

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
CONNECTICUT INNOVATIONS, INCORPORATED AND CTNEXT, LLC  
FISCAL YEARS ENDED JUNE 30, 2019 AND 2020*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

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October 12, 2022

**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 (CI) and CTNext, LLC for the fiscal years ended June 30, 2019 and 2020. Our audit identified instances of noncompliance with laws, regulations, and policies; internal control deficiencies; and a need for improvement in practices and procedures that warrant the attention of management. The significant findings and recommendations are presented below:

<a href="#"><u>Page 17</u></a>	Connecticut Innovations, Incorporated and CTNext, LLC did not promptly submit seven statutorily required reports. Connecticut Innovations, Incorporated and CTNext, LLC should promptly submit all reports required by the General Statutes. (See Recommendation 1.)
<a href="#"><u>Page 18</u></a>	Our review disclosed that the CI board of directors did not approve a severance package for an employee who CI laid off due to lack of work. Additionally, CI compensated the former employee for consulting work they appeared to perform while on paid administrative leave and without a personal service agreement on file. Connecticut Innovations, Incorporated should ensure that expenses are necessary, reasonable, and properly approved, and should comply with personal service agreement policies and the terms of separation agreements. (See Recommendation 2.)
<a href="#"><u>Page 19</u></a>	Our review found that one member of the CI Board of Directors, three members of the CTNext Board of Directors, and two members of the Bioscience Innovation Advisory Committee were absent for 52% to 85% of the meetings held during the audited period. Additionally, there were lengthy board member vacancies on the CI Board of Directors, CTNext Board of Directors, and Bioscience Innovation Advisory Committee. Connecticut Innovations, Incorporated and CTNext, LLC should adopt attendance procedures for their boards of directors and committees and should promptly notify appointing authorities of member vacancies. (See Recommendation 3.)
<a href="#"><u>Page 21</u></a>	Although legislation was passed in 2005 to create the Connecticut New Opportunities Fund, CI did not establish the fund. The fund may no longer be necessary. 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 4.)

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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CLARK J. CHAPIN

October 12, 2022

### **AUDITORS' REPORT CONNECTICUT INNOVATIONS, INCORPORATED AND CTNEXT, LLC FISCAL YEARS ENDED JUNE 30, 2019 AND 2020**

We have audited certain operations of Connecticut Innovations, Incorporated (CI) and CTNext, LLC (CTNext) 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 fiscal years ended June 30, 2019 and 2020. Throughout this audit report, CI and CTNext are referred to as the "corporation" on a consolidated basis. The objectives of our audit were to evaluate the:

1. Corporation's significant internal controls over compliance and its compliance with policies and procedures internal to the corporation or promulgated by other state agencies, as well as certain legal provisions, including as applicable, but not limited to whether the corporation 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;
2. Corporation's internal controls over certain financial and management functions; and
3. Effectiveness, economy, efficiency, and equity 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 quasi-public; and testing selected transactions. Our testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

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

1. Apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures;
2. Deficiencies in internal controls; and
3. A need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of Connecticut Innovations, Incorporated and CTNext, LLC.

## 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 subject to the related requirements. As a quasi-public agency, the CI financial information is included as a component unit in the State of Connecticut's Annual Comprehensive Financial Report (ACFR).

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; assist existing businesses in adopting current and innovative technological processes; stimulate and provide services to industries that will advance the adoption and utilization of technology; 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 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.

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 three 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.

### **CTNext, LLC**

Section 32-39f of the General Statutes required CI to form a subsidiary, known as CTNext, and established the CTNext Fund, a separate, non-lapsing fund administered by CI. Pursuant to subsection (c) of Section 32-11e, CTNext is a subsidiary of CI and has the same privileges, immunities, tax exemptions, and other exemptions. CTNext retains its legal identity as a separate entity and has no recourse to the CI general funds, revenues, resources, or other assets. As administrator of the fund, CI is responsible for holding, administering, investing, and disbursing funds, subject to the approval of the CTNext Board of Directors. CI also provides staff, office space, systems, and administrative support.

The purpose of CTNext is to foster innovation, startup and growth stage businesses, and entrepreneur community building; serve as a catalyst to protect and enhance the innovation ecosystem; to connect startup and growth stage entrepreneurs with other start-up and growth stage entrepreneurs in Connecticut and federal and private resources; facilitate the establishment of innovation places; facilitate mentorship for startup and growth stage entrepreneurs; provide technical training and resources to startup and growth stage businesses and entrepreneurs; facilitate innovation and entrepreneurship at institutions of higher education; act as necessary or convenient to carry out the CTNext programs, activities and purposes set forth in the General Statutes; and engage in any lawful activity consistent with the General Statutes.

### **PROGRAMS**

#### **Connecticut Innovations, Incorporated**

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 two-year promissory notes ranging from \$50,000 to \$350,000.
- **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.
- **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 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 riskier than conventional loans. The two branches of the Connecticut Capital Access Fund, the Urbank Program and the Entrepreneurial Loan Program, fund this assistance. The financial institution making the loans usually determine the projects eligible if they meet the requirements specified in the participation agreements.

## **CTNext, LLC**

CTNext provides several programs and resources to assist entrepreneurs, startups, and early-stage companies find the assistance they need to move forward. These include:

- **Innovation Places:** The Innovation Places program is a multi-year initiative to catalyze growth in technology and entrepreneurship in Connecticut's urban centers. CTNext provides grants for projects and initiatives in designated innovation places, which include Hartford/East Hartford, New Haven, Stamford, and New London/Groton.
- **Higher Education and Entrepreneurship Fund:** The Higher Education and Entrepreneurship Fund provides financial support for cooperative partnerships between Connecticut colleges and universities focused on providing mentoring support to faculty and student entrepreneurs and companies, promoting innovation and technology transfer in the state's key industries, and developing and retaining technology talent.
- **CTNext Partners:** CTNext Partners provides funding for programs designed to help entrepreneurs grow businesses, jobs, and revenues in Connecticut. Ecosystem support organizations typically create and manage these programs.
- **Proof-of-Concept Initiative:** This CI/CTNext initiative offers financing for technology-based companies in Connecticut that are in the proof-of-concept stage of development. CI and CTNext invest in 15 to 20 companies per year. Selected companies gain access to mentors, bootcamps, and other resources to help accelerate growth.
- **Entrepreneur Innovation Awards:** The Entrepreneur Innovation Awards (EIA) help find promising and innovative startups and provide grants to help them move their ideas to the next level.
- **Mentor Network:** CTNext has created a mentoring network of experienced entrepreneurs, executives, and investors to help accelerate the growth of Connecticut's most promising early-stage ventures. Mentors work with select entrepreneurs to scale their businesses by validating their long-term visions, customer acquisition, and capital-raising strategies. Companies will have the opportunity to get objective feedback and guidance, to be more knowledgeable about available resources, and to increase network connections.



- **Small Business Innovation Research Training:** The Small Business Innovation Research Acceleration and Commercialization program offers technical consultations to help small businesses improve their chances of winning federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) grants.
- **CTNext Talent Bridge Internship Program:** The Technology Talent Bridge (TTB) internship program is a grant opportunity for Connecticut small businesses to provide funding for the hire of student interns. The program aims to develop a talent “bridge” between the small business and the student, with the goal of creating and retaining jobs.
- **Growth Company Grants:** The Growth Company Grants program provides funding for Connecticut early-stage companies that have achieved some success to help them move to the next level, specifically offering support for strategic projects and customer acquisition. These grants focus on business sectors and companies focused on innovation with the highest growth potential.
- **Crowdfunding:** CTNext advertises Connecticut-based start-up businesses that are seeking funding on reward and equity-based crowdfunding websites.
- **Angel Tax Credit:** CTNext administers the Angel Investor Tax Credit Program, which allows angel investors to receive a tax credit by investing in a qualified Connecticut business.
- **Governor’s Innovation Fellowship:** The Governor’s Innovation Fellowship (GIF) helps top graduating students find positions in innovative companies in Connecticut, develop business skills, and engage with the community.

## **BOARDS, COMMITTEES, AND ADMINISTRATIVE OFFICIALS**

### **Connecticut Innovations, Incorporated**

A 17-member board of directors governs CI. The Governor appoints nine members, six of whom shall be knowledgeable in the development of innovative start-up businesses and three of whom shall be knowledgeable in the field of financial lending or the development of commerce, trade, and business. Four of the members, who serve *ex-officio*, 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. *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. Additionally, the president pro tempore of the Senate, the minority leader of the Senate, the speaker of the House of Representatives, and the minority leader of the House of Representatives each appoint one member. The Governor appoints a chairperson from among the board members.

The members of the board of directors as of June 30, 2020, were as follows:

**Governor's Appointments:**

Michael A. Cantor	Chairperson
Mostafa Analoui, Ph.D.	
Valarie Gelb	
John Olsen	
Alexander D. Pencu, Esq.	
Paul R. Pescatello, J.D., Ph.D.	
Rafael Santiago	
Two Vacancies	

**Ex-Officio Members:**

David Lehman	Commissioner of Economic and Development
Mark Ojakian	President of the Connecticut State Colleges and Universities
Shawn T. Wooden	Treasurer
Melissa McCaw	Secretary of the Office of Policy and Management

**Legislative Appointments:**

John Pavia	Minority Leader of the Senate
Richard T. Mulready	Speaker of the House of Representatives
Christopher D. Bandecchi	Minority Leader of the House of Representatives
Vacant	President Pro Tempore of the Senate

David Siegel also served on the board of directors during the audited period.

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 five standing committees:

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

CI also had five advisory committees, 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, LLC**

An 11-member board of directors oversees CTNext. The majority of members 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, and urban planning and technology commercialization in higher education. The Governor, speaker of the House of Representatives, president pro tempore of the Senate, majority leader of the House of Representatives, majority leader of the Senate, minority leader of the House of Representatives, and minority leader of the Senate each appoint one member. The chairpersons of the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue, and bonding jointly appoint two members. The chief executive officer of CI and the Commissioner of Economic and Community Development serve ex-officio.

The members of the board of directors as of June 30, 2020, were as follows:

**Appointed Members:**

Michael Cantor	Governor
David Kinsley	Speaker of the House of Representatives
Jessica Bailey	Majority Leader of the House of Representatives
Oni Chukwu	Majority Leader of the Senate
George Mathanool	Minority Leader of the House of Representatives
Todd Lavieri	Minority Leader of the Senate
Hadi Bozorgmanesh	Chairperson, Committee on Finance, Revenue, and Bonding
Revell Horsey	Chairperson, Committee on Finance, Revenue, and Bonding
Vacant	President Pro Tempore of the Senate

**Ex-Officio Members:**

Matthew McCooe	Chairperson, Chief Executive Officer of CI
David Lehman	Commissioner of Economic and Development

Craig Crews also served on the board of directors during the audited period.

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

Glendowlyn Thames served as executive director during the audited period.

## **SIGNIFICANT LEGISLATION**

### **Connecticut Innovations, Incorporated**

The following significant legislation was effective during the audit period:

- **Public Act 19-22:** Effective June 13, 2019, made CI the successor agency of the Connecticut Brownfields Redevelopment Authority (CBRA), assuming all of its powers, rights, interests, and obligations. It deemed CBRA, previously a subsidiary of CI, dissolved without needing any notice or filing, consent of any third party, instrument of assignment or assumption, or any other action. It made various conforming changes related to dissolving CBRA.

The act also changed certain requirements in CI's investment policies for equity investment funds and funds of funds (i.e., pooled investment funds that invest in other types of funds), including requiring that the fund manager for any such investment have a Connecticut office.

- **Public Act 19-192:** Effective July 8, 2019, established a program to encourage the development of technologies and techniques to prevent, identify, and repair crumbling concrete foundations. CI must administer the program within existing resources and develop program standards in conjunction with a volunteer panel of experts. The act allows CI to administer the program in coordination with agencies from other states.

### **CTNext, LLC**

The following significant legislation occurred during the audit period:

- **Public Act 18-178 (Sections 46 and 47):** Effective July 1, 2018, revamped and expanded the CTNext statutory mission. It expanded the mission from fostering innovation and business startups and growth to address the macro-level ecosystem that supports these activities. The act also required the CTNext Board of Directors to elect its chairperson from among its members and specifies how members must avoid conflicts of interest. Sections 48, 49, and 51 also authorized three new programs to help entrepreneurs and provide the capital needed to develop commercial applications for research and grow early-stage businesses.

## **RÉSUMÉ OF OPERATIONS**

### **STATE FUNDING**

The State of Connecticut provides significant funding for CI and CTNext through the issuance of general obligation bonds. CTNext also receives Manufacturing Assistance Act bond funds and federal grants. CI's 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. CI processes these transactions through three special revenue funds and an enterprise fund, including:

- **Grants to Local Governments and Others 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 records them 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 \$25 million to recapitalize various portfolio investment programs.
- **Connecticut Bioscience Collaboration Fund:** 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 \$34.5 million in state funding, which it used for facility and equipment loans and operating assistance to the Jackson Laboratory for Genomic Medicine.
- **Connecticut Bioscience Innovation Fund:** 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 health care service delivery. It capitalizes the fund by authorizing up to \$200 million in general obligation bonds over ten years and allows CI to use the proceeds for grants or loans to, or investments in, projects proposed by start-up or early-stage businesses, colleges and universities, and nonprofit organizations. During the audited period, CBIF received \$40.8 million in state funding, and the fund's operating expenses totaled \$13.3 million.
- **Connecticut Innovations, Incorporated Fund:** 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. CI uses Core-CT to process its payroll and other operating expenses. CI charged \$20.6 million in expenditures to the enterprise fund during the audited period, which consisted of CI and CTNext payroll and fringe costs, funded by CI cash transfers 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. The State Bond Commission may require CI to repay funds advanced by the State Bond Commission, including interest, under terms the commission might find desirable and consistent with CI's purpose.

**CONNECTICUT INNOVATIONS, INCORPORATED**

**Statement of Net Position**

The financial positions of CI as of June 30, 2018, 2019, and 2020, per the audited financial statements, are as follows:

	2017-2018	Fiscal Year 2018-2019	2019-2020
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents:			
Cash and Cash Equivalents	\$27,035,383	\$36,828,849	\$30,606,700
Committed Cash and Cash Equivalents	33,333,292	37,950,119	25,950,119
Total Cash and Cash Equivalents	60,368,675	74,778,968	56,556,819
Current Portion of Loans	5,884,403	5,295,966	3,772,912
Current Portion of Portfolio Investments	798,809	984,566	1,124,798
Due from Connecticut Bioscience Innovation Fund	613,189	-	-
Due from CTNext	-	158,159	510,802
Interest and Other Receivables	540,450	419,440	557,907
Prepaid Expenses	260,929	159,863	181,640
Due from State of Connecticut	484,147	164,233	336,704
<b>Total Current Assets</b>	<b>68,950,602</b>	<b>81,961,195</b>	<b>63,041,582</b>
<b>Noncurrent Assets</b>			
Restricted Cash and Cash Equivalents	14,854,444	7,994,432	14,708,090
Portfolio Investments, Net of Current Portion	103,586,251	112,865,794	123,159,001
Loans – Noncurrent, Net of Allowance for Loan Losses	29,357,935	25,029,186	20,214,103
Capital Assets, Net of Depreciation	82,314	206,520	2,985,192
Other	94,050	66,000	66,000
<b>Total Noncurrent Assets</b>	<b>147,974,994</b>	<b>146,161,932</b>	<b>161,132,386</b>
<b>Total Assets</b>	<b>216,925,596</b>	<b>228,123,127</b>	<b>224,173,968</b>
<b>Deferred Outflows of Resources</b>			
Deferred Bond Issuance Costs	37,541	18,612	-
Deferred Amount for Pension	6,987,279	8,170,287	9,837,412
Deferred Outflows - OPEB	-	577,684	8,508,852
<b>Total Deferred Outflows of Resources</b>	<b>7,024,820</b>	<b>8,766,583</b>	<b>18,346,264</b>
<b>Liabilities</b>			

<b>Current Liabilities</b>			
Current Portion of Bonds	585,000	595,000	-
Custodial Liability	8,708,048	4,164,535	1,936,806
Accrued Expenses and Other Liabilities	2,888,475	3,632,963	3,506,332
Due to Connecticut Bioscience Innovation Fund	-	201,668	153,078
Reserve for Loss Guarantees	1,792,966	1,792,966	1,655,552
Deferred Revenue	5,835	5,388	4,438
<b>Total Current Liabilities</b>	<b>13,980,324</b>	<b>10,392,520</b>	<b>7,256,206</b>
<b>Noncurrent Liabilities</b>			
Net Pension Liability	23,370,173	25,785,828	29,765,417
Net Other Post Retirement Benefits Liability	23,597,482	23,982,148	33,679,649
Escrow Deposits	2,213,820	10,001	12,886
Bonds Payable, Net of Current Portion	595,000	-	-
<b>Total Noncurrent Liabilities</b>	<b>49,776,475</b>	<b>49,777,977</b>	<b>63,457,952</b>
<b>Total Liabilities</b>	<b>63,756,799</b>	<b>60,170,497</b>	<b>70,714,158</b>
<b>Net Position</b>			
Net Investment in Capital Assets	82,314	206,520	2,985,192
Restricted	12,496,403	7,782,763	14,542,126
Unrestricted	137,247,319	160,140,797	147,483,922
<b>Total Net Position</b>	<b>149,826,036</b>	<b>168,130,080</b>	<b>165,011,240</b>
<b>Total Liabilities and Net Position</b>	<b>213,582,835</b>	<b>228,300,577</b>	<b>235,725,398</b>
<b>Deferred Inflows of Resources</b>			
Deferred Amount for Pension	7,064,036	5,224,154	3,338,031
Deferred Amount for Other Post Retirement Benefits	3,303,545	3,364,979	3,456,803
<b>Total Deferred Inflows of Resources</b>	<b>\$10,367,581</b>	<b>\$8,589,133</b>	<b>\$6,794,834</b>

As of June 30, 2019, total assets and deferred outflows exceeded total liabilities and deferred inflows by \$168.1 million. In total, the net position of CI increased \$18.3 million in fiscal year 2018-2019. Current assets, excluding the current portion of loans and investments, increased \$13.4 million. Additionally, CI's investment portfolio increased \$9.5 million in fiscal year 2018-2019. This increase consisted of \$20.3 million in new investments and net unrealized appreciation of investments totaling \$9.1 million, offset by \$7 million in principal repayments and \$12.9 million of investments written off. CI's direct loan portfolio decreased \$4.9 million in fiscal year 2018-2019 due to loan pay downs, provisions, and recoveries of \$8.2 million, offset by \$3.3 million in new direct loans. Current liabilities decreased \$3.6 million due to the funding of medical research grants-in-aid, bonds payable decreased \$585,000 due to the normal amortization of bonds, and other noncurrent liabilities decreased \$2.2 million due to the release of sales tax program escrows.

As of June 30, 2020, total assets and deferred outflows exceeded total liabilities and deferred inflows by \$165 million. In total, the net position of CI decreased \$3.1 million in fiscal year 2019-

2020. Current assets, excluding the current portion of loans and investments, decreased \$17.5 million. Additionally, CI's investment portfolio increased \$10.4 million in fiscal year 2019-2020. This increase consisted of \$24 million in new investments, offset by \$7 million in unrealized valuation decreases, \$3.3 million in principal repayments, and \$3.3 million of investments written-off. CI's direct loan portfolio decreased \$6.3 million in fiscal year 2019-2020 due to loan pay downs and provisions of \$6.6 million, offset by \$0.3 million in new direct loans. Current liabilities decreased \$2.5 million due to the funding of medical research grants-in-aid, and CI made the final general obligation bond redemption for \$595,000 in fiscal year 2019-2020.

**Statement of Revenues, Expenses, and Changes in Net Position**

The revenue, expenses, and changes in net position of CI for the fiscal years ended June 30, 2018, 2019, and 2020, per the audited financial statements, are as follows:

	<b>Fiscal Year</b>		
	<b>2017-2018</b>	<b>2018-2019</b>	<b>2019-2020</b>
<b>Operating Revenues</b>			
Investment Interest Income	\$2,033,980	\$2,883,789	\$2,256,480
Interest on Loans	1,909,762	1,680,371	1,334,389
Realized and Unrealized Gain on Investments - Net	8,233,604	9,030,112	3,805,355
Unrealized Loss on Investments - Net	-	-	(6,946,536)
Loan Fee Income	631,181	893,528	509,298
Other Income	1,185,127	1,259,532	1,677,535
<b>Total Operating Revenues</b>	<b>13,993,654</b>	<b>15,747,332</b>	<b>2,636,521</b>
<b>Operating Expenses</b>			
Salaries	4,610,191	5,394,230	5,192,315
Benefits and Payroll Taxes	3,637,740	4,387,102	4,168,667
Provision for Loan and Guarantee Losses	375,000	325,000	800,000
General Facility and Office	875,347	982,982	888,234
Professional Service Fees	1,347,753	948,581	1,172,359
Interest	70,448	40,195	9,111
Marketing, Conferences, Development	612,741	607,870	542,879
Depreciation and Amortization	106,103	130,014	341,000
Other	15,370	9,533	2,005
<b>Total Operating Expenses</b>	<b>11,650,693</b>	<b>12,825,507</b>	<b>13,116,570</b>
<b>Operating Income (Loss)</b>	<b>2,342,961</b>	<b>2,921,825</b>	<b>(10,480,049)</b>
<b>Non-Operating Revenues</b>			
Grant and Program Income	1,404,480	4,543,513	2,227,729
Pension and Other Post Retirement Expense Recapture	1,270,805	738,819	-
Connecticut Public Act 11-1	-	15,000,000	-
Proof of Concept Funding	-	-	10,000,000
Connecticut Bioscience Collaboration Funding	18,558,097	21,933,598	12,519,425



<b>Total Non-Operating Revenues</b>	<b>21,233,382</b>	<b>42,215,930</b>	<b>24,747,154</b>
<b>Non-Operating Expenses</b>			
Grants and Programs	12,352,873	16,150,113	8,332,022
Pension and Other Post Retirement Expense	-	-	2,284,498
Connecticut Bioscience Collaboration Loan Write-Down	8,058,097	10,683,598	6,769,425
<b>Total Non-Operating Expenses</b>	<b>20,410,970</b>	<b>26,833,711</b>	<b>17,385,945</b>
<b>Non-Operating Income</b>	<b>822,412</b>	<b>15,382,219</b>	<b>7,361,209</b>
<b>Change in Net Position</b>	<b>3,165,373</b>	<b>18,304,044</b>	<b>(3,118,840)</b>
<b>Net Position - Beginning of Year</b>	<b>146,660,663</b>	<b>149,826,036</b>	<b>168,130,080</b>
<b>Net Position - End of Year</b>	<b>\$149,826,036</b>	<b>\$168,130,080</b>	<b>\$165,011,240</b>

Total CI operating revenue increased \$1.7 million from \$14 million in fiscal year 2017-2018 to \$15.7 million in fiscal year 2018-2019. This was due primarily to a \$0.8 million increase in net realized and unrealized gains on investment and \$0.9 million in additional interest income. Compensation, benefits, and payroll taxes increased \$1.5 million in fiscal year 2018-2019 due to additional fringe costs and the filling of vacant positions. Interest expense decreased \$30,000, and general and administrative expenses decreased by \$278,000 due to the continued reduction of general office, legal, and advisory fees associated with rightsizing the organization. In fiscal year 2018-2019, CI received \$15 million in federal Jobs Bill funding and \$21.9 million for the Connecticut Bioscience Collaborative Program, of which CI expended \$10.7 million for facility and equipment loans. CI also disbursed \$4.5 million for medical research grants-in-aid.

Total CI operating revenue decreased \$13.1 million from \$15.7 million in fiscal year 2018-2019 to \$2.6 million in fiscal year 2019-2020. This was due primarily to a \$3.1 million net realized and unrealized loss on investments. Many of CI's portfolio companies were impacted by the COVID-19 crisis. Compensation, benefits, and payroll taxes decreased \$0.4 million in fiscal year 2019-2020, and interest expense decreased \$31,000 due to the final pay down of general obligation bonds. General and administrative expenses increased by \$267,000 due primarily to costs associated with the move from Rocky Hill to New Haven and Hartford. In fiscal year 2019-2020, CI received \$10 million under the federal Jobs Bill and \$12.6 million for the Connecticut Bioscience Collaborative program, of which CI expended \$6.8 for facility and equipment loans. CI also disbursed \$2.2 million for medicine research grants-in-aid.

## **CTNext, LLC**

### **Statement of Net Position**

The financial positions of CTNext as of June 30, 2018, 2019, and 2020, per the audited financial statements, are as follows:

	2017-2018	Fiscal Year 2018-2019	2019-2020
<b>Assets</b>			
Cash and Cash Equivalents	\$12,114,585	\$12,645,445	\$8,780,162
Due from State of Connecticut	55,352	72,567	12,631
<b>Total Assets</b>	<b>12,169,937</b>	<b>12,718,012</b>	<b>8,792,793</b>
<b>Liabilities</b>			
Accrued Expenses and Other Liabilities	2,960,149	4,000,583	2,747,993
Due to Connecticut Innovations, Incorporated	-	158,159	510,802
<b>Total Liabilities</b>	<b>2,960,149</b>	<b>4,158,742</b>	<b>3,258,795</b>
<b>Net Position</b>			
Restricted for CTNext Fund	9,209,788	8,559,270	5,533,998
<b>Total Net Position</b>	<b>9,209,788</b>	<b>8,559,270</b>	<b>5,533,998</b>
<b>Total Liabilities and Net Position</b>	<b>\$12,169,937</b>	<b>\$12,718,012</b>	<b>\$8,792,793</b>

As of June 30, 2019, total assets exceeded total liabilities by \$8.6 million. In total, the net position of CTNext decreased by \$0.7 million. The decrease was due primarily to a \$1.2 million increase in accrued expenses, other liabilities, and amounts due to CI, offset by a \$0.5 million increase in cash and cash equivalents.

As of June 30, 2020, total assets exceeded total liabilities by \$5.5 million. In total, the net position of CTNext decreased by \$3 million. The decrease was due primarily to a \$3.9 million reduction in cash and cash equivalents, offset by a \$0.9 million decrease in accrued expenses, other liabilities, and amounts due to CI.

### Statement of Revenues, Expenses, and Changes in Net Position

The revenue, expenses, and changes in net position of CTNext for the fiscal years ended June 30, 2018, 2019, and 2020, per the audited financial statements, are as follows:

	2017-2018	Fiscal Year 2018-2019	2019-2020
<b>Operating Revenues</b>			
State Bonding	\$12,850,000	\$10,350,000	\$5,000,000
Grant Income	91,097	74,841	61,632
Investment Interest	55,642	239,802	134,717
<b>Total Operating Revenues</b>	<b>12,996,739</b>	<b>10,664,643</b>	<b>5,196,349</b>

<b>Operating Expenses</b>			
Salaries	398,726	442,305	395,908
Benefits and Payroll Taxes	291,281	334,649	346,625
Professional Service Fees	214,192	288,744	315,933
General and Administrative	252,000	234,000	275,000
Marketing	169,011	162,177	237,521
Other	18,886	30,877	14,401
Grants and Programs:			
Innovation Places	6,900,000	5,177,147	2,614,994
Partners	1,392,091	1,758,343	1,142,636
Higher Education	1,201,891	1,338,473	2,209,946
Technology Talent Bridge	781,197	1,241,446	526,367
Other Program Expenses	312,963	307,000	142,290
<b>Total Operating Expenses</b>	<b>11,932,238</b>	<b>11,315,161</b>	<b>8,221,621</b>
<b>Net Operating Income (Loss)</b>	<b>1,064,501</b>	<b>(650,518)</b>	<b>(3,025,272)</b>
<b>Change in Net Position</b>	<b>1,064,501</b>	<b>(650,518)</b>	<b>(3,025,272)</b>
<b>Net Position - Beginning of Period</b>	<b>8,145,287</b>	<b>9,209,788</b>	<b>8,559,270</b>
<b>Net Position - End of Period</b>	<b>\$9,209,788</b>	<b>\$8,559,270</b>	<b>\$5,533,998</b>

CTNext's operating revenue decreased from \$13 million in fiscal year 2017-2018 to \$10.7 million in fiscal year 2018-2019 and then to \$5.2 million in fiscal year 2019-2020. The decreases in operating revenue were due primarily to reductions in state bond funds and federal grant income from the U.S. Small Business Administration.

CTNext's operating expenses decreased from \$11.9 million in fiscal year 2017-2018 to \$11.3 million in fiscal year 2018-2019 and then to \$8.2 million in fiscal year 2019-2020. The majority of CTNext's operating expenses were for grants and programs. Expenses associated with Innovation Places decreased by \$1.7 million and \$2.6 million during the fiscal years ended June 30, 2019, and 2020, respectively.

## **OTHER AUDITS AND ENGAGEMENTS**

Independent public accountants audited CI, CTNext, and the Connecticut Bioscience Innovation Fund (CBIF) for the fiscal years under review. Those audits attested 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 the independent public accountants identified no material weaknesses in internal control over financial reporting. The reports on compliance with certain laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance.

## STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of Connecticut Innovations, Incorporated and CTNext, LLC disclosed the following four recommendations, of which three have been repeated from the previous audit:

### **Untimely Filing of Statutorily Required Reports**

*Criteria:* CI and CTNext are required to comply with numerous reporting requirements set forth in various sections of the General Statutes.

*Condition:* Our review disclosed that CI and CTNext did not promptly submit seven of the 13 reports reviewed, including:

- CI and CTNext jointly submitted the annual reports required by Section 1-123(a) for the fiscal years ended June 30, 2019 and 2020 on January 23, 2020 and March 10, 2021, respectively.
- CI and CTNext submitted the quarterly financial reports required by Section 1-123(b) for the quarter ended June 30, 2020 on November 17, 2020 and October 23, 2020, respectively.
- CI submitted the business plan report required by Section 32-47a on February 11, 2020. It was due on January 1, 2020.
- CTNext submitted the annual report of CTNext Fund activities required by Section 32-39i(i) on July 22, 2020. It was due on April 15, 2020.
- CTNext submitted the baseline assessment report of innovation and entrepreneurship in the state required by Section 32-39q(b) on July 12, 2019. It was due on June 1, 2019.

*Context:* During the audited period, there were 15 statutory reporting requirements, for which CI and CTNext were to submit 63 individual reports. We judgmentally selected 13 reports for review.

*Effect:* Untimely reporting limits the state's monitoring of quasi-public agencies.

*Cause:* The untimely reporting appears to be the result of a lack of managerial oversight due to the number of required reports.

*Prior Audit Finding:* This finding has been previously reported in the last five audit reports covering the fiscal years ended 2011 through 2018.

*Recommendation:* Connecticut Innovations, Incorporated and CTNext, LLC should promptly submit all reports required by the General Statutes. (See Recommendation 1.)

*Agency Response:* “Connecticut Innovations agrees with the finding. CI did submit 100% of the required annual reports (63 in total). The delays were attributable to reduced staffing levels and the legislative requirement where some reports must be approved by their oversight board before submission. CI will strive to continually improve on the timeliness of our legislative reporting requirements.”

### **Questionable Severance Payment and Failure to Execute Personal Service Agreement**

*Criteria:* Sound business practice dictates that quasi-public agency expenses should be necessary and reasonable.

In accordance with CI’s severance policy, if CI permanently eliminates a position, it may offer the separated employee a severance package with approval from the board of directors or Finance and Operations Committee.

CI’s separation agreement language prohibits the employee from returning to their position or rendering any services to CI during their paid administrative leave leading up to their separation date.

CI’s consulting and advisory services policy requires CI to execute personal services agreements of \$4,000 or greater.

*Condition:* On November 15, 2018, CI eliminated a position due to lack of work and placed the employee on paid administrative leave through December 7, 2018. On the same day, the loan committee approved a loan for a potential client under the condition that this individual, acting as a consultant, create a restructuring business plan. CI planned to present the business plan to the loan committee on November 28, 2018, while the employee was on paid administrative leave.

On December 21, 2018, CI paid the employee \$34,891 for 16 weeks of severance. CI could not provide any evidence that its board of directors or Finance and Operations Committee approved the severance package.

On January 11, 2019, CI paid the separated employee \$9,750 for 135 hours of consulting services that the employee appeared to perform while on paid administrative leave. CI did not execute a personal service agreement with the separated employee despite the services exceeding \$4,000.

*Context:* During the audited period, CI laid off three employees due to lack of work and paid them \$90,325 in severance. We reviewed all three employees.

CI's expenditures per the check registers totaled \$42,163,914 for the audited period. We judgmentally selected 15 expenditures, totaling \$808,823, to review. Additionally, CI entered into 130 personal service agreements, totaling \$7,092,382. We judgmentally selected three personal service agreements, totaling \$1,030,000, to review.

*Effect:* CI's decision to lay off the employee, pay them severance, and rehire them as a consultant appears to waste limited resources and violate a separation agreement. Additionally, CI did not comply with its severance and personal service agreement policies.

*Cause:* The lack of severance package approval and failure to execute a personal service agreement appear to be due to lack of oversight by management.

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

*Recommendation:* Connecticut Innovations, Incorporated should ensure that expenses are necessary, reasonable, and properly approved, and should comply with personal service agreement policies and the terms of separation agreements. (See Recommendation 2.)

*Agency Response:* "CI agrees with the finding related to the timing of the signed PSA. CI's Policy states that personal service agrees (PSA's) should be executed for all contracts over \$4,000. The PSA was executed on July 1, 2019, where this should have been signed prior to the work. CI's position on the expenses is that they were reasonable and necessary. The individual that was contracted had great subject matter experience for the work needed. The work was unanticipated and needed to protect a CI asset."

### **Failure to Fill Board and Committee Positions and Member Attendance**

*Background:* The CI Board of Directors consists of 17 members. The Governor and various legislative leaders appoint 13 members, and four state officials serve as ex-officio members.

The CTNext Board of Directors consists of 11 members. The Governor and various legislative leaders appoint nine members. In addition, the Commissioner of Economic and Community Development and the CI chief executive officer serve as ex-officio members.

The Bioscience Innovation Advisory Committee consists of 13 members. The Governor and various legislative leaders appoint ten

members. In addition, two state officials and the CI chief executive officer serve as ex-officio members.

*Criteria:* Section 32-35(b) of the General Statutes specifies the requirements for appointments to the CI Board of Directors.

Section 32-39f(b) of the General Statutes specifies the requirements for appointments to the CTNext Board of Directors.

Section 32-41bb(a)(6) of the General Statutes specifies the requirements for appointments to the Bioscience Innovation Advisory Committee.

Boards of directors and committees are most effective when they have a full complement of appointed members who attend meetings.

*Condition:* Our review of the CI Board of Directors, CTNext Board of Directors, and Bioscience Innovation Advisory Committee identified the following:

- There were three vacant positions on the CI Board of Directors, one on the CTNext Board of Directors, and one on the Bioscience Innovation Advisory Committee during the audited period. Three of the positions were vacant since before July 2018, one was vacant since December 2018, and one was vacant since June 2019.
- One member of the CI Board of Directors, three members of the CTNext Board of Directors, and two members of the Bioscience Innovation Advisory Committee were absent for 52% to 85% of the meetings held during the audited period.
- The bylaws for the CI Board of Directors, CTNext Board of Directors, and Bioscience Innovation Advisory Committee do not include meeting attendance requirements.

*Context:* During the audited period, there were 13 boards and committees within CI and CTNext. We judgmentally selected three boards and committees to review, the CI Board of Directors, the CTNext Board of Directors, and the Bioscience Innovations Advisory Committee.

The CI Board of Directors held 11 meetings, the CTNext Board of Directors held 11 meetings, and the Bioscience Innovation Advisory Committee held 21 meetings during the audited period.

*Effect:* Vacant positions and absences may negatively impact board and committee decisions.

- Cause:* The General Statutes concerning CI and CTNext boards and committees do not have member attendance provisions.
- We could not determine whether the boards and committees promptly notified their appointing authorities of vacancies.
- Prior Audit Finding:* This finding has been previously reported in the last audit report covering the fiscal years ended 2017 through 2018.
- Recommendation:* Connecticut Innovations, Incorporated and CTNext, LLC should adopt attendance procedures for their boards of directors and committees and should promptly notify appointing authorities of member vacancies. (See Recommendation 3.)
- Agency Response:* “CI’s Board is comprised of members outlined in our enabling legislation. CI keeps attendance at all board meetings and will continue to communicate with the appointing authorities when vacancies arise. In addition, CI was supportive of Public Act No. 22-97 where Section 2(b)(1) states that any member who fails to attend three consecutive meetings or fails to attend 50% of all meetings of the board during a calendar year shall be deemed to have resigned from the board.”

### **Connecticut New Opportunities Fund Not Established**

- Criteria:* Section 32-41v(b) of the General Statutes required CI to establish the Connecticut New Opportunities Fund to invest in seed stage and emerging growth companies in the state. The statute established a ten-year term for the fund, with up to three one-year extensions. 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.
- Context:* Section 32-41v(b) of the General Statutes became effective July 1, 2005.
- Effect:* Although CI has not established the fund, 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 or provided funds to pay out the guarantee.
- Prior Audit Finding:* This finding has been previously reported in the last audit report covering the fiscal years ended 2017 through 2018.



*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 4.)

*Agency Response:* “Connecticut Innovations agrees with this finding and will seek legislation to eliminate this language.”

## RECOMMENDATIONS

### Status of Prior Audit Recommendations

Our prior audit report on Connecticut Innovations, Incorporated and CTNext, LLC contained seven recommendations. Four have been implemented or otherwise resolved and three have been repeated or restated with modifications during the current audit.

- 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. **This recommendation is being restated with modifications. (See Recommendation 1.)**
- 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. **This recommendation has been resolved.**
- 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. **This recommendation has been resolved.**
- 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. **This recommendation has been resolved.**
- Connecticut Innovations, Incorporated should enter into memorandum of understandings when its employees assist state or outside agencies at other locations. **This recommendation has been resolved.**
- Connecticut Innovations, Incorporated should seek legislation to eliminate Section 32-41v of the General Statutes regarding the establishment of the Connecticut New Opportunities Fund. **This recommendation is being repeated. (See Recommendation 4.)**
- 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. **This recommendation is being repeated. (See Recommendation 3.)**

## Current Audit Recommendations

- 1. Connecticut Innovations, Incorporated and CTNext, LLC should promptly submit all reports required by the General Statutes.**

Comment:

Our review disclosed that CI and CTNext did not promptly submit seven statutorily required reports.

- 2. Connecticut Innovations, Incorporated should ensure that expenses are necessary, reasonable, and properly approved, and should comply with personal service agreement policies and the terms of separation agreements.**

Comment:

Our review disclosed that the CI board of directors did not approve a severance package to an employee who CI laid off due to lack of work. Additionally, CI compensated the former employee for consulting work they appeared to perform while on paid administrative leave and without a personal service agreement on file.

- 3. Connecticut Innovations, Incorporated and CTNext, LLC should adopt attendance procedures for their boards of directors and committees and should promptly notify appointing authorities of member vacancies.**

Comment:

Our review found that one member of the CI Board of Directors, three members of the CTNext Board of Directors, and two members of the Bioscience Innovation Advisory Committee were absent for 52% to 85% of the meetings held during the audited period. Additionally, there were lengthy board member vacancies on the CI Board of Directors, CTNext Board of Directors, and Bioscience Innovation Advisory Committee.

- 4. 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, which may no longer be necessary.

**ACKNOWLEDGMENTS**

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Connecticut Innovations, Incorporated and CTNext, LLC during the course of our examination.

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

Theodore Cha  
JoAnne Sibiga



Audrey Wood  
Principal Auditor

Approved:



John C. Geragosian  
State Auditor



Clark J. Chapin  
State Auditor