>822,412</u>
Change in Net Position	<u>12,721,563</u>	<u>3,165,373</u>
Net Position – As Previously Reported		172,511,776
Cumulative Effect of Implementing GASB 75		(25,851,113)
Net Position – Beginning of Year	159,790,213	<u>146,660,663</u>
Net Position – End of Year	<u>\$172,511,776</u>	<u>\$149,826,036</u>

Total operating revenue increased \$2.2 million in the 2017-2018 fiscal year. This was due primarily to net realized and unrealized gain on investments increasing from \$6,100,000 in fiscal year 2017 to \$8,200,000 in fiscal year 2018.

Compensation, benefits, and payroll taxes increased by \$160,000 in the 2017-2018 fiscal year. CI employees participate in the State of Connecticut payroll and retirement system, and the corporation was charged an average 80% fringe benefit rate for the fiscal year ended June 30, 2018.

Interest expense on bonds payable decreased \$29,000 due to interest savings realized from the \$555,000 Corporation General Obligation bond pay down in the 2017-2018 fiscal year. General and administrative expenses decreased by \$5,000 in the 2017-2018 fiscal year due to continued efficiencies realized within CI operations. These include facility and office expenses; professional service fees; interest; marketing, conferences, and development expenses; depreciation and amortization; and other incidental expenses.

Net realized gain on investments were \$3,300,000 in the 2017-2018 fiscal year as compared to net realized losses of \$2,800,000 in the 2016-2017 fiscal year. In both years, realized losses were from divestitures of investments, which were recorded as unrealized losses in previous years and permanent devaluation to zero of investments, which occurred throughout the year.

Net unrealized gains on investments were \$4,900,000 in the 2017-2018 fiscal year as compared to net unrealized gains of \$8,900,000 in the 2016-2017 fiscal year. In the 2017-2018 fiscal year,

the net unrealized gains resulted from net increases in valuation reserves for privately held companies in CI's investment portfolio and public holdings. In the 2016-2017 fiscal year, the net unrealized losses resulted from net decreases in valuation reserves for privately held companies in CI's investment portfolio and public holdings.

Total expenditures for grants and programs in the 2017-2018 fiscal year were \$12,353,873, a decrease of \$9,039,206 from the 2016-2017 fiscal year. The decrease was due to a \$6,000,000 decrease in recorded expense for grants-in-aid by CI as administrator for the Regenerative Medicine Research fund, a \$2,500,000 decrease in operating grants disbursed under the Bioscience Collaborative Program, and a \$500,000 reduction in expenses from the establishment of CTNext as a standalone subsidiary resulted.

CI recorded its state funding as non-operating revenue in the 2016-2017 and 2017-2018 fiscal years totaled \$35,317,000 and \$18,558,000, respectively. The funding for the 2016-2017 fiscal years included \$15,000,000 for the Connecticut Jobs Bill (Public Act 11-1 of the October Special Session) and \$20,317,000 in Connecticut Bioscience Collaboration funding, of which \$7,300,000 was for facility and equipment loans. The \$18,558,000 received in the 2017-2018 fiscal year was for the Connecticut Bioscience Collaboration program of which \$8,100,000 was for facility and equipment loans and was recorded as a non-operating expense.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, to improve accounting and financial reporting by state and local governments for Other Post-Employment Benefits (OPEB). It also improves information provided by state and governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB 75, as of July 1, 2017, resulted in a \$25,900,000 cumulative effect accounting adjustment.

During the 2016-2017 fiscal year, CI approved \$23,300,000 and funded \$22,400,000 for investments. During the 2017-2018 fiscal year, CI approved \$21,300,000 and funded \$15,600,000 for investments. CI invested in new opportunities and continued support of existing portfolio companies. These types of investments take time to mature and involve considerable risk. CI maintains a considerable cash reserve to meet the future funding of its portfolio companies.

CTNext

Legislation earmarked \$67,500,000 in previously authorized Manufacturing Assistance Act (MAA) and CI bond funds for 5 years to fund CTNext. As of June 30, 2018, \$42,050,000 of those funds remain. Funds are not recorded as operating revenue until the state requests and approves them for disbursement.

The financial position of CTNext as of June 30, 2017 and 2018, per its audited financial statements is presented below.

	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ -	\$12,114,585
Due from State of Connecticut	87,462	55,352
Due from Connecticut Innovations, Incorporated	8,764,600	-
Total Current Assets	<u>8,852,062</u>	<u>12,169,937</u>
Total Assets	<u>\$8,852,062</u>	<u>\$12,169,937</u>
Liabilities		
Accrued expenses and other liabilities	<u>\$706,775</u>	<u>\$2,960,149</u>
Total Liabilities	<u>\$706,775</u>	<u>\$2,960,149</u>
Net Position		
Restricted for CTNext Fund	<u>8,145,287</u>	<u>9,209,788</u>
Total Net Position	<u>8,145,287</u>	<u>9,209,788</u>
Total Liabilities and Net Position	<u>\$8,852,062</u>	<u>\$12,169,937</u>

A schedule of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2017 and 2018 follows. We obtained the information from the CTNext audited financial statements.

	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Operating Revenues		
State Bonding	\$12,850,000	\$12,850,000
Grant Income	63,058	91,097
Investment Interest	-	55,642
Total Operating Revenues	<u>12,913,058</u>	<u>12,996,739</u>
Operating Expenses		
Salaries	270,000	398,726
Benefits and Payroll Taxes	216,000	291,281
Professional Service Fees	109,884	214,192
General and Administrative	234,000	252,000
Marketing	134,009	169,011
Other	16,861	18,886

	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Grants and Programs:		
Innovation Places	-	6,900,000
Partners	1,934,548	1,392,091
Higher Education	-	1,201,891
Technology Talent Bridge	542,716	781,197
Planning	490,492	-
Other Program Expense	819,261	312,963
Total Operating Expenses	<u>4,767,771</u>	<u>11,932,238</u>
Net Operating Income	<u>8,145,287</u>	<u>1,064,501</u>
Change in Net Position	8,145,287	1,064,501
Net Position – Beginning of period	<u>-</u>	<u>8,145,287</u>
Net Position – End of period	<u>\$8,145,287</u>	<u>\$9,209,788</u>

CTNext received funding from state bonds, Manufacturer’s Assistance Act funds, and the Department of Economic and Community Development for the Technology Talent Bridge Program during the audited period.

The majority of its expenditures are for grants and CTNext programs. Expenditures increased in the 2017-2018 fiscal year mainly for planning and development for the Innovation Places program established by Public Act 16-3 (May Special Session) and codified as 32-39k of the General Statutes.

Financial Statement Audits

Independent public accountants audited CI, CTNext, and the CBIF for the fiscal years under review. Those audits attest that the financial statements presented fairly, in all material respects, the financial position of CI, CTNext, and the CBIF for the audited period, and the results of the operations and cash flows during the period in conformity with accounting principles generally accepted in the United States of America.

As an integral part of their financial statement audits, the independent public accountants also provided reports on compliance and internal controls over financial reporting. The reports on internal control indicated that no material weaknesses in internal control over financial reporting were identified.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of CI disclosed the following 7 findings and recommendations, of which 1 is been repeated from the previous audit:

Incomplete and Untimely Filing of Statutorily Required Reports

Criteria: The CI executives and board of directors are required to comply with numerous reporting requirements set forth in various sections of the General Statutes.

Section 1-123(a)(3) requires that the annual report to the Governor and the Auditors of Public Accounts include a list of all outside individuals and firms that receive in excess of \$5,000 for payments for services.

Condition: Our review disclosed that CI did not promptly submit reports and did not complete one report.

- CI submitted the annual report required by Section 1-123(a) for the fiscal year ended June 30, 2018 on March 18, 2019. Our review found that CI did not report all payments on its credit card bills to outside individuals and firms in excess of \$5,000.
- CI submitted the quarterly financial report required by Section 1-123(b) for the quarter ended June 30, 2018, to the Office of Fiscal Analysis on October 2, 2018.
- CI submitted the economic cluster bond funds report required by Section 32-4h on October 1, 2018. It was due August 1, 2018.
- CI submitted the annual operations plan and operating and capital budgets for the Connecticut Bioscience Innovation Fund, required by Section 32-41cc(i), to the Connecticut Bioscience Advisory Committee, on May 16, 2017. It was due April 1, 2017.

Context: We selected all reports that were late in the prior audit to determine if the same audit conditions existed.

We tested one credit card statement out of 24, and found that CI did not include a \$9,500 payment and a \$5,372 payment in its annual report section for payments of \$5,000 or more.

Effect: CI did not comply with statutory reporting requirements set forth by the General Statutes.

- Cause:* CI's untimely reporting and the failure to include all expenditures over \$5,000 appears to be the result of a lack of managerial oversight, due to the number of CI's required reports.
- Prior Audit Finding:* This finding has been previously reported in the last 4 audit reports covering the fiscal years ended 2011 through 2016. The 2011 and 2012 audits were one-year audits.
- Recommendation:* Connecticut Innovations, Incorporated should submit all reports required by the General Statutes within the statutory timeframes, and should report all credit card payments to individuals and firms in excess of \$5,000 in its annual report. (See Recommendation 1.)
- Agency's Response:* "Connecticut Innovations agrees with the finding. The delays were attributable to our reduced staffing levels and the legislative requirement that some reports must be approved by their oversight board before submission. CI will strive to continually improve on the timeliness of our legislative reporting requirement and request in writing a legislative change to extend due dates."

Failure to Publish Operating Procedures in the Connecticut Law Journal

- Criteria:* Section 32-39h of the General Statutes states that the board of directors of CTNext shall adopt written procedures in accordance with the provisions of Section 1-121 of the General Statutes.
- Section 1-121 of the General Statutes states that before adopting a proposed procedure, a quasi-public agency shall give at least 30 days' notice by publication in the Connecticut Law Journal of its intended action.
- Condition:* The Operating Procedures for CTNext were not published in the Connecticut Law Journal as required even though the CTNext board of directors authorized the publication at its October 13, 2016 meeting.
- CI was unable to provide us with documentation that it published revised operating procedures for the Connecticut Bioscience Innovation Fund even though the Connecticut Bioscience Innovation Fund Advisory Committee minutes from its September 21, 2016 meeting indicated that CI posted the draft operating procedures to the Connecticut Law Journal for the required 30 days. We requested the revised procedures, and CI did not provide us with them. At the time of our request, CI had the initial operating procedures, approved January 5, 2012, on its website.

- Effect:* The omission of the prior notice provision of Section 1-121 of the General Statutes prevents the intended public comment period for those affected by the procedures.
- Cause:* Administrative oversight contributed toward the adoption of procedures without the necessary public notice.
- Prior Audit Finding:* This finding has not been previously reported.
- Recommendation:* CTNext should ensure that any procedures adopted by its board of directors in accordance with Sections 32-39h and 1-121 of the General Statutes are published in the Connecticut Law Journal. Connecticut Innovations, Incorporated should retain documentation of the Connecticut Law Journal publication. (See Recommendation 2.)
- Agency's Response:* "Connecticut Innovation agrees with this finding and will strive to continuously improve in this area."

Error in Separation Payment and Paying Regular Work Hours

- Background:* CI uses the state's Core-CT accounting system for payroll and time and attendance.
- Criteria:* Employees who resign due to reasons other than retirement are eligible to be paid for accrued vacation time, but they are not eligible to be paid for accrued sick time.
- An adequate system of internal control would ensure that someone other than the employee who performed the calculation for a separation payment approve the separation payment. The system should also include a review of changes in payroll records from pay period to pay period.
- CI's employee handbook classifies full time employees as those working between 35 and 40 hours per week and specifies that exempt employees are not subject to overtime pay. It also states that timesheets must be filled out accurately and approved by a supervisor.
- Condition:* CI overpaid leave time to an employee who resigned for reasons other than retirement. CI incorrectly paid the employee for 253.44 hours of sick leave instead of 106 hours of vacation time, a net overpayment of 147 hours. CI notified the employee of the overpayment, but has not recovered the amount due.

Two exempt full-time CI employees recorded 88 hours on their timesheet for one pay period. The timesheets were approved with the error and both employees were overpaid. CI did not detect the errors until we brought them to its attention. The 2 employees were immediately notified of the overpayments and both employees reimbursed CI.

Effect: One employee was overpaid \$7,676 as part of a termination payment. The other employees were overpaid \$346 and \$215, respectively.

Cause: One employee at CI is responsible for both the human resource and payroll functions. CI informed us that the vacation payout time reporting code was entered on the wrong row in Core-CT and the system did not detect that the manager entered more for the vacation payout than the employee had earned. In addition, another employee did not review the calculation prior to payment.

The timesheet approver failed to detect that 2 employees entered more time than they worked.

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

Recommendation: Connecticut Innovations, Incorporated should ensure that payments to separating employees are accurate and that employees properly complete their timesheets by reporting the correct work hours. (See Recommendation 3.)

Agency's Response: "CI agrees with this finding. CI has implemented an additional review and approval process to ensure separation payout time code entries are entered correctly on the timesheets. Final payout timesheet entries entered by Human Resources will be reviewed and approved in CORE-CT by a managerial level employee in the Finance Department. CI will also continue to pursue any uncollected balances. CI has also implemented an additional review process to ensure exempt employees do not report over 80 biweekly hours on their timesheets. In addition to the review of the payroll register by Human Resources and the Controller, there will also be a biweekly hours scheduled/hours worked time and labor report reviewed by Human Resources and the Controller."

Lack of Formal Credit Card Policy, Supporting Documentation, Authorized Signatures and International Travel

Background: CI has two credit cards used by the accounting manager and the chief financial officer. CI had a “Company Credit Card Policy and Procedures” dated September 16, 2008. However, CI informed us that this policy was no longer in effect during our audited period.

Criteria: Good internal controls require the establishment of a policy and specific controls for the use of company credit cards. Those controls should include providing all credit card users with a copy of the policy. The policy should include the types of purchases allowed and prohibited, the requirement that an original detailed/itemized receipt support the charge, the attachment of proper approvals to each receipt based on dollar amount, and inclusion of a listing of individuals in attendance at business meals, the stated business purpose and appropriate authorized preapprovals as necessary.

Credit card expenses should be reviewed and approved by someone in a position of authority over the person who incurred the expenses.

CI’s purchasing and accounts payable procedures state that the chairperson of the CI board of directors should preapprove all of the chief executive officer’s international travel.

Condition: We tested credit card activity for the November 7, 2017 statement for both CI credit cards. The accounting manager’s credit card had charges of \$31,342 and the chief financial officer’s had charges of \$356. While some of the charges had adequate preapproval from the appropriate department head and had appropriate supporting documentation, we noted the following exceptions.

- It appears that the accounting manager did not make several of the charges on the credit card in her custody. It appears that several staff members may have had access to that credit card based on supporting documentation and the location of some of the charges.
- Supporting documentation was not available for 8 charges. We were later provided with documentation for 4 of the 8 charges. The 4 charges without vendor receipts totaled \$346.
- Two restaurant charges did not have adequate supporting documentation, because they did not have itemized receipts attached to them. One charge for \$95 also did not disclose who made the charge, the purpose of the meeting, and who was

present. Another charge for \$248 disclosed the names of the employees in attendance, but did not disclose the names of other attendees and also did not have an itemized receipt.

- While the November 7, 2017 credit card invoice contained the check to the credit card vendor, the copy did not show both of the required authorized signatures on the check.
- Authorized signatures were not evident on some of the individual invoices supporting the credit card payment.
- There was inadequate preapproval documentation of the itemized costs associated with an event. While the total budgeted cost of the event was approved, there were no specific approvals for the itemized costs of pre and post-event hotel stays, post-event meetings, and various other various department store charges.
- The chief financial officer and not the chief executive officer approved \$356 of their own corporate credit card charges. There is no policy for the chief executive officer to approve the charges.

International travel

We tested one of the chief executive officer's expense reports and found that the board chairperson did not give written approval for the chief executive officer's international travel.

Effect:

The lack of a policy for credit cards use increases the risk that inappropriate credit card charges may occur and not be detected.

There was no documentation to support the board chairperson's approval of the chief executive officer's international travel, even though the chairperson may have been aware of the travel.

Cause:

It appears that CI was applying its other policies for purchasing and entertainment expense to its credit card charges.

While CI does require the chairperson of the board of directors to approve international travel, it does not have a formal written procedure on how to document this approval. CI informed us that the approval of the travel occurs when the board of directors approves the operating budget, but there is no line item in the budget for international travel by the chief executive officer.

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

Recommendation: Connecticut Innovations, Incorporated should establish a credit card policy and maintain all documents necessary to support monthly credit card charges. The chief executive officer should approve all charges of the chief financial officer. Connecticut Innovations, Incorporated should also document international travel approvals for its chief executive officer. (See Recommendation 4.)

Agency's Response: "Connecticut Innovations agrees with the finding and will add a section related to credit card purchases to our current purchasing policy that will enhance our current rules regarding credit card purchases. The Chairman of our Board already approves all international company recruitment trips that CI's CEO attends through our Board approved budgeting process. In addition to this current procedure, the CEO will now receive approval directly from the Chairperson of CI for all international recruiting trips."

Lack of a Memorandum of Understanding with DECD

Background: The Department of Economic and Community Development (DECD) is considered to be closely affiliated with CI. Both DECD and CI share responsibilities for the sustainment and growth of the state's economy, the creation of economic opportunities, the state's economic competitiveness and the enhancement of the quality of life of the state's citizenry, including the redevelopment of the Brownfields projects.

Criteria: Section 32-35(f) of the General Statutes states that CI has the authority to contract with the DECD for administrative or other services.

A memorandum of understanding (MOU) is an agreement clarifying each agency's role when undertaking projects of mutual interest.

Condition: Two CI employees were mainly located at DECD during the audited period. The two agencies had a MOU for one of the employees, which was amended several times. DECD partially reimbursed CI for that employee's salary. The employee has since returned to CI. The two agencies did not have a MOU for the second employee, even though that employee uses DECD's office space. CI stated that this employee maintains a CI workstation (shared with another employee at the main office), uses a CI computer, and has a CI email address. In addition, CI pays the employee's salary and benefits.

Effect: The absence of a mutual understanding as to the lines of responsibility of certain functions may lead to ineffectiveness or inefficiencies between the entities.

Cause: CI and DECD did not believe a MOU was necessary as that employee is performing work that is mutual between the two agencies.

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

Recommendation: Connecticut Innovations, Incorporated should enter into memorandum of understandings when its employees assist state or outside agencies at other locations. (See Recommendation 5.)

Agency's Response: "CI agrees with this finding and will have an MOU executed."

Connecticut New Opportunities Fund not Established

Background: Public Act 2005-129 created the Connecticut New Opportunities Fund.

Criteria: Section 32-41v(b) of the General Statutes required CI to establish the Connecticut New Opportunities Fund for the purpose of investing in seed state and emerging growth companies in the state. The fund was to have a term of ten years, but could be extended. The statute requires the state to provide a first loss guarantee of not more than \$25 million at the end of the tenth year, if needed.

Condition: CI did not establish the Connecticut New Opportunities Fund.

Effect: Although the fund has not been established, CI still invests in seed stage and emerging growth companies through its other programs.

Cause: CI previously informed us that it drafted guarantee language and provided it to the Office of Policy and Management, State Comptroller and State Treasurer. CI planned to have the guarantee signed before it began raising and distributing money. No one signed the guarantee and no funds were provided to pay out the guarantee.

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

Recommendation: Connecticut Innovations Incorporated should seek legislation to eliminate Section 32-41v of the General Statutes regarding the establishment of the Connecticut New Opportunities Fund. (See Recommendation 6.)

Agency's Response: "Connecticut Innovations agrees with this finding and will seek legislation to eliminate this language."

Failure to Fill a Board of Director and a Committee Member Position and Attendance

Background: The CI board of directors consists of 17 members. The Governor appoints 9 members, 4 ex-officio members are from state agencies, and legislative leaders appoint 4 members as specified by statute.

The Connecticut Bioscience Innovation Advisory Committee consists of 13-members. The Governor and various legislative leaders appoint ten of the members. Two members are from state agencies (departments of Economic and Community Development and Public Health). One member is the chief executive officer of CI.

The CTNext board of directors consists of 11 members.

Criteria: Section 32-35(b) of the General Statutes requires the president pro tempore of the Senate to appoint one board of director member for CI.

Section 32-41bb(a)(6) of the General Statutes requires the minority leader of the Senate to appoint a member to the Bioscience Innovation Advisory Committee.

Governing bodies, such as boards of directors and committees, are usually most effective when they have a full complement of appointed members at meetings and an attendance policy.

Condition: One of the Senate CI board of director appointments has been vacant since the February 10, 2017 meeting.

Two CI board members were absent 3 consecutive meetings and one ex-officio member was absent for 4 consecutive meetings. We could not determine if the ex-officio member was truly absent for these meetings, because the minutes did not specifically state whether the member was present or absent.

Two CTNext board members were absent 3 consecutive meetings.

CI and CTNext bylaws do not discuss board attendance.

One of the Senate Bioscience Advisory Committee appointments has been vacant since before the start of this audited period and remained vacant according to the committee's October 2019 minutes.

- Context:* The CI board of directors held 10 meetings during our audited period.
- The Bioscience Innovation Advisory Committee held 22 meetings during the audited period.
- The CTNext board of director held 14 meetings during the audited period. The board was a newly created during the audited period, and all appointments were not made by the first meeting.
- Effect:* Such absences may have an effect on the board decisions.
- Cause:* The General Statutes concerning CI board members does not have member attendance provisions. Other statutes, such as those for the Capital Regional Development Authority, state that board members who do not attend 3 or more meetings are considered to have resigned.
- We could not determine if the boards or committee notified their appointing authority of vacancies.
- Prior Audit Finding:* This finding has not been previously reported.
- Recommendation:* Connecticut Innovations, Incorporated and CTNext should adopt attendance procedures for its board of directors and committees, and should notify legislative leaders of vacancies in their appointments. (See Recommendation 7.)
- Agency's Response:* "CI's Board is comprised of members outlined in our enabling legislation. CI keeps attendance at all Board meetings and will communicate with the appointing authorities when vacancies arise."
- Auditors' Concluding Comments:* New legislation or revised board policies should address attendance requirements.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on CI contained two recommendations. One has been implemented or otherwise resolved and one has been repeated with modifications during the current audit.

- Connecticut Innovations, Incorporated should submit all reports required by the General Statutes within the statutory timeframes and should consider seeking legislation to clarify the reporting requirements established by Section 32-41cc (i) and (k) of the General Statutes. **This recommendation is being partially repeated as the reporting requirements for Section 32-41cc (k) has been met.**
- Connecticut Innovations, Incorporated should strengthen its internal controls to ensure compliance with its policies and procedures concerning telecommuting. **The recommendation has been resolved.**

Current Audit Recommendations:

- 1. Connecticut Innovations, Incorporated should submit all reports required by the General Statutes within the statutory timeframes, and should report all credit card payments to individuals and firms in excess of \$5,000 in its annual report.**

Comment:

Our review disclosed that CI did not promptly submit reports and did not complete one report. Our review of that report found that CI did not report all payments on its credit card bills to outside individuals and firms in excess of \$5,000 that were on its credit card bills.

- 2. CTNext should ensure that any procedures adopted by its board of directors in accordance with Sections 32-39h and 1-121 of the General Statutes are published in the Connecticut Law Journal. Connecticut Innovations, Incorporated should retain documentation of the Connecticut Law Journal publication.**

Comment:

CTNext did not publish its proposed operating procedures in the Connecticut Law Journal. CI could not provide documentation that it published its revision to the Connecticut Bioscience Innovation Fund's operating procedures in the Connecticut Law Journal.

- 3. Connecticut Innovations, Incorporated should ensure that payments to separating employees are accurate and that employees properly complete their timesheets by reporting the correct work hours.**

Comment:

CI overpaid leave time to an employee who resigned for reasons other than retirement. Two employees were paid for 88 hours for a pay period instead of the 80 they actually worked.

- 4. Connecticut Innovations, Incorporated should establish a credit card policy and maintain all documents necessary to support monthly credit card charges. The chief executive officer should approve all charges of the chief financial officer. Connecticut Innovations, Incorporated should also document international travel approvals for its chief executive officer.**

Comment:

Not all receipts to support credit card charges were available for review. Connecticut Innovations, Incorporated did not have a company credit card policy. There was not adequate documentation that the chairperson of the board of directors approved the travel of the chief executive officer.

- 5. Connecticut Innovations, Incorporated should enter into memorandum of understandings when its employees assist state or outside agencies at other locations.**

Comment:

CI and the Department of Economic and Community Development (DECD) did not have a memorandum of understanding in place for a CI employee who was primarily located at the DECD.

- 6. Connecticut Innovations, Incorporated should seek legislation to eliminate Section 32-41v of the General Statutes regarding the establishment of the Connecticut New Opportunities Fund.**

Comment:

CI did not establish the Connecticut New Opportunities Fund, and it appears the fund may not be necessary.

- 7. Connecticut Innovations Incorporated and CTNext should adopt attendance procedures for its board of directors and committees, and should notify legislative leaders of vacancies in their appointments.**

Comment:

We found that some board members were absent 3 consecutive times. There were vacancies for some committee and board positions for extended periods.

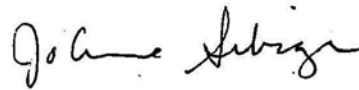
ACKNOWLEDGMENTS

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

Theodore Cha
JoAnne Sibiga

CONCLUSION

In 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.



JoAnne Sibiga
Principal Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor