# STATE OF CONNECTICUT

**AUDITORS' REPORT**
**DEPARTMENT OF ECONOMIC AND**
**COMMUNITY DEVELOPMENT**
**FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**


AUDITORS OF PUBLIC ACCOUNTS
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## TABLE OF CONTENTS

August 18, 2004

# AUDITORS' REPORT
# DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
# FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002

We have examined the financial records of the Department of Economic and Community Development for the fiscal years ended June 30, 2001 and 2002. This report on that examination consists of the Comments, Recommendations and Certification that follow.

This audit examination of the Department of Economic and Community Development, hereinafter referred to as the DECD, has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating internal control structure policies and procedures established to ensure such compliance. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies.

## COMMENTS

### FOREWORD:

The DECD operates under the provisions of Title 8, Chapters 127b, 127c, 128, 130, 131, 133, 135, 136, 137c, 137d, 138b, 138c, 138e through 138k and Title 32, Chapter 578 of the General Statutes. The DECD administers programs and policies to promote business, housing, and community development and is responsible for all aspects of policies and programs for the preservation and improvement of housing and neighborhoods, business assistance and development. James F. Abromaitis served as Commissioner of the DECD during the audited period.

### RÉSUMÉ OF OPERATIONS:

#### General Fund Receipts:

General Fund receipts consisted primarily of Federal contributions. Receipts for the fiscal years ended June 30, 2001 and 2002, totaled $54,829,236 and $60,714,510, respectively.

Receipts for the audited fiscal years and the prior fiscal year are summarized below:

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | **2000** | **2001** | **2002** |
| Federal Contributions | $29,776,336 | $43,802,214 | $47,533,760 |
| Restricted Contributions, Other | 6,136,810 | 6,845,855 | 7,251,651 |
| Loans | 2,436,149 | 2,843,267 | 3,208,355 |
| Other Revenue | 10,194 | 6,119 | 4,576 |
| Refunds of Expenditures | 2,168,308 | 1,331,781 | 2,716,168 |
| Total General Fund Receipts | **$40,527,797** | **$54,829,236** | **$60,714,510** |

There was an increase of $14,301,439 and $5,885,274, respectively, during the fiscal years ended June 30, 2001 and 2002. These increases were primarily attributable to Federal contributions received from the Federal Department of Housing and Urban Development (HUD) for the Community Development Block Grant in the fiscal year ended June 30, 2001, and for the Home Investments Partnership (HOME) Program for the fiscal year ended June 30, 2002.

**General Fund Expenditures:**

A summary of General Fund expenditures during the audited fiscal years and the preceding fiscal year follows below:

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | **2000** | **2001** | **2002** |
| Budgeted Accounts: | | | |
| Personal services | $6,056,200 | $6,482,651 | $6,936,609 |
| Other expenditures | 2,786,724 | 3,290,081 | 2,963,431 |
| Payments in lieu of taxes | 2,900,000 | 2,900,000 | 2,900,000 |
| Congregate facilities | 2,890,876 | 3,941,250 | 4,310,008 |
| Tax abatement | 2,243,276 | 2,243,276 | 2,243,276 |
| Industry Cluster Initiative | 1,941,598 | 1,899,945 | 2,361,504 |
| Entrepreneurial centers | 215,000 | 215,000 | 215,000 |
| All other | 2,326,041 | 3,387,178 | 1,701,126 |
| Total Budgeted Accounts | 21,359,715 | 24,359,381 | 23,630,954 |
| Restricted Accounts: | | | |
| Federal | 37,179,403 | 39,661,044 | 47,393,206 |
| Other than federal | 6,152,721 | 7,228,963 | 8,111,811 |
| Total Restricted Accounts | 43,332,124 | 46,890,007 | 55,505,018 |
| Total Expenditures | **$64,691,839** | **$71,249,387** | **$79,135,972** |

Total expenditures increased by $6,557,548 and $7,886,585, during the fiscal years ended June 30, 2001 and 2002, respectively. The increases in both fiscal years are mainly due to an increase in the HOME program expenditures. Expenditures also increased in the fiscal year ended June 30, 2001, for the congregate facilities account because of extended assisted living services to congregate housing facilities in the State.

**Special Revenue Funds:**

The Department utilized 11 Special Revenue funds during our audit period. These funds were mainly used for providing financial assistance in the form of grants or loans for economic development and housing projects approved by the State Bond Commission.

**Special Revenue Funds Receipts:**

Receipts from Special Revenue Funds during the audited fiscal years and the preceding fiscal year are summarized below:

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | **2000** | **2001** | **2002** |
| Principal on loans | $ 7,372,806 | $6,898,472 | $6,199,263 |
| Rental housing service charge | 926,715 | 1,043,605 | 896,407 |
| Loan agreement interest | 1,136,892 | 1,186,700 | 1,257,715 |
| Housing loans | 825,142 | 914,373 | 814,993 |
| Refunds of expenditures | 1,694,357 | 390,740 | 534,138 |
| Federal and Other Grants Restricted | 277,585 | 4,572,493 | 460,000 |
| Sale of Property | 34,735 | | |
| Total Receipts | **$12,268,232** | **$15,006,383** | **$10,162,516** |

Total receipts increased by $2,738,151 in the fiscal year ended June 30, 2001, and decreased by $4,843,867 in the fiscal year ended June 30, 2002. The increase and subsequent decrease in receipts was due to the transfer of $4,000,000 from the Office of Policy and Management. These funds had been approved by the State Bond Commission for a grant-in-aid to the Naugatuck Valley Development Corporation for the planning, design and land acquisition related to the relocation of the University of Connecticut Waterbury Campus and a new cultural, arts and academic magnet school.

**Special Revenue Funds Expenditures:**

A summary of expenditures from Special Revenue Funds during the audited fiscal years and the preceding fiscal year follows:

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | **2000** | **2001** | **2002** |
| Loans | $9,466,011 | $37,491,401 | $38,251,393 |
| Grants | 56,270,075 | 43,286,462 | 59,982,170 |
| Administration | 5,653,810 | 6,205,615 | 4,076,238 |
| Total Expenditures | **$71,389,896** | **$86,983,478** | **$102,309,801** |

Special Revenue Fund expenditures increased by $15,593,582 and $15,326,323 during the fiscal years ended June 30, 2001 and 2002, respectively. The increase in the fiscal year ended June 30, 2001, was primarily due to a loan of $23,000,000 to a company in Stamford to assist with constructing new floor space, a parking garage and a data center. The increase in expenditures in the fiscal year ended June 30, 2002, was due to grant expenditures incurred for costs related to the New London Fort Trumbull Municipal Development Plan.

**Capital Projects Fund:**

According to Section 8-80, subsection (e), of the General Statutes, debt service payments on bonds issued in accordance with Section 8-80 are to be paid first from income retained in the Rental Housing Fund (3012). If such retained income is not sufficient, the difference is to be paid from the General Fund. Funds advanced by the General Fund for this purpose were $14,073,638 and $7,167,215, respectively, during the fiscal years ended June 30, 2001 and 2002.

Total expenditures for the Capital Projects Funds were $85,738,428 and $44,561,441, for the fiscal years ended June 20, 2001 and 2002, respectively. The decrease in expenditures during the fiscal year ended June 30, 2002, was primarily due to higher expenditures in the previous fiscal year to assist the City of Bridgeport with the costs associated with the construction of a sports and entertainment complex at Harbor Yard.

Debt service interest paid for the Rental Housing Fund totaled $5,003,683 and $4,281,095, for the fiscal years ended June 30, 2001 and 2002, respectively.

**Debt Service Fund:**

The Rental Housing Fund B accumulates principal payments received on outstanding rental housing loans and the proceeds from Moderate Rental Sales and Moderate Rental Rehabilitation programs. The fund is also used to offset debt service obligations incurred as a result of bonds sold for moderate rental housing projects and moderate rental cost housing, as provided under Sections 8-69 through 8-81 of the General Statutes. The major source of revenue for this fund is interest collections from outstanding rental housing loans. Revenue totaled $4,906,882 and $6,496,836, during the fiscal years ended June 30, 2001 and 2002, respectively. The increase in receipts during the fiscal year ended June 30, 2002, when compared with the prior year is attributable to a payoff of loans on some Moderate Rental Housing projects.

**Fiduciary Fund:**

**Pending Receipts Fund:**

Deposits in the Pending Receipts Fund consisted primarily of receipts held in suspense until determination of their final disposition. The balance in the Pending Receipts Fund was $129,180 and $123,010, as of June 30, 2001 and 2002, respectively.

## CONDITION OF RECORDS

Our review of the financial records of the Department of Economic and Community Development revealed the following areas that warrant comment.

**Federal Advance Funding:**

*Background:* The DECD receives funds from the Federal Department of Housing and Urban Development for the Home Investment Partnership (HOME) Program. The DECD may use these funds for the acquisition, rehabilitation and new construction of housing and tenant-based rental assistance. Payments of the HOME program expenditures are initially made from the State's General Fund. After the DECD reviews and certifies that the recipient has expended the funds that were requested, a drawdown from the Federal Government is made and the General Fund is reimbursed.

*Criteria:* Reimbursements from Federal programs should be made in a timely manner so that the State funds are not used to fund Federal projects for an extended period of time.

According to the Department's Request for Payment/Expenditure Verification for the Home Investment Partnership (HOME) Program, the form used by subrecipients to request funds, upon receipt of the HOME funds, the subrecipient must expend these funds within 30 days. The subrecipient must provide verification of expenditures by returning the reconciled Schedule of Expenditures, with check numbers identified, to the DECD's project manager within 30 days of receiving the payment or with the next payment request, whichever is sooner.

*Condition:* During our testing of subrecipients for the 2002 Statewide Single Audit, we found that seven out of 15 subrecipients, or 47 percent, did not provide the DECD with expenditure documentation within the 30 days specified in the Request for Payment/Expenditure Verification form. The number of days between the payment to the subrecipient and the date of the drawdown of funds by the DECD ranged from 35 to 299 days. The amounts ranged from $8,000 to $1,037,619.

Also, our review of the Department's outstanding advances as of April 10, 2003, showed that advances ranging from $5,572 to $139,771 were outstanding. As of April 10, 2003, the subrecipients were 3 to 249 days late in providing the required expenditure documentation.

*Effect:* If Federal monies are not drawn down in a timely manner the State's General Fund provides funds for the Federal projects, often for substantial periods of time. This represents a loss of potential interest income to the State.

*Cause:* The Department's project managers are not obtaining the backup expenditure information from the grantees that would allow the Department's personnel to make drawdowns of HOME funds from HUD to reimburse the State's General Fund.

*Recommendation:* The Department should minimize the amount of time the State is advancing funds for the HOME program by requiring project managers to submit certification of payments in a timely manner. (See Recommendation 1).

*Agency Response:* "During the audit period the procedure utilized by the Department required a funding recipient to certify that the funds requested were to meet project expenditures during the next 30 days. Therefore, verification of expenditures would not occur until the next payment requested.

The project cited by the auditors' that had a 299-day reimbursement adhered to the Department's procedure in place at that time. The client requested a second payment in October of 2001 and did not request a third payment until May of 2002 at which time documentation was submitted to substantiate the October 2001 payment.

Since then, the Department has revised its payment process to include the verification from the funding recipient within 30 days of receiving payment or with the next payment request, whichever is sooner. This procedure was instituted in October 2002."

**Accounts Receivable:**

*Background:* The Department maintains records of accounts receivables arising from unexpended grant funds provided to recipients and other miscellaneous types of receivables on an ACCESS database. Accounts receivables from unexpended grant funds are recorded when the Department issues a Certificate of Termination (COT) to a grant recipient for the amount due, if any, following a close out audit of the grant expenditures. Once the COT is issued or a miscellaneous receivable is identified, the Finance and Administration Division will establish a receivable for the amount. The Department can generate grants receivable and miscellaneous receivable reports from the database.

*Criteria:* Good internal controls require that accounts receivables recorded on the accounting records be complete and accurate. Good internal controls also require that accounts receivables be aged in order to determine whether to send a periodic bill or delinquency notice to the recipient in order to maximize collections. The establishment of collection policies and procedures is necessary to ensure the effectiveness of employees in collecting the accounts receivable. These collections policies should include notification of amount due, notification of the delinquency and request for payment from the Division head of the Collection Unit within the Department, referral to the Attorney General's Office or the Department of Administrative Services for collection, and possible write-off of the receivable.

Section 3-7 of the Connecticut General Statutes allows the Commissioner to cancel any receivable of $1,000 or less.

*Condition:* During our June 30, 1999 and 2000 audit, we reviewed the grants receivable report and noted 76 accounts with a total receivable balance of $2,993,242. We also noted that the DECD was not aggressively requesting collections on the receivables and that the receivable balances were not accurate.

Our review of the grant receivables due as of May 2003 revealed that there were 62 accounts that consisted of 112 grant receivables with a total balance of $2,842,968. The Department began collection on these grant receivables following our June 30, 1999 and 2000 audit. Over $400,000 was recovered. However, the employee responsible for the collection was laid off and no other employee was assigned the responsibility of collecting the receivables.

As part of our review of the receivable and collection process, we noted numerous errors in individual receivable balances. We found five receivables that were overstated by a total of $111,760. We found four receivables that were understated by a total of $50,526.

We noted the following weaknesses in the collection process:

- When a delinquency bill to the recipient is generated, the Director of Finance and Administration does not sign the payment notice sent to the recipient for the delinquent amount.

- The Department does not age its accounts receivable in order to determine the type of action to be taken by the Department on the delinquent account or the likelihood that the account is to be collected.

- The Department currently has several receivables that are $1,000 or less. The Department does not write-off the receivables after reasonable efforts have been made to collect the receivables.

*Effect:* The Department may not be accurately billing accounts since there are errors in the receivables.

The Department does not have the assurance that significant time and effort are spent on collecting accounts receivable amounts since receivables are not aged nor sorted by dollar value.

*Cause:* The Department had assigned resources to areas they felt were more critical than collection due to the layoffs.

The Department hired a consultant to create an accounts receivable system in ACCESS. The Department currently does not have staff on hand that are familiar with the ACCESS database since the consultant was not required by contract to leave the Department any documentation on the database created. Receivables are overstated due to unexplained duplication of invoices in the database. The Department could not explain why receivables are understated because of changes made to the receivables during the period between March 2001 and May 2003. These changes are not documented in ACCESS nor are they supported by other documentation such as an amended COT.

*Recommendation:* The Department should determine the completeness and accuracy of its accounts receivable balances prior to billing. The Department should age its accounts receivables. The Department's Director of Finance and Administration should request payment on the delinquent receivables. The Department should implement procedures to write-off accounts receivables of less than $1,000 after reasonable efforts have been made to collect the receivables. (See Recommendation 2).

*Agency Response:* "The Office of Finance and Administration [of the Department] will be developing procedures that will ensure:

- The accuracy of accounts receivables prior to billing.
- Aging of accounts receivables.
- Delinquency letters signed by the Director of the Office of Finance and Administration.
- Writing off accounts receivables of less than $1,000 after reasonable collection efforts.

The Department is aware of its ability to authorize the cancellation of a receivable of less than $1,000 pursuant to C.G.S. [Connecticut General Statutes] Chapter 31, Section 3-7 that cannot be collected. The Department intends to utilize this authority after reasonable collection efforts. The Department was in the last step of its existing collection procedure when the employee maintaining these receivables was laid off. After fully completing its due diligence, the Office of Finance and Administration planned to write-off receivables that could not be collected."

**Loans Receivable and Accountability Report**

*Background:* Each year the State Comptroller requires the Department to report to the Comptroller its loan balance as of June 30th. The Department reports the loan balances from its Open Loan Balance Report maintained in the Nortridge Loan System (NLS), the Department's loan management system, to the Comptroller. The Department also prepares a loan accountability report to ensure that all new loans were recorded, all cash receipts were applied to reduce the principal balance of outstanding loans at the beginning of the year, and that any adjustments to the loans were made on the system. The State Comptroller includes the amount reported by the Department in the State's Comprehensive Annual Financial Report.

*Criteria:* A properly designed and implemented internal control system that includes policies and procedures over the preparation of the loan accountability report enables the Department to ensure that year-end account balances reported to the State Comptroller are complete, valid and reliable and that all loans and any adjustments are recorded in the Department's accounting records.

*Condition:* There are significant discrepancies between the total loans receivable reported by the Department to the Comptroller, the open loan balance report, and the amount in the accountability report, as recorded by the Department during our audit period. We noted the following discrepancies in the balances:

| | As of 6/30/01 | As of 6/30/02 |
|---|---|---|
| Reported to Comptroller | $272,994,974 | $293,579,001 |
| Open loan balance and Other loan reports | 272,648,848 | 337,489,620 |
| Accountability report | 306,304,018 | 313,531,582 |

Also, we noted the following errors in the loan balances during the June 2001 and June 2002 fiscal years, as reported by the Department. During June 30, 2001, the Department did not include a loan for $22,000,000 in the amount reported to the Comptroller and in the open loan balance report. During June 30, 2002, the Department recorded a loan of $46,000,000 as $66,000,000. Also, during June 30, 2002, the Department incorrectly included, twice, $6,006,024 in loans written off during the year in its accountability report worksheet and in the amount reported to the Comptroller.

*Effect:* Amounts reported to the State Comptroller by the Department did not accurately reflect transaction balances at the end of the fiscal year. These inaccuracies resulted in misstatement of the ending loan balance, the loans receivable, and the amount estimated to be uncollectible at the end of the fiscal year. The Department's management cannot provide proper assurance regarding the validity and reliability of financial reports.

*Cause:* The Department does not reconcile the open loan balance reports with the accountability report to ensure itself that all loans are recorded accurately, that all cash receipts were properly posted to the correct receivable, and that all loans written off are removed from the accounting records.

*Recommendation:* The Department should reconcile loans recorded in its open loan balance report and other reports to an accountability report to ensure that loans receivable balances and the amount reported to the State Comptroller are accurate. (See Recommendation 3).

*Agency Response:* "The Department's basis for reporting to the State Comptroller its loan balance as of June 30th is its Open Loan Balance Report. This report is a record of all the transactions entered into the Department's loan system (Nortridge Loan System). In the past, the Department prepared an internal report, the Accountability Report, to verify the accuracy of the financial information contained on the Nortridge Loan System. Due to the reduction of staff resources, the Department has been unable to prepare the Accountability Report, as in past years.

It should be noted that the Department records on the Nortridge Loan System the entire loan as a receivable. Subsequently, the amount of the loan is adjusted if the entire amount is not disbursed or if a certificate of termination results in a refund to the State.

To ensure that an accurate loan balance is reported to the State Comptroller on an annual basis:

- The Department contacted the State Comptroller and received approval to submit a revised report for the fiscal year in question. The revised report was submitted to the Comptroller's Office on 11/20/03.
- The Department will review all pertinent financial documentation available to determine what loan balance should be reported for future reports.
- The Department will establish a consistent procedure that will be documented for the preparation of future reports."

*Auditors' Concluding Comments:* A loan accountability report is the most efficient method to determine whether the loans on the Open Loan Balance Report are correct and this report can be done on a yearly basis with minimal effort. When we prepared the loan accountability report for our audit period, we were able to determine that the Department did not include all loans and did not enter all loans correctly into the Nortridge Loan System. The loan accountability report takes the previous open loan balance report as of June 30th, adds the total of new loans made, deducts total cash receipts and write-offs, and applies adjustments accordingly. The information obtained to prepare the loan accountability report is independent of the NLS and is a confirmation that the amounts recorded in NLS are correct. The Department does not perform any type of reconciliation that would discover loans not entered on the NLS.

**Nortridge Loan System (NLS):**

*Criteria:* A fundamental prerequisite of a loan management system is to ensure that adequate parameters are built into the system to accurately and completely track recorded receivables and other pertinent information pertaining to each transaction. Establishing and implementing a method that allows the loan management system to track additional terms and conditions pertaining to individual loans and appropriate supervisory review and approval provides management with proper assurance that recorded transactions were correct and complete and that loan payoff amounts calculated by the Department were accurate.

*Condition:* The Nortridge Loan System does not have enough parameters built into the system to capture and calculate the total payoff amount for loans intended to be paid off prior to their maturity date. We found that some original or amended loan documents contain certain additional terms and conditions for payoff of the loan. These additional terms and conditions are not included in the NLS. Also, the Department had no established procedures in place to ensure that loan documents are reviewed for additional terms and conditions before an employee generates a payoff notice from the NLS. The system only prints the amount currently outstanding and this amount is sent to the receiver, without supervisory review, as the total loan payoff amount due.

We found that a loan receiver requested a payoff amount on a loan. An employee printed the outstanding loan balance of $1,893,400 from the NLS and sent a payoff notice for this amount to the loan receiver without supervisory review. We were informed that the loan receiver later notified the Department that the payoff amount was understated. The Department then reviewed the loan for additional terms and conditions and determined that the correct payoff amount was $2,006,681, a difference of $113,281. The loan receiver agreed to the newly determined payoff amount and paid it in full.

*Effect:* The Department may not be collecting the total balance due on outstanding loans that were paid off before their due date if additional terms and conditions are not reviewed and if there is no supervisory review and approval before a payoff notice is sent to a receiver.

*Cause:* There are no parameters in the NLS to alert the Department to search for additional terms and conditions for loans that are being paid off prior to their payoff date. The Department does not review loan contract documents to determine whether there are additional terms and conditions for payoff. Instead, the Department prints the amount currently outstanding in the NLS when a loan recipient requests a payoff amount. This amount is sent to the loan recipient as the final payoff amount due.

*Recommendation:* The Department should include a parameter in the Nortridge Loan System to alert the Department to look for additional terms and conditions for loans intended to be paid off prior to their maturity date. Also, the Department should establish procedures to ensure that initial loan documents are reviewed to determine the total amount currently outstanding on the loans. This review should be examined and approved by a supervisor before a total payoff notice is sent to a loan receiver. (See Recommendation 4).

*Agency Response:* "The Department has now instituted the following procedures for processing loan payoff requests submitted to the Office of Finance and Administration:

- Billing staff obtains payoff amount from the NLS system as of the date requested.
- Billing staff reviews Finance and Administration's loan file for any other additional terms and conditions that apply to the loan.
- Billing staff supervisor review and approves loan payoff amount prior to officially notifying loan recipient."

**Enforcement of Terms of Financial Assistance Agreements:**

*Background:* The Department stipulates in a financial assistance agreement with recipients, the terms and conditions for financial assistance provided to the recipients. According to the terms and conditions, assistance recipients are required to remain and conduct business in the State and to create and retain a certain number of jobs for a specified number of years. The agreement specifies the financial and administrative penalties to be imposed upon default, together with the job creation and retention or other requirements of the assistance agreement. When the Department determines, usually through a job audit, that a recipient has defaulted on the terms and conditions of an assistance agreement, the Department notifies the recipient.

*Criteria:* It is a good business practice to establish policies and procedures to ensure that financial penalties imposed for violation of the terms and conditions of an assistance agreement are recorded by the Department's Finance and Administration Division as an account receivable.

*Condition:* We reviewed 15 transactions totaling $7,362,510 in grants and $1,793,544 in loans provided to financial assistance recipients who defaulted on the terms and conditions of their assistance agreement. Our review showed that in six, or 40 percent, of the 15 transactions, we could not determine whether the Finance and Administration Division was notified once it was determined that the recipients defaulted on the terms and conditions of the assistance agreement and a financial penalty was imposed on the recipient. The Finance and Administration Division did not record an account receivable in any of their receivable databases so that a bill could be generated. We did find that another division sent a notice to the recipients stating the amount owed.

*Effect:* Penalties imposed on financial assistance recipients who defaulted on the terms and conditions of their assistance agreement were not communicated to the proper division for billing, collection, and recording. Also, the Finance and Administration Division understated receivables reported to the State Comptroller at the end of each fiscal year since the division is not aware of the existence of these receivables.

*Cause:* The Department has not established and implemented proper channels of communication between its various divisions to facilitate the billing process. The Department sometimes makes an amendment to the terms and conditions of the original assistance agreements to accommodate requests by the financial assistance recipients. However, upon final determination of penalties to be imposed, if any, the assistance recipient is notified, but there is no established procedure to ensure that the recipient is billed.

*Recommendation:* The Department should establish procedures to ensure that upon final determination that a financial assistance recipient has defaulted on the terms and conditions of the assistance agreement, the Finance and Administration Division is notified so that a receivable is recorded, the recipient is billed and the receivable is collected and documented properly. (See Recommendation 5.)

*Agency Response:* "The Auditors of Public Accounts reviewed 15 transactions to determine whether or not a financial recipient who defaulted on the terms and conditions of the agreement was billed for a penalty and that the penalty was subsequently remitted.

Most of the transactions reviewed were processed prior to the implementation of the Nortridge Loan System. Therefore, to be able to properly assess whether or not a financial recipient received a bill for default purposes would require reviewing the loan system in place prior to NLS, which was the AS 400 System. Therefore, the potential exists that the billing for these defaults may be recorded on the AS 400 System.

The transactions reviewed by the auditors' were addressed through a workout review process. For those transactions where a final determination had been made, letters were sent to the financial recipients, which served as an invoice. Subsequently, checks were remitted to the Department and accordingly deposited. The Department has provided to the auditors' copies of letters sent to financial recipients in default and copies of checks remitted by the financial recipients. Also, the Department has indicated those financial recipients that are still in negotiation with the Department as to what penalties will be imposed. The penalties for these financial recipients, as stated in the recommendation, should not be considered a receivable since a final determination of the amount of the penalty has yet to be made.

The Department will be developing a formalized procedure that will ensure that the Office of Finance and Administration will record a receivable upon final determination of the penalty or penalties to be paid by a financial recipient in default."

*Auditors' Concluding Comments:* The Department was unable to provide us with documentation that it billed financial recipients prior to the implementation of the Nortridge Loan System. As a result, we could not determine whether all receivables were recorded.

Our findings on the six transactions did not include financial recipients that are still in negotiation as indicated in the Agency response above.

**Eastern States Exposition (Big E) Account:**

*Background:* The Big E account is used to record financial activity that results from the Eastern States Exposition that takes place in September each year. The Department sells items on behalf of various vendors and retains a percentage of the profit. Each item sold is assigned a Management Cost Unit (MCU). The MCU defines the price of an item on the cash register and is used to track how many items were sold.

*Criteria:* It is a good business practice to establish proper transaction processing procedures for newly established accounts to ensure that records are entered correctly and that transactions are processed with minimal errors.

Section 4-32 of the General Statutes states that if a State department receives amounts over $500 on a given day, then the State department must deposit the funds within 24 hours of receipt.

*Condition:* We noted the following errors in the Department's administration of the Big E account, which resulted from activity occurring during the September 2001 Exposition:

- Our sample consisted of 55 out of 63 items available for sale from 15 vendors. The number of items sold (beginning inventory less ending inventory) did not agree with the daily sales' totals as represented by the cash register tapes, for nine out of the 55 items. The number of items sold was higher by a total of 39 items, for the nine categories of items, when compared to the amount sold according to the Department's daily number of items sold report.

- The Department used an incorrect price to calculate a vendor payment and the 20 percent profit due to the Department for two out of fifteen vendors. This resulted in overpayments totaling $1,102 to the vendors.

- The Department recorded an incorrect price for an item in its Management Cost Unit (MCU) list. The customer was charged the incorrect price since the MCU prices are entered into the cash registers to complete a sale.

- Our review of deposits made for funds received at the Big Eastern States Exposition (Big E) in 2001 revealed that not all deposits were made within 24 hours of the receipt of the funds. There were 20 deposits made that involved the sales of items. Eight of the 20 deposits were one to two days late. The amounts of the deposits ranged from $1,780 to $7,314 and were, for the most part, all cash.

*Effect:* Losses in inventory were not reported and profit to the Department decreases when losses occur. Also, some prices were entered incorrectly on the MCU list and some accounts were incorrectly billed.

There is noncompliance with the General Statutes. Furthermore, internal controls are weakened when cash is not deposited promptly.

*Cause:* The Department did not account for daily shortages that resulted from inventory losses in their daily number of items sold report nor on the daily sales by vendor report.

The employee responsible for making the deposit was unable to go to the bank to make the deposit.

*Recommendation:* The Department should exercise greater care in handling transactions within the Big E checking account. Transactions should be reconciled in a timely manner and all records should be maintained properly in order to help prevent overpayments and incorrect billings, as well as to ensure complete accountability over all of the transactions within the account. The Department should comply with Section 4-32 of the General Statutes, which requires that funds over $500 be deposited within 24 hours of the receipt of the funds. (See Recommendation 6.)

*Agency Response:* "The auditors cited various conditions of the Department's management of the Big E checking account, which resulted in the aforementioned recommendation. The Department provides the following information to those conditions.

Deposits not made within a twenty-four hour period:
There were three instances, on weekends, during the 2001 Big E when deposits were not made within the required twenty-four hour period. Per instructions of the previous audit team, deposits were to be made at a Fleet Bank in Connecticut. Access to the nearest Connecticut Fleet Bank was only available during Monday through Friday business hours. Also, the staff's other ongoing responsibilities contributed to this slight delay in these deposits. All three of these deposits were made within two business days.

Number of items sold:
Sales recorded on cash register tapes for the 2001 Big E did not reconcile to ending inventory due to theft and sampling of vendor products. The Big E operation is not conducive to taking a daily inventory of Big E vendor products sold which would be required to reconcile sales to inventory. It should be noted that the variances cited for the sale of vendor products is not considered to be material. Also, procedures instituted for the 2002 Big E fair included accounting for sampling of vendor products. The financial records for the 2002 Big E reflect minor discrepancies between sales and inventory.

Incorrect vendor price:
The overpayment to a vendor for the 2001 Big E occurred due to the incorrect entry in the financial records utilized to track vendor payments. It should be noted that the Department reviews payments to vendors to ensure that vendors are being paid accurate amounts, but this overpayment was not detected in its review.

Incorrect sale price:
An error occurred in the recording of a sale price for a vendor product during the 2001 Big E. The Management Cost Unit list reflected a price of $5.00 per item when it should have been $3.00 per item. The Department's review of the sale price for vendor products did not detect this error. It should be noted that this was the only instance of an incorrect sale price out of all the products sold during the 2001 Big E.

The Department has instituted procedures that provide better control over the management of Big E financial transactions. Specifically, sales deposits are made nightly at a Fleet Bank located near the Big E. The Department has reduced the number of vendor products being sold at the fair, thereby reducing the risk associated with inventory control. The Department performs a monthly reconciliation of the checking account. Checks are recorded in a timely fashion and each disbursement is documented with a G-1 requisition form and an invoice."

*Auditors' Concluding Comments:* With regard to our comments on deposits not made within a twenty-four hour period, we provided the Department with a copy of our worksheet calculating the days of late deposit. A review of this worksheet indicates that we did not consider Saturday or Sunday when counting the number of late days. The Department should have been able to deposit all the deposits we reviewed in a timely manner. For example, one of the deposits cited, for the last day of the Big E on Sunday, was not deposited until Wednesday.

**Payroll/Personnel**

*Criteria:* The Department's policy for the approval of time sheets requires the employees to complete a time sheet by 10:00 AM on the Friday following the close of the pay period. The employees then electronically submit the time sheet to a supervisor or a designated alternate for approval. The approver of the time sheet then must submit the time sheet to the payroll unit by the close of business on the Friday following the close of the pay period.

The Department's policy for compensatory time requires that compensatory time be requested in advance before it can be earned. The supervisor then authorizes the compensatory time in the Department's Time Processing System.

According to the Worker's Compensation Manual, a form WC-207 is required to be on file to support worker's compensation claims and the time charged as worker's compensation.

Section 5-247-11 of the Regulations of State Agencies requires a medical certificate to be on file for employees who are on sick leave for more than five consecutive workdays.

*Condition:* The following findings resulted from our review of 32 employees' payroll/personnel files:

Two employees' timesheets were approved prior to the end of the pay period. These approvals were made one day and ten days prior to the end of the pay period.

Eight out of 14 employees tested earned compensatory time without prior authorization from their supervisors. One of these eight employees completed a Time-Off Request form instead of the Compensation Time Request form and the supervisor incorrectly approved the form.

Other findings include:

We selected three employees who were out on workers' compensation to review for the required workers' compensation form. Two employees did not have the required workers' compensation injury report on file.

We tested ten employees who used sick time for more than five consecutive days to determine whether the required doctor's certificate was on file. One employee did not have the required doctor's certificate on file when we conducted our test.

*Effect:* Personnel processing biweekly payroll transactions cannot rely on the accuracy of the timesheets submitted by the employees since timesheets are approved prior to the end of the pay period. Also, employees may send in erroneous timesheets and may not be entitled to compensatory time and other accrued leave credited to them because supervisory employees are approving timesheets prior to the end of the pay period. Documentation supporting absence from work due to workers' compensation injury was not on file.

*Cause:* Management personnel of the Department are approving timesheets prior to the end of the pay period. Also, the Department has not enforced the requirement that employees who are on workers' compensation or on sick leave without pay submit required documentation.

*Recommendation:* Employees' timesheets should be approved only at the end of the pay period and upon supervisory review of the timesheet. The Department should follow its policy for earning compensatory time. Also, the Department should obtain proper documentation from employees who are out on workers' compensation or on sick leave without pay for more than five consecutive working days (See Recommendation 7.)

*Agency Response:* "The Department has procedures in place that pertain to submitting timesheets for approval, requesting and using compensatory time, approving sick time, and approving workers' compensation requests. E-mail was sent to all employees pertaining to the proper processing of timesheets.

Specifically, the Department adheres to the rules governing the approval and use of sick time and workers' compensation requests.

The auditors cited two instances where the proper documentation was not obtained for workers' compensation requests. These two instances were employees that were [formerly] employed at other agencies (former Department of Housing and Department of Mental and Addiction Services) when the initial workers' compensation claims originated. Those agencies were unable to provide the Department with the WC-207 forms, however documentation is on file to substantiate the continuing workers' compensation claims. Also, the state administrator of the workers' compensation claims ensures that all claims are valid. Department personnel staff now responsible for workers' compensation is fully aware of the requirements for processing a claim. Going forward the Department will be assuring that needed documentation is obtained for workers' compensation claims.

The auditors cited just one instance where an employee did not provide a medical certificate after five consecutive days of sick leave. The Department will remind all employees of the requirement that a medical certificate must be provided after five consecutive days of sick leave.

The auditors cited two instances where employees had timesheets approved prior to the end of the pay period. The auditors cited that eight out of fourteen employees had earned compensatory time prior to obtaining authorization. To ensure that managers and supervisors will follow proper procedures, the Department has held a training session to reinforce existing procedures. It should be noted that the Department has a Human Resource icon on its Lotus Notes System that provides all the policies and procedures pertaining to payroll/personnel. Finally, due to the nature of the Department's activities it may be necessary for staff in some instances to request compensatory time after the fact. Going forward the reason for this will be provided in the request."

**Property Control and Equipment**

*Criteria:* Section 4-33a of the General Statutes states that the "Office of the State Comptroller and the Auditors of Public Accounts must be notified immediately of all losses/damages to State property upon discovery." Also, according to the State Comptroller's Property Control Manual, a "Report of Loss or Damage to Real and Personal Property (Other than Motor Vehicles) must be completed and distributed as indicated on the form, the missing property or property lost due to theft must be deleted from the property control record, and the local police department must be contacted.

*Condition:* A laptop computer costing $3,489 was reported as missing from the Housing and Community Services Division of the Department in August 2002. The Department did not file a loss report with the Office of the State Comptroller and the Auditors of Public Accounts to report the missing laptop. Also, the Department did not contact the local police.

*Cause:* The Department was not aware that a loss report should be filed and that the local police department should be contacted.

*Effect:* The Department is in violation of Section 4-33a of the General Statutes and the requirements of the State Property Control Manual.

*Recommendation:* The Department should comply with Section 4-33a of the General Statutes, which requires the Department to promptly report the loss of State property, and should follow the policies and procedures outlined in the State of Connecticut Property Control Manual. (See Recommendation 8.)

*Agency Response:* "The employee from the Office of the Housing Finance [of the Department] reported the missing laptop computer to the Department's IT staff. The IT staff was unaware of the requirements, nor should have been, in the State of Connecticut's Property Control Manual for reporting the loss of State property.

To ensure that any future loss of State property is reported, should it occur, the Department will establish a procedure whereby a staff member of the Office of Finance and Administration will be designated to file the Report of Loss or Damage to Real and Personal Property as required by the State Comptroller's Property Control Manual."

**Internet Use and Software:**

*Criteria:* The Department's Personal Use of State Equipment policy states that all "use of your computer for personal business is strictly prohibited." The same policy also states that employees are not allowed to install on State computers any software that has not been approved by the Management Information Systems (MIS) Unit of the Department.

Access controls such as password and user identification codes assigned to IP (Internet Protocol) addresses ensure that only authorized personnel have access to files and systems.

*Condition:* The Department uses the Department of Information Technology's (DOIT) server to access the Internet. The DOIT provides the Department with Internet reports of activity by IP address. The Department assigns an IP address to each computer with Internet access. We selected the Internet logs for three days in June 2002 for review to determine whether the Department's employees were in compliance with policies regarding Internet use. The DECD had 196 employees at the time of our review. The number of employees on the

Internet for each of the three days of our review was 91, 92 and 108. Our review revealed that 37 employees visited Internet sites that were not business related. One of the 37 employees stated that she had not visited the non-business sites. The Department was unable to determine whether another employee had knowledge of the other employee's password or if other security issues were involved.

Also, there were six IP addresses that were not assigned to a specific employee. The names for these IP addresses were by location. Several employees had access to the computers and their passwords for these six IP addresses. All six of these IP addresses had non-business use of the Internet.

We also selected 25 employees to determine if any of them had unauthorized software on their desktops. We found that six of the 25 had software on their desktops that was not approved by the MIS Unit.

*Effect:* State resources, such as computers and personnel time, appear to have been misused.

Controls are weakened when several employees use the same user identification for Internet access. It is difficult to determine the specific employee who was inappropriately using this user identification to access the Internet.

*Cause:* The Department is not adequately monitoring Internet use even though the reports are available to review.

The Department has tools to determine whether employees have installed software without permission. The MIS employee who was responsible for reviewing the Department's computers for unauthorized software recently was laid off.

*Recommendation:* The Department should periodically monitor Internet use on State computers. The Department should monitor employees for unauthorized software on computers. Also, the Department should assign IP addresses to access the Internet only to employees and not to computer workstations that can be used by more than one employee. (See Recommendation 9.)

*Agency Response:* "The Department did perform limited Internet access monitoring during the audited period and action was taken to address inappropriate use. The Department will be developing a formal review process for Internet usage by staff. The Department did reissue in July 2003 to all employees the policy governing the use of State equipment which includes Internet usage.

The Department has auditing software available to monitor employees for unauthorized software on computers. IT staff will be reviewing the software for use in the future. It should be noted that the Department's policy is not to permit the downloading of software by an employee unless it has been approved by IT.

The Department has disabled Internet access to computer stations assigned to each office. Department employees only have Internet access on their own PC."

## RECOMMENDATIONS

*Status of Prior Audit Recommendations*

- The Department should update its inventory records and the inventory records should be maintained in accordance with the State of Connecticut's Property Control Manual. The Department has implemented this recommendation.

- The Agency should improve its efforts to correctly prepare the fiscal GAAP reports as required by the Comptroller. The Agency has implemented this recommendation.

- The DECD should continue its effort to either collect or otherwise resolve Federal receivables that currently remain outstanding. The DECD has implemented this recommendation.

- The DECD should continue its efforts to fully implement control procedures to ensure that collateralized economic development loans are properly insured to protect the interests of the State. The DECD has implemented this recommendation.

- The Agency should make an effort to seek competitive bids rather than routinely obtaining waivers from OPM. The Agency has implemented this recommendation.

- The Department should adopt regulations in accordance with Section 32-5b of the General Statutes or continue its effort to have the Statutes changed. Since the Department is in the process of adopting regulations this recommendation will not be repeated.

- The DECD should minimize the amount of time the State is advancing funds to the HOME program by requiring projects to submit certification of payments in a timely manner. The DECD should also continue efforts to resolve problems with the Integrated Disbursement and Information System (IDIS) that prevent drawdowns. The DECD has partially resolved this recommendation since it has resolved the problems with IDIS. Since we still found instances where the DECD did not minimize the advancing of State funds for the HOME program, this finding will be repeated as Recommendation 1.

- The DECD should improve internal controls over its miscellaneous accounts receivables, by establishing proper records and procedures for the collection of these receivables. Also, management should review miscellaneous accounts receivable balances to determine if applicants are delinquent in paying off outstanding balances before granting new grants or loans. Since insufficient action has been taken on this recommendation, this finding will be repeated as Recommendation 2.

- The Department should complete the Accountability Directive Number 1 annually as required by the State Comptroller's Memorandum No. 96-58. The Department has implemented this recommendation.

- The Department should set guidelines in its regulations and policies to ensure the suitability of properties to be used for low or moderate-income housing. The DECD should also maintain an updated surplus property log for all the properties that it considers for possible use. The Department has implemented this recommendation.

*Current Audit Recommendations:*

1. **The Department should minimize the amount of time the State is advancing funds for the HOME program by requiring project managers to submit certification of payments in a timely manner.**

   Comment:

   We noted that for seven out of 15 subrecipients, the subrecipients did not provide the DECD with expenditure documentation within the required 30 days so that the DECD could draw down the funds from the Federal government. Our review found that the number of days between payment to the subrecipients and the date of the draw down of funds ranged from 35 to 299 days. The amounts ranged from $8,000 to $1,037,619.

2. **The Department should determine the completeness and accuracy of its accounts receivable balances prior to billing. The Department should age its accounts receivables. The Department's Director of Finance and Administration should request payment on the delinquent receivables. The Department should implement procedures to write-off accounts receivables of less than $1,000 after reasonable efforts have been made to collect the receivables.**

   Comment:

   Our review noted that the DECD was not aggressively requesting the collection of grant receivables and that the receivable balances were not accurate. We also noted various weaknesses in the collection process. These weaknesses included delinquent bills are not signed by a high level employee, receivables are not aged, and receivables are not written off after reasonable efforts have been made to collect the receivables.

3. **The Department should reconcile loans recorded in its open loan balance report and other reports to an accountability report to ensure that loans receivable balances and the amount reported to the State Comptroller are accurate.**

   Comment:

   The Department does not reconcile loans recorded on its open loan balance report to other available reports. As a result, we found that not all loans were recorded and loans were improperly recorded on the open loan balance report.

4. **The Department should include a parameter in the Nortridge Loan System to alert the Department to look for additional terms and conditions for loans intended to be paid off prior to their maturity date. Also, the Department should establish procedures to ensure that initial loan documents are reviewed to determine the total amount currently outstanding on the loans. This review should be examined and approved by a supervisor before a total payoff notice is sent to a loan receiver.**

   Comment:

   The Department sent a payoff notification letter generated from the Nortridge Loan System to a loan receiver indicating that $1,893,400 was outstanding on the loan, instead of $2,006,681, a difference of $113,281. A parameter built into the NLS to alert the Department to check for additional terms and conditions could have prevented this problem.

5. **The Department should establish procedures to ensure that upon final determination that a financial assistance recipient has defaulted on the terms and conditions of the assistance agreement, the Finance and Administration Division is notified so that a receivable is recorded, the recipient is billed and the receivable is collected and documented properly.**

   Comment:

   The Finance and Administration Division is responsible for the maintenance of receivables. We could not determine whether the Finance and Administration Division was notified of six receivables once it was determined that the recipients defaulted on the terms and conditions of their assistance agreements and a financial penalty was imposed on the recipients. There was evidence that another division was sending notices to the recipients stating the amount owed.

6. **The Department should exercise greater care in handling transactions within the Big E checking account. Transactions should be reconciled in a timely manner and all records should be maintained properly in order to help prevent overpayments and incorrect billings, as well as to ensure complete accountability over all of the transactions within the account. The Department should comply with Section 4-32 of the General Statutes which requires that funds over $500 be deposited within 24 hours of the receipt of the funds.**

   Comment:

   We noted various errors in the Department's administration of the Big E account for the September 2001 Exposition. We also noted that deposits were not made within 24 hours of the receipt of the funds.

7. **Employees' timesheets should be approved only at the end of the pay period and upon supervisory review of the timesheet. The Department should follow its policy for earning compensatory time. Also, the Department should obtain proper documentation from employees who are out on workers' compensation or on sick leave without pay for more than five consecutive work days.**

   Comment:

   We noted that two employees' timesheets were approved one and ten days prior to the end of the pay period. We also noted that eight employees earned compensatory time without prior authorization from their supervisors. We noted two employees did not have the required workers' compensation injury form on file to support the employees' charging of time as workers' compensation.

8. **The Department should comply with Section 4-33a of the General Statutes, which requires the Department to promptly report the loss of State property, and should follow the policies and procedures outlined in the State of Connecticut Property Control Manual.**

   Comment:

   We found that an employee in charge of maintaining the Department's computer inventory was not aware that, when a laptop computer was reported missing, procedures, including the notification of the loss to the Office of the State Comptroller, the Auditors of Public Accounts and the local police, should have been followed.

9. **The Department should periodically monitor Internet use on State computers. The Department should monitor employees for unauthorized software on computers. Also, the Department should assign Internet Protocol addresses to access the Internet only to employees and not to computer workstations that can be used by more than one employee.**

   Comment:

   We found some employees visited Internet sites that were not work-related, Internet Protocol addresses were not always assigned to a specific employee, and some employees had unauthorized software on State computers.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Economic and Community Development for the fiscal years ended June 30, 2001 and 2002. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Department are complied with, (2) the financial transactions of the Department are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Economic and Community Development for the fiscal years ended June 30, 2001 and 2002 are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Economic and Community Development complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

**Compliance:**

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Economic and Community Development is the responsibility of the Department of Economic and Community Development's management. As part of obtaining reasonable assurance about whether the Department complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Department's financial operations for the fiscal years ended June 30, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

**Internal Control over Financial Operations, Safeguarding of Assets and Compliance:**

The management of the Department of Economic and Community Development is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Department. In planning and performing our audit, we considered the Department's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Department's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Economic and Community Development's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Department's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Department's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Department's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: Federal advance funding, the collection of accounts receivable, loans receivable recording and reporting and the lack of preparation of an accurate accountability report, lack of controls when payoff amounts are requested for loans, lack of notification of receivables to the Department's Finance and Administration Division, handling of financial activity for the Big Exposition, weaknesses regarding personnel policies, the lack of reporting losses of equipment, and unauthorized Internet use and unauthorized software installation on State computers.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Department's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Department being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Department's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable condition to be a material or significant weakness: inaccurate record keeping of accounts receivable.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

**CONCLUSION**

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Department of Economic and Community Development during this examination.

JoAnne Sibiga
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts