# STATE OF CONNECTICUT

**AUDITORS' REPORT**
**DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT**
**FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2012**

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

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STATE OF CONNECTICUT

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# AUDITORS' REPORT
# DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
# FOR THE FISCAL YEARS ENDED JUNE 30, 2011 and 2012

We have examined the financial records of the Department of Economic and Community Development for the fiscal years ended June 30, 2011 and 2012. 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 (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

DECD operates under the provisions of Title 8, Chapters 127b, 127c, 128, 130, 131, 133, 135, 136, 137c, 138b, 138c, 138e through 138j and Title 32, Chapter 578 of the General Statutes. DECD administers programs and policies to promote business, housing, arts, tourism, and community development and is responsible for policies and programs for the preservation and improvement of housing and neighborhoods, business assistance and development and the promotion of the arts and tourism within the state. Joan McDonald served as commissioner until Catherine Smith was appointed in April 2011. Catherine Smith served as commissioner through the remainder of the audited period.

### Significant Legislation

Notable legislative changes are presented below:

Public Act 11-1, of the October 2011 Special Session, creates the Small Business Express Program, which provides deferrable or forgivable loans and matching grants to Connecticut-

based small businesses and manufacturers. Loan and grant amounts range from $10,000 to $250,000 and can consist of three types of assistance, including revolving loans, job creation incentives, and matching grants. Under the act, a business is eligible if it employed no more than 50 people during at least half of its working days during the prior 12 months. The business must also be based and operated in Connecticut; have been registered to do business here at least 12 months; be current on all state and local taxes; and be in good standing with all state agencies.

Public Act 12-1, enacted by the June 12th Special Session, amended Public Act 11-1 above by replacing 50 with no more than 100 employees and deleted provisions that the small business be a Connecticut-based business and registered in this state. The business must have operations in Connecticut and be registered to conduct business for not less than twelve months.

Public Act 12-1, Sections 112-114 and 121 of the June Special Session, establishes a Department of Housing headed by a commissioner, and makes it, instead of Department of Economic and Community Development, the lead agency responsible for all housing matters. The act places the Department of Housing in the Department of Economic and Community Development for administrative purposes only, making it the Department of Economic and Community Development's successor with respect to housing-related functions, powers and duties, including community development, redevelopment, and urban renewal.

Public Act 12-1, subpart 209 of the June Special Session, makes a programmatic change to the First Five Plus program, which provides loans, tax incentives, and other forms of economic development assistance to businesses committing to creating jobs and investing capital within existing laws' timeframes. It also allows the commissioner to give a preference to proposed business projects that will relocate overseas jobs to Connecticut. By law, a business receiving First Five assistance must commit to create at least 200 jobs within 24 months after the commissioner approves the assistance or invest at least $25 million and create at least 200 new jobs within five years after she approves the assistance. Originally, the commissioner's authority to provide First Five assistance expired June 30, 2013. However, Public Act 13-247, Section 132, effective July 1, 2013, extended the commissioner's authority to June 30, 2015.

## RÉSUMÉ OF OPERATIONS

### General Fund Receipts

General Fund receipts for the two fiscal years examined and the prior fiscal year are summarized below:

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| **Receipt Description** | **2010** | **2011** | **2012** |
| Loan Principal and Interest | $ 573,953 | $ 690,890 | $ 691,646 |
| Refunds of Expenditures | 780,304 | 643,751 | 452,184 |
| All Other | 2,197 | 600 | 5,858 |
| **Total General Fund Receipts** | **$1,356,454** | **$1,334,241** | **$1,149,688** |

Refunds of expenditures consisted primarily of grant refunds.

**General Fund Expenditures**

General Fund expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| **Expenditure Description** | **2010** | **2011** | **2012** |
| Personal Services | $ 5,731,590 | $ 5,981,229 | $ 8,600,142 |
| Other Expenditures | 724,961 | 686,244 | 1,020,457 |
| State Wide Marketing | 0 | 0 | 12,519,911 |
| Congregate Facilities | 6,233,888 | 6,839,599 | 6,539,126 |
| Small Business Grants | 0 | 901,437 | 515,844 |
| Theatre Grants | 0 | 0 | 1,290,964 |
| Payments in Lieu of Taxes | 2,204,000 | 2,204,000 | 2,196,325 |
| Elderly Rental | 2,640,135 | 2,974,940 | 3,146,877 |
| Other Housing Assistance | 971,945 | 551,153 | 678,213 |
| Tax Abatement | 1,704,890 | 1,704,890 | 1,704,880 |
| Assisted Living Demonstration | 1,623,550 | 2,166,000 | 1,730,000 |
| CONNSTEP | 518,889 | 511,437 | 613,700 |
| Culture, Tourism and Art Grant | 0 | 0 | 1,879,618 |
| Basic Cultural Resource Grant | 0 | 0 | 1,510,328 |
| Tourism Grants | 0 | 0 | 1,577,001 |
| Connecticut Humanities Council | 0 | 0 | 2,049,752 |
| Aquarium/Zoo/Museum Grants | 0 | 0 | 1,923,437 |
| Other – Economic Community Dev. | 954,030 | 1,417,901 | 1,717,537 |
| Other – Culture and Tourism | 0 | 0 | 2,929,628 |
| **Total Expenditures** | **$23,307,878** | **$25,938,830** | **$54,143,740** |

The increase in total expenditures was due to the merger of the Commission on Culture and Tourism into the Department of Economic and Community Development in fiscal year 2011-2012.

**Special Revenue Funds**

In addition to the fund that accounts for federal and other restricted monies, the department utilized 12 other special revenue funds during the audited 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, | | |
|---|---|---|---|
| **Receipt Description** | **2010** | **2011** | **2012** |
| Principal and Interest on Loans | $ 8,046,247 | $20,937,128 | $ 9,434,938 |
| Federal Contributions | 50,616,963 | 51,024,313 | 40,872,930 |
| Restricted Contributions, Other | 1,134,970 | 17,737,435 | 4,571,064 |
| **Total Receipts** | **$59,798,180** | **$89,698,876** | **$54,878,932** |

The increase in revenues in fiscal year 2010-2011 was primarily attributable to increased loan repayments and grant transfers for the Small Business Assistance Account.

**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, | | |
|---|---|---|---|
| **Expenditure Description** | **2010** | **2011** | **2012** |
| Loans | $ 37,735,463 | $ 47,444,328 | $ 148,918,608 |
| Grants | 79,187,912 | 93,710,500 | 100,082,901 |
| Administration | 9,321,827 | 7,073,005 | 7,526,652 |
| **Total Expenditures** | **$126,245,202** | **$148,227,833** | **$256,528,161** |

Included in the above totals are federal and other restricted expenditures totaling $51,651,916, $56,247,556 and $61,305,023 for the fiscal years ended June 30, 2010, 2011 and 2012, respectively. The fluctuations in loans and grants were mainly in the following funds: Economic Assistance Bond Fund, Economic Assistance Revolving Fund, Grants to Local Governments, and Housing Trust Fund.

**Capital Project Funds**

Total expenditures from Capital Project Funds were $16,523,989 and $37,455,306 for the fiscal years ended June 30, 2011 and 2012, respectively, compared to $25,120,704 expended in the fiscal year ended June 30, 2010. Capital Project Fund expenditures were made from the Community Conservation and Development Fund under the Urban Act Program and capital improvements for Rentschler Field parking during the audited period. Under the Urban Act Program, funds are provided to municipalities as well as non-profit and for-profit entities to improve and expand state activities that promote community conservation and development and improve the quality of life for urban residents of the state.

## OTHER MATTERS

### Amistad America

Based upon a request, our office commenced a review into the administration and monitoring of the grant awards for Amistad America for both the bond fund and line item grants. Until 2008, Amistad America had independent financial audits completed and maintained its non-profit status. However, subsequent to the fiscal year ended March 31, 2008, it received extensions for the required audits. In addition, due to the failure to file form 990 with the IRS for three consecutive years, Amistad America lost its non-profit status effective August 15, 2012.

In September 2013, the Office of Policy and Management retained a certified public accounting (CPA) firm to complete Amistad America's 2009 through 2013 audits. As of August 27, 2014, the 2013 fiscal year was not yet completed. In addition, this CPA firm will be retained to complete the 2014 fiscal year audit.

Within these audit reports, several deficiencies are noted. In 2009, it was reported that Amistad America had four findings involving material weaknesses in internal control over financial reporting, including lack of staff to complete the necessary accounting functions, lack of proper supporting documentation for disbursements, posting of entries without proper written approvals or review, and material adjustments were identified and recorded based upon this year-end audit. These same findings are repeated in the 2010, 2011 and 2012 audits. In 2010, an additional finding was noted regarding the lack of an IRS 990 form filing for the fiscal year ended March 31, 2010, which is required for organizations exempt from tax under IRS Code Section 501(c) (3). This finding was repeated for the fiscal years ended March 31, 2011 and 2012.

In regards to state financial assistance, Amistad America's 2009 audit revealed two material instances of non-compliance, two material weaknesses in internal control over compliance and one finding involving a significant deficiency in internal control over compliance. These findings included the lack of financial resources with which to hire auditors to complete the required audits and a delay providing all the required documents for the auditors to complete the review. In addition, another finding notes that the reports to the state required that Amistad America had to restate its financial records kept on the accrual basis to a cash basis and had to do so manually. However, it did not keep adequate documentation on how the reports were derived; therefore, the auditors could not audit efficiently. These same conditions are noted in the 2010, 2011 and 2012 audits. However, for the condition noted for the bond fund grant concerning the delay in providing the required documents for the auditors to complete the review, because it was not a major program, the finding was not repeated in its entirety but noted as still uncorrected and remained that way until corrected in fiscal year 2013.

In addition to the deficiencies noted, the 2009 through 2012 fiscal year audits indicate that Amistad America's financial position worsened. In 2009, its net assets were $707,129 and in 2012, it was negative $195,135. In its 2009 audit, current assets were noted as $172,327 and current liabilities were $1,184,355. In its 2012 audit, current assets were noted as $141,999 and current liabilities were $1,499,637. In its 2009-2012 Notes to the Financial Statements, Amistad

America is noted as being in default on the lines of credit with TD Bank and Bank of America. Amistad America is noted as well as non-compliant with various financial covenants set forth in the Bank of America line of credit, and late fees are not current. For TD Bank, Amistad America had renegotiated the terms reducing the interest rate with the balance due on December 1, 2010. As of March 31, 2012, Amistad America was not in compliance with the renegotiated terms. In addition, Amistad America has a note payable, which was originally due March 31, 2010. On January 12, 2012, the loan was modified to a monthly amount totaling $1,268 with the outstanding balance due February 2014. Amistad America was in default of the revised terms as of March 31, 2012.

In addition, the Notes to the Financial Statements also reflected that, from time to time, Amistad America would receive cash advances or short-term loans from the Amistad Committee, board members and employees for the purpose of funding operations. These amounts are noted as ranging from $39,116 on March 31, 2009 to $93,100 on March 31, 2012.

It is noted in its 2009 audit that Amistad America received a substantial amount of its support from federal and state grants. This support totaled 82.5% of its total revenue. In the subsequent audits, this level of support fell slightly and was only received from the State of Connecticut. These amount totals are noted as 60% in 2010, 69% in 2011, and 77% in 2012. However, in all the audits, it is noted that if a significant reduction in the level of this support were to occur, there could be a significant effect on its ability to maintain its programs and activities at their current levels.

On August 21, 2014, the Superior Court, Judicial District of Hartford, entered an order appointing Katharine B. Sacks of New Haven, Connecticut as the Receiver for Amistad America Inc.

**Dry Cleaning Establishment Remediation Account**

We reviewed the Dry Cleaning Establishment Remediation Account program and certain related matters raised in an outside request received by our office. Our objective was to obtain an understanding of the program, determine if the program was compliant with Section 12-263m of the General Statutes and address any issues raised by our review and the outside request.

Section 12-263m subsection (a)(1) of the General Statutes defines “eligible dry cleaning establishment” as any place of business engaged in the cleaning of clothing or other fabrics using tetrachlorethylene, Stoddard solvent or other chemicals, or any place of business that accepts clothing or other fabrics to be cleaned by another establishment using such chemicals. In addition subsection (a) (3) defines an “eligible applicant” as either a business owner or operator of an eligible dry cleaning establishment or an owner of property that is or that was occupied by an eligible dry cleaning establishment. Further, Section 12-263m subsection (b) of the General Statutes states that each “dry cleaning establishment” shall pay to the Commissioner of the Department of Revenue Services a surcharge of one percent of its gross receipts at retail for any dry cleaning service performed on or after January 1, 1995. Each such establishment shall register with the Commissioner of the Department of Revenue Services.

In order to collect and remit the surcharge, a dry cleaning establishment would complete a REG-1 Addendum B and indicate whether it is a dry cleaning establishment in Connecticut and uses chemicals to dry clean clothes or other fabrics, or it accepts clothing or fabrics to be cleaned by other establishments using chemicals.

Section 12-263m subsection (d) states that in order to qualify for the grant, a dry cleaning establishment must demonstrate to the satisfaction of the Commissioner of the Department of Economic Development that it is using or has previously used tetrachlorethylene or Stoddard solvent or other chemicals for the purpose of cleaning clothes or other fabrics, it has been doing business or did business at the site for a period of at least one year prior to the submission date or approval date of the application, and that the eligible dry cleaning establishment or owner of the property is not in arrears with regard to any tax levied by the state.

Our review included obtaining information on the surcharges assessed and the program funds granted; determining if a listing of all dry cleaners registered in the state was available; and identifying which dry cleaners were paying the surcharge. A review was made of the program fund balances reported by DECD, administrative fees assessed and used, and investigative or site assessment costs. We obtained general information on the dry cleaning establishments registered and remitting surcharges, as well as total penalties and interest collected by calendar year. We reviewed the procedures and the criteria used for grant approval, as well as those issued grant money.

While we did not note any irregularities, we were unable to obtain a complete listing of all dry cleaners that were conducting business within the state. We were informed that the Department of Energy and Environmental Protection does not require all of these establishments to maintain a permit. The Department of Public Health does not require these establishments to be licensed. Although all of these establishments must be registered with the Secretary of the State, the way the business is categorized may affect the ability to obtain a complete listing of all dry cleaning businesses. Additionally, the Department of Revenue Services maintains listings of only those who have registered and are remitting the dry cleaning surcharge.

In addition, there appears to be some ambiguity in the interpretation of the legislation in regards to the dry cleaning establishments that must pay the surcharge. Section 12-263m Subsection (a)(1) defines an “eligible dry cleaning establishment” as one using certain delineated chemicals. Section 12-263m subsection (b) of the General Statutes provides that each “dry cleaning establishment” shall pay the surcharge. The statute does not define “dry cleaning establishment”. The Department of Revenue Services requires a dry cleaning establishment to complete REG-1 Addendum B and indicate whether it is a dry cleaning establishment in Connecticut and uses chemicals to dry clean clothes or other fabrics, or it accepts clothing or fabrics to be cleaned by other establishments using chemicals. The regulation interprets “dry cleaning establishment” and “eligible dry cleaning establishment” to be the same.

Due to the lack of a complete listing of dry cleaners conducting business in the state and the interpretation of the legislation regarding those who must pay the surcharge, we were unable to ascertain whether all of those that had to pay were remitting this surcharge to the Department of

Revenue Services. Therefore, all dry cleaning establishments may not be collecting and remitting the surcharge.

Therefore, consideration should be given to developing and maintaining a complete listing of all dry cleaning establishments located and conducting business in the state. In addition, the statute describing the services required to qualify for the surcharge should be clarified.

## CONDITION OF RECORDS

Our testing of the Department of Economic and Community Development's records noted the following reportable matters.

### Cash Management

*Background:* DECD disburses grant funds for housing and economic development programs. Assistance agreements between the department and clients require that the clients submit audit reports to the department. After DECD reviews the audit reports and is satisfied with the accuracy of the total grant expenditures, it issues a Certificate of Approved Program Costs and State Funding. The certificates summarize department payments to the client for the specific project, total client expenditures, any adjustments and the amount due to or from DECD. DECD then bills the client for any amounts due.

*Criteria:* Cash management procedures should ensure that payments to clients are based on immediate needs and refunds of overpayments are received as soon as possible.

*Condition:* In our prior audit, we noted that DECD's cash management procedures appear in need of improvement. During the audited period, the department issued 297 Certificates of Approved Program Costs and State Funding that reflected amounts due to DECD totaling $1,293,995.

The length of time that clients held unexpended state funds before returning them to DECD seems excessive. For the 15 projects we reviewed, the time between DECD's last payment and receipt of a refund was less than one year for three projects, one to two years for eight projects, two to three years for one project, and more than three years for one project. The amounts of the two refunds due over two and three years were $48,786 and $17,910, respectively.

*Effect:* DECD clients received funding in excess of their needs and are not returning those excess funds to the department in a timely manner.

*Cause:* The department has not ensured that clients only receive amounts necessary to meet the cash needs of the funded project or that refunds of overpayments were received in a timely manner.

The assistance agreements are worded so that the client only owes refunds to DECD after the certificate is issued. The client does not have the responsibility for refunding at the end of the budget period or

upon project completion.

We were informed that instead of receiving a return of funds, it is much easier for the department to allow the grantees to hold the funds, and suggest to the grantees that they may want to expand the funded project with those DECD funds or use the DECD funds for another project. This circumvents the established procedures for processing applications and review of payments to clients.

*Recommendation:* The Department of Economic and Community Development should improve its cash management procedures by only disbursing funds for immediate needs and reducing the time to receive refunds of overpayments. Re-wording assistance agreements should be considered to require earlier refunds. (See Recommendation 1.)

*Agency Response:* "The Department does not agree with this finding.

DECD funds a variety of projects that include multi-million dollar construction developments, downtown infrastructure improvements, acquisition of machinery and equipment, training and other activities. These projects can take several months and even years to complete. In order to meet the scheduling requirements of our funding recipients, there are many cases when DECD will advance funds based on an applicant's project schedule in order to ensure timely payments to vendors and to maintain project schedules. When funds are advanced to a client for a short term, they are based on the eligible expenditures being funded by a particular program. A second advance will not be approved by the Department until the client has provided documentation to the Department that initial advance has been expended or certain milestones are reached.

There are certain programs that require an applicant to match state financing with other sources of funds that may be provided to a project over the entire budget period, which in some cases can take longer to expend. In those cases, however, DECD cannot perform a financial closeout of the project until it is completed, and at that time would determine if funds were due back to DECD.

With regards to remaining project funds, DECD does consider requests to reallocate remaining funds from a project for activities that are related to the original scope of a project. However, DECD would not have its funding recipients retain funds for a new project that has not been reviewed or approved. Any new project would require review and appropriate approvals, which could include bond commission.

The Department recognizes the fact of the time involved to receive the return of funds by clients identified by the Auditors as lengthy. The Department also recognizes that there are no established legal or regulatory requirements that unused State funds must be returned within a certain time period. Therefore "timely" becomes a matter of interpretation or circumstance. However, the Department ensures that funds owed to the State are returned. The Department believes that its cash management system provides reasonable assurance that excessive funds are not disbursed to a client and that a client provides a refund to the State as soon as practicable depending on the needs of the project."

*Auditors' Concluding Comments:* We consider a period of over one year to over three years to be excessive for the refund of monies owed to the state. Twelve project overpayments of the 15 (80%) reviewed were not refunded to the state until over one year later.

**Monitoring of Unused Bond Allocations**

*Background:* DECD finances a variety of economic, housing and community development projects using state bond funds approved by the State Bond Commission. The State Bond Commission requires that all unused balances from prior approvals be returned to the unallotted balance under the fund and section of origin once a project is completed or cancelled.

*Criteria:* Written policies and procedures for bond-funded projects should include procedures to monitor unexpended balances from bond-funded projects that are completed or cancelled.

*Condition:* In our three prior audits, we found that the department had not implemented formal policies and procedures to address the administration of unexpended balances on bond-financed projects. Our current review revealed that this condition continued.

*Effect:* The lack of written procedures for monitoring unexpended balances on bond-funded projects lessens the department's assurance that unused bond funds are being returned to their original funding source in a timely manner.

*Cause:* DECD had drafted policies and procedures but they were never approved by the current commissioner.

*Recommendation:* The Department of Economic and Community Development should

implement formal policies and procedures to ensure that unused balances from prior State Bond Commission approvals are identified in a timely manner and returned to the unallotted balance under the fund once a project is completed or cancelled. (See Recommendation 2.)

*Agency Response:* **"**The Department agrees with your recommendation. We have reviewed and updated our procedures. The updated procedures were signed off on by the Commissioner and implemented**."**

**Receivables Reconciliation**

*Background:* Each year, DECD reports its June 30th receivable balances to the State Comptroller. Balances reported include grant overpayments and energy conservation loan (ECL) receivables serviced by a private contractor.

*Criteria:* An adequate system of internal controls should include annual reconciliations of beginning balances, activity and ending balances. Reconciliations should identify any errors or improper entries made to receivable balances so that corrections and accurate reporting can be performed.

Entities reporting loan receivables administered by third-party loan servicers should ensure that reported amounts reflect loan receivable balances carried by the loan servicer. Sound internal controls provide for receipt of a report on controls at the service organization. For the audited period, the applicable American Institute of Certified Public Accountants (AICPA) auditing standard was Statement on Auditing Standards No. 70 (SAS 70). For reporting periods ending on or after June 15, 2011, Statement on Standards for Attestation Engagements No. 16 (SSAE 16) is applicable. These standards exist to verify proper internal controls are in place at private entities providing contracted services for state programs.

*Condition:* Grant refunds:
No reconciliations of grant refund activity and reported receivable balances were performed. We identified unreconciled variances of $237,468 in 2010-2011 and $73,123 in 2011-2012.

ECL Loans:
The ECL loan program balances reported by DECD as of June 30, 2011 and 2012 were $9,039,640 and $8,560,914, respectively. Although the department attempts monthly reconciliations of ECL principal balances to amounts reported monthly by the loan servicer,

these reconciliations include unresolved items.

Although DECD has received reports of a limited review of its loans with the ECL loan servicer under an agreed-upon-procedures review, the department did not require that the ECL loan servicer provide a report on its controls pursuant to SAS 70 and SSAE 16.

*Effect:* Financial disclosures on the state's financial statements may be inaccurate. Loans administered by a third-party servicer may not be properly accounted for or reported.

*Cause:* Reconciliations of grant refund receivables were apparently not considered.

Unreconciled amounts have not been addressed and resolved.

DECD receives annual audit reports from the ECL loan servicer. However, those audit reports do not specifically identify the DECD funding. DECD did not require SAS 70 and SSAE 16 reviews of the loan servicer.

*Recommendation:* The Department of Economic and Community Development should perform complete reconciliations of receivable activity and balances before reporting balances to the State Comptroller.

For Energy Conservation Loan balances, DECD should attempt to reconcile the differences between the loan servicer and DECD amounts. DECD should require a report prepared pursuant to Statement on Standards for Attestation Engagements No. 16. (See Recommendation 3.)

*Agency Response:* "The Department agrees with the finding.

Office of Finance and Administration has updated it procedures to reconcile its grant refund and loan accounts monthly. For the grant refunds, a formal reconciliation process between Office of Financial Review and Special Project and Office of Finance and Administration will serve to resolve discrepancies and prevent future reoccurrences. The loan receivable accounts will be reconciled before reporting to the Comptroller's, which will improve the accuracy of the reports.

For the Energy Conservation Loan, the PSA was re-bid by the new Department of Housing (DOH) that was formed 7/1/13. A service provider was chosen, with a PSA contract period from 12/1/13 to 11/30/16. Though the PSA included various reporting requirements which the service provider has complied with, a SSAE 16 report was

not one of them. OFA/DECD has notified DOH of the recommendation by the Auditors of Public Accounts regarding the SSAE 16 report.

Department of Housing (DOH) acknowledges that it was informed May 2014 regarding the SSAE 16 reporting suggestion by DECD. Though this report is not required by statue, DOH recognizes that it's an added internal control. The contract with the service provider doesn't end until 2016. DOH will evaluate how beneficial it is for the Department to amend the contract with the service provider for this purpose."

**Employee Performance Appraisals**

*Background:* During the prior audit, we were informed that DECD was not performing Performance Assessment and Recognition System (PARS) evaluations on its managers even though DECD is a PARS-participating agency. We confirmed this by testing manager evaluations, and found that no managers had been given complete PARS annual performance evaluations during the audited period, which was reported as an audit finding. In response, DECD stated that it would begin conducting annual performance reviews on all of its managers to comply with the PARS Program recommendations.

*Criteria:* The Performance Assessment and Recognition System is a program developed by the Department of Administrative Services (DAS) to support additional incentive compensation for managerial and confidential employees who work in agencies that use a prescribed PARS plan. Basic features of the program include developing results-oriented, measurable performance objectives and goals for each manager and confidential employee, regular communication between such employees and their supervisors on meeting goals, performance assessment, and differential annual salary increases based on performance reviews.

*Condition:* We reviewed the personnel files of most of the DECD managers and noted that out of 15 managers tested, only one annual evaluation had been completed during the audited period.

*Effect:* The absence of written performance evaluations significantly diminishes the commissioner's and deputy commissioner's abilities to measure the performance and progress of their managerial staff.

*Cause:* Administrative controls for ensuring that managerial performance evaluations through the Performance Assessment and Recognition System are inadequate.

*Recommendation:* The Department of Economic and Community Development should ensure that all managers are evaluated on an annual basis through the use of PARS evaluation forms. (See Recommendation 4.)

*Agency Response:* "The Department agrees with this finding for the audit period of 2011 and 2012. However, since then, DECD has reviewed and updated this procedure and has ensured managers complete the PARS process on a timely basis.

The Department participates in the Performance Assessment and Recognition System (PARS) for managers administered by the Department of Administrative Services (DAS). To assist state agencies with the implementation of the PARS Program a handbook is provided by DAS outlining the requirements for a participating agency. Based on the guidance provided in the PARS Handbook, the Department will continue to conduct annual performance reviews of all its managers. The Department will also continue to have regularly scheduled meetings with all Department managers to discuss expectations, goals and evaluate performance."

**Payroll Cost Allocation**

*Background:* The Department of Economic and Community Development allocates payroll costs to the various programs it administers through a cost allocation process. Each employee is assigned to a position with a pre-established appropriation expenditure account in Core-CT. Payroll expenditures are initially charged to the individual's assigned appropriation expenditure account in Core-CT's general ledger. DECD utilizes its Time Processing System (TPS) to identify and allocate total hours charged to each program. Work distribution information and data is periodically exported from TPS to excel spreadsheets by the DECD's Office of Finance and Administration (OFA). OFA employees manually recalculate payroll costs using salary and time allocation information housed in TPS. OFA then prepares an accounting adjustment in Core-CT allocating the re-calculated payroll costs to the various appropriation expenditure accounts in the general ledger.

*Criteria:* State agencies should ensure that payroll costs allocated by work distribution systems have been correctly allocated by reconciling the total costs allocated by the work distribution system with total payroll

costs reflected in appropriation expenditure accounts in the general ledger.

*Condition:* We reviewed one payroll adjustment consisting of 26 pay periods for eight employees. We compared the payroll costs of the eight employees initially charged in the general ledger ($589,884.74) to the re-calculated costs prepared from information in TPS ($587,169.39) and noted a variance of $2,715.35. We found that salary and wage costs in TPS were different than salary and wages charged to the general ledger. We did not note any variance in fringe benefit costs. The recalculated costs prepared from TPS information form the basis of the accounting adjustment in the general ledger.

*Effect:* Payroll costs allocated to DECD's programs were not accurate. The auditors found that longevity payments were being charged to the employees' initial funding source, and then were not being included in the work distribution adjustment calculation. The HOME program was overcharged, and the General Fund was undercharged, by total longevity paid amounts of $3,487.25. In addition, the Home program was undercharged, and the General Fund overcharged by $177.78 because of incorrect work distribution hours used by DECD for one employee. Also, $657.86 of extra salary amounts for one employee was used in the adjustment calculation as a result of the Payroll Department double-counting compensatory time, even though it was never actually paid to the employee. It is impossible for the auditors to make a full determination as to how these extra hours should be counted, but based on the work distribution percentages for the employee, the auditors estimated that the HOME and HRRLF programs were overcharged by $338.21 and $319.65, respectively.

*Cause:* The payroll cost information obtained from TPS, which is used to recalculate payroll costs to various programs, did not include lump-sum payments awarded to employees, such as longevity and merit bonuses. DECD did not reconcile recalculated payroll allocations prepared with TPS salary and work distribution information to payroll costs charged in the Core-CT general ledger.

*Recommendation:* The Department of Economic and Community Development should reconcile total payroll costs allocated by its Time Processing System to total payroll costs reflected in appropriation expenditure accounts in Core-CT's general ledger. Payroll costs allocated by the Time Processing System should ultimately be recorded in the general ledger appropriation accounts, or alternately if not recorded, be sufficiently documented by DECD explaining the reason(s) why the costs were not recorded. (See Recommendation 5.)

*Agency Response:* "The Department agrees with this finding in part. DECD acknowledges the payroll cost variance, but maintains it took the required steps to correct it.

The correction was submitted to the Comptroller for processing on June 30, 2012 to credit HOME and charge to General Fund for longevity. The Comptroller's office subsequently contacted DECD to submit the associated fringe benefits adjustments; the correction could not be processed without the fringe benefit adjustments. Due to the short time frame provided for year-end adjustments, OFA staff did not have adequate time to calculate and compile this fringe benefit information. Therefore, the longevity adjustment was not processed by Comptroller's office. DECD documented steps it took to try to correct the issue.

Given the complexity of the adjustment and the uniqueness of the situation, to avoid this in the future, the Department is currently reviewing its' TPS salary and work distribution process."

**Payroll - Overtime**

*Criteria:* Section 5-245 of the General Statutes provides that employees receive overtime pay for a period in addition to the hours of the employee's regular, established workweek when the work performed is authorized by the employee's appointing authority.

Department of Economic and Community Development policy requires that overtime must be authorized in advance by the office/unit administrator and commissioner. Written approval must be obtained at least 24-hours in advance using the appropriate request form.

*Condition:* A review of five employees who charged overtime hours during the fiscal year 2011-2012 revealed that one employee was paid for 41 hours of overtime, but the approval request was not signed until after all the overtime had been worked. Additionally, another employee worked a holiday and was compensated overtime pay but had no written authorization in the personnel file.

*Effect:* Overtime charged and paid was not properly approved.

*Cause:* Administrative controls over the earning of overtime were inadequate.

*Recommendation:* The Department of Economic and Community Development should ensure that overtime earned is properly approved within the timeframe that is required. (See Recommendation 6.)

*Agency Response:* "The Department agrees with this finding within the time frame of the audit.

Most of the instances referenced happened in July 2011 and occurred at a time when DECD just merged with Commission on Culture and Tourism (CAT), when DECD procedures were new to CAT. However, since 2012 all employees are trained on the existing policy."

**Adherence to Travel Policies**

*Criteria:* On February 9, 2011, the Governor modified the out-of-state travel ban that had been in effect since May 2008, and directed that out-of-state travel only be allowed if approval was made by agency heads, and met one of the following criteria:

- Travel is to pursue economic development opportunities or secure significant outside funding for the state.
- Travel will enable the state employee or official to protect, promote or gather information related to critical state policies and alternative means of gathering information when web-based or internet attendance is not available.
- Non-state funds are used to cover the entire cost of the trip.

*Condition:* We reviewed the department's out-of-state travel reports submitted to OPM from April 1, 2011 through June 30, 2012, and supporting documentation from the department. Our review of 68 out-of-state trips disclosed the following deficiencies:

- One employee submitted and approved two of his own travel authorization and reimbursement forms.
- The commissioner did not have proper approvals for five out-of-state trips that were reimbursed. Four of the five were not reported to the Office of Policy and Management.

*Effect:* Without proper approvals, the agency was non-compliant with the Governor's policy directive regarding the out-of-state travel.

*Cause:* Lack of adherence to the state's policy caused unauthorized and inadequate support on some out-of-state travel expenditures.

*Recommendation:* The Department of Economic and Community Development should ensure that all out-of-state travel is properly documented, authorized and reported. (See Recommendation 7.)

*Agency Response:* "The Department disagrees with this finding.

The Department provides administrative support to the Office of Military Affairs (OMA) pursuant to P.A. 07-205, section 1. The OMA Executive Director is an agency head that reports directly to the Governor, pursuant to P.A. 07-205, section 2. All out-of-state travel by the OMA Executive Director was pre-approved by the Office of the Governor (Chief of Staff). The travel reimbursements were prepared and reviewed by DECD in accordance with DECD procedures. While not required to do so and in order to ensure an additional level of oversight, OMA's Executive Director has directed that all of his future out-of-state travel authorizations be co-signed by the DECD Commissioner or Deputy Commissioner.

As of July 28, 2013 the travel policy was changed to create a Blanket TA to allow Agency staff to travel out-of-state in the Northeast and New York for no-cost meetings, conferences, or workshops with certain reimbursable expenses. In addition, staff is reminded that an approved TA outside of this area and when fees are being incurred, a TA is required prior to travel."

*Auditors' Concluding Comments:*

The OMA executive director was given several opportunities to provide the pre-approval from the Office of the Governor (chief of staff) for the two trips reviewed. However, he was unable to provide us with these approvals or any approval other than his own

Although a change in policy was noted as of July 28, 2013, the unapproved travel occurred in fiscal years 2010-2011 and 2011-2012.

**Purchasing**

*Criteria:* Section 4-98(a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order and a commitment transmitted to the State Comptroller.

Proper internal controls related to purchasing require that commitment documents be properly authorized prior to receipt of goods or services.

The State Accounting Manual establishes guidelines for processing vendor payments. The guidelines include criteria for determining the correct receipt date to be used in processing state invoices. Proper entry of receipt dates into the Core-CT accounting system is important because receipt dates are used to calculate vendor accounts payable

for inclusion in year-end GAAP Reporting.

*Condition:* In our review of 142 expenditure transactions, we found:

- Receipt dates were recorded incorrectly for 20 transactions and one receipt date could not be verified due to lack of an approval on the payment request form by the agency's deputy commissioner.
- Forty-two purchase orders were created and/or approved after the receipt of goods or services

*Effect:* When obligations are incurred prior to the commitment of funds, there is less assurance that funding will be available at the time of payment.

Receipt dates posted to the wrong fiscal year may result in the improper reporting of year-end accounts payable, and expenditures would be recorded and reported in the wrong fiscal year.

*Recommendation:* The Department of Economic and Community Development should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services, and receipt dates are recorded accurately. (See Recommendation 8.)

*Agency Response:* "The Department agrees with this finding but notes that changes have been made to its procedures to improve the circumstances.

Effective 8/12/13, a new procedure for the flow of documents was instituted as a result of a Lean Process Kaizen Event. DECD Project Managers will provide pertinent, fully-executed contract and budget documents directly to OFA prior to submission of a payment request. This change should allow DECD OFA financial staff time to create Core-CT contracts and POs in advance of the receipt of a payment request.

It is extremely important to note that in no circumstance specified was a grant or loan payment processed without receipt of the required documentation such as a Face Sheet and creation of a Core-CT Contract and Purchase Order."

**Disaster Recovery Plan**

*Criteria:* Contingency plans should be established to provide for the continuance of operations in the event of a disaster or major interruption in information systems. Contingency planning should include the following:

- Provisions for backup site, computer hardware and software.
- Tests of the contingency plan.

*Condition:* DECD management has neither made provisions for a backup site or computer hardware and software, nor performed a test of its information technology disaster recovery plan.

*Effect:* Without testing the information technology disaster recovery plan, the department cannot accurately determine whether the plan provides for the continuance of operations in the event of a disaster or major interruption in information systems. An inadequate disaster recovery plan extends the time required to recover and resume critical infrastructure and application systems.

*Cause:* The cause was not determined.

*Recommendation:* DECD management should test its Information Technology Disaster Recovery Plan and properly coordinate all contingency provisions within the plan. (See Recommendation 9.)

*Agency Response:* "DECD agrees with this IT disaster recovery finding and has been continually working towards its rectification.

The Department is in the process of an entire revamp of both its DECD and DOH IT infrastructures. DECD's ability to perform disaster recovery testing has been impacted mostly by its severely outdated network operating systems and its remaining server hardware that has all moved off service maintenance.

The department intends to implement its two new (2) high-end servers with current network operating systems and updated applications where feasible placed within a virtualized environment. It also intends to move some of its files and applications off-site on servers at DAS\BEST or within an external cloud environment. The agency does not have sufficient server hardware to test for disaster recovery within its agency; therefore, having off-site server services will allow the department to test these disaster recovery tasks. In the long-term DECD intends to move all servers under DAS/BEST management to provide an improved environment for data protection, testing and cost effectiveness.

However at present, DECD has contracted a third-party vendor to assist with the implementation of its new servers and assist with the implementation of updated systems and applications within a supported environment. This will also prepare the department to foster the ability to potentially move its applications into a cloud

environment which then would be protected by that entity's disaster recovery umbrella."

**Asset Management - CO-59 Reporting**

*Background:* Pursuant to Public Act 48, effective July 1, 2011, the Department of Economic and Community Development (DECD) assumed all the responsibilities of the Connecticut Commission on Culture and Tourism (CCT), including the transfer of functions, duties, personnel, obligations, also including but not limited to, the transfer of records and property.

There are four state-owned museums operated by the State Historic Preservation Office of DECD and each museum's collection items are recorded in a separate and specially designed database system. Museum staff enters the items into this system and keeps track of collections.

*Criteria:* Section 4-36 of the Connecticut General Statutes requires each state agency to keep inventory records in the form prescribed by the State Comptroller and to submit to the Office of the State Comptroller an annual report of its inventory balances.

The State Property Control Manual prescribes that inventory records and procedures, including the requirement that only capitalized assets and individual assets with a value or cost over $1,000, be reported on the Asset Management/Inventory Report/GAAP Reporting Form CO-59 (CO-59). The report must be submitted by October 1st and must reflect the sum total of the physical inventory as of June 30th.

Furthermore, the manual prescribes that the museum collections are part of historical treasures as reported under the Asset Category – Art on the CO-59 form. These items must be maintained in a separate inventory account for each item regardless of cost or value. Items valued over $1,000 should be included on the CO-59 form.

The agency's own collection management policies also state that all acquisitions shall remain in CCT collections as long as they retain their physical integrity, authenticity and usefulness within the objectives and purposes of the collections. All artifacts are subject to rules of the state, including control procedures and inventory.

*Condition:* DECD did not submit the CO-59 form for the fiscal year ended June 30, 2012 until June 13, 2013, which was eight months late.

In addition, the CO-59 deletion amounts were unsupported. We were informed that these amounts were made so that the ending balances were the same as those shown on the state's accounting system, the Core-CT Asset Management system.

All four museums' reportable collection items were not reported on the CO-59 form.

*Effect:* DECD was not in compliance with the requirements of the State Property Control Manual.

*Cause:* We were informed that due to the Connecticut Commission on Culture and Tourism's consolidation with DECD effective on July 1, 2011, DECD had difficulty in reconciling the additional inventory reported against the supporting documentation provided. In addition, without providing the value of each item in the museums' collection on the inventory list provided by the offices of Culture and Tourism, DECD was unable to determine the amounts to report for the museums' collection items.

*Recommendation:* The Department of Economic and Community Development should meet the reporting deadline and requirements when submitting the Asset Management /Inventory Report/GAAP Reporting Form CO-59. (See Recommendation 10.)

*Agency Response:* "The Department agrees and acknowledges that the CO-59 was submitted after the due date. DECD did not receive a fully reconciled CO-59 when Commission on Culture and Tourism merged with DECD. Prior to the merge Commission on Culture and Tourism was serviced by DAS/SMART and performing the reporting for CAT. It was a challenge to get information from DAS/SMART. DECD made every effort to attempt to reconcile inventory reports. Competing work priorities prevented the Office of Finance and Administration staff from concentrating solely on this task and it was done as time permitted.

DECD does not agree with the comment concerning the deletion amounts. These post-merger irreconcilable amounts were deleted based on direction from the Comptroller's Office. In May 2014, a PSA for specialized appraisal services to complete a full inventory of our museum collections, estimate the values of individual assets, and to address the recordation requirements under the Asset Category - Art on the C0-59."

*Auditors' Concluding Comments:* The agency did not provide us with any confirmation from the Office of the State Comptroller that amounts should be deleted. Therefore, these deleted amounts were unsupported.

**Asset Management - Physical Inspections**

*Background:* Pursuant to Public Act 48, effective July 1, 2011, the Department of Economic and Community Development assumed all the responsibilities of the Connecticut Commission on Culture and Tourism, including the transfer of functions, duties, personnel, obligations, also including but not limited to, the transfer of records and property.

There are four state-owned museums operated by the State Historic Preservation Office. Each museum's collection items are recorded in a separate and specially designed database system, which museum staff is responsible for maintaining. Currently, there are three full-time and two part-time staff who manage the four museums.

*Criteria:* The State Property Control Manual states that agencies are responsible for maintaining an adequate inventory control and accountability system to record and control their capitalized and controllable assets. A property control record should be kept for each individual item and should contain the specified minimum data.

The manual also requires that a complete physical inventory of all property must be taken by the end of each fiscal year to ensure that property control records accurately reflect the actual inventory on hand within the current fiscal year.

*Condition:* We reviewed a total of 50 assets, 25 selected from Core-CT Capital Asset Report, and 25 selected from physical inspection of the agency's tagged assets. Our review disclosed the following deficiencies:

- One asset could not be located at the agency;
- Two assets could not be identified among other similar untagged items;
- Three assets did not have tag numbers;
- One asset's reported tag number (9473) did not match with the asset's tag number (9474) when found at the location; and
- Four tagged assets from physical inspection were not listed in the Core-CT Asset Management module.

In addition, our review of the Core-CT Physical Inspection Report indicated that 493 assets appeared to have not been physically inspected during the fiscal year 2011-2012, and there were no physical inspections conducted at all four museums for the collection items.

Collection items in the museums are recorded in the PastPerfect system, which is specially designed to record museum collections, and they are not reflected on the Core-CT Asset Management module. However, due to a lack of supporting documentation, we are unable to determine whether each item is recorded according to the manual that specifies the minimum data each property control record must contain. In addition, we were informed that not every collection item is recorded in the system.

*Effect:* Without an adequate property control system, the probability of state property being lost or stolen increases.

*Cause:* Assets are not completely maintained as required by the State Property Control Manual. Furthermore, the department did not complete physical inspection of all property to ensure the control records accurately reflect actual inventory on hand.

*Recommendation:* The Department of Economic and Community Development should ensure all offices maintain and control its assets with detailed records, including tag numbers, and should perform complete annual physical inspections. (See Recommendation 11.)

*Agency Response:* "DECD agrees that it should ensure all offices maintain and control its assets with detailed records. DECD disagrees that there were 493 assets that appeared to have not been physically inspected during the fiscal year.

There was a physical inspection to the extent that items were located and documented. Of the 493 items listed, five of the items were not purchased until FY'13 (after the audit period) and these should not be included.

DECD evaluated its current inventory process and procedures to determine the most efficient and effective way to complete its annual inventory and inspections for all of the required assets. This evaluation will include identifying outside help. In May 2014, a personal service agreement was issued for specialized appraisal services to complete a full inventory of our museum collections, estimate the values of individual assets, and to address the recordation requirements under the Asset Category – Art on the CO-59."

*Auditors' Concluding Comments:*

According to Core-CT, 493 items appeared without a physical inspection date. The agency states that it had a physical inspection to the extent that items were located and documented. If this was accomplished, this vast number of items should not be lacking a physical inspection date. Based upon the exceptions noted on our physical inspection of assets along with the lack of any physical inspections at all the museums, a significant deficiency regarding this finding exists.

**Grant and Loan Monitoring - Housing Programs**

*Criteria:*

Assistance agreements between the state and the grant recipients of the Small Cities Grant program require that the municipality submit to the state progress and status reports. According to the Small Cities Grant Program Management Manual, the 1st and 3rd quarter progress reports are due five days after the end of the quarter. The 2nd and 4th quarter progress reports are due fifteen (15) days after the end of the quarter. However, the department gives the municipality thirty (30) days after the end of the quarter to submit these reports.

In addition, Section 15 of the assistance agreement for the Small Cities Grant program states that, unless the municipality has an approved Program Income Reuse Plan on file with the state prior to submitting the application for the project, the municipality must return all program income to the state.

The department requires completion of both the eligibility review form and rating and ranking form in order to properly assess a project's program eligibility.

Assistance agreements between the state and grant recipients of the HOME Investment Partnership program require that the borrower/grantee submit quarterly milestones and progress reports no later than thirty (30) days after the end of each quarter until the expiration of the Development Budget. The department's Internal Control Process Manual states that the project manager must verify the most recent quarterly development compliance report before approving the request for payment.

Furthermore, the assistance agreements require all for-profit borrowers/grantees to complete a cost certification within sixty days of substantial completion of the project, or at such times as required by the commissioner.

The Connecticut State Library, under authority of Sections 11-8 and 11-8a of the General Statutes, has established record retention schedules that require state agencies to retain grant administrative records for three years or until audited, whichever is later.

*Condition:* Our review of five Small Cities' projects revealed the following deficiencies:

- One project was missing quarterly progress reports.
- One project that generated program income was missing a Program Income Reuse Plan and the municipality failed to return program income to the state.

Our review of six HOME projects revealed the following deficiencies:

- Two projects were missing eligibility review forms.
- Five projects were missing quarterly progress reports, for which three projects were missing reports that were necessary for payment verification.

*Effect:* The agency's ability to determine potential project eligibility and monitor project performance and allowable expenditures is impaired if the proper forms are not completed and/or obtained.

Inappropriate payments may be made if quarterly reports are not obtained and reviewed when required.

*Cause:* A lack of attention to recordkeeping and a disregard for assistance agreement requirements appeared to have caused the conditions.

*Recommendation:* The Department of Economic and Community Development should ensure that assistance agreement requirements as well as internal controls and record retention policies are followed. (See Recommendation 12.)

*Agency Response:* "The Department of Housing would like to take this opportunity to thank the state auditors for providing assistance and insight as we continue the process of reviewing our existing policies and align those with the goals and objectives of this new agency. As part of this process DOH will continue to review its internal process manuals to assure that they reflect current business practices and procedures. DOH would like to take this opportunity to respond to

the specific conditions raised in the audit report.**1) Two projects missing eligibility forms**

To assure that a formal eligibility review is completed for each application submitted, eligibility review questions currently contained in stand-alone forms will be incorporated into the DOH Housing Development Application Review Form. The application review form is used by project managers as the required review tool for all applications independent of funding source. Including both federal and state program eligibility information in this single location will assure the review is completed at the appropriate time. DOH also wants to assure all parties that no ineligible applications were approved.

**2) Projects with missing quarterly reports**

DOH acknowledges that there may be few Quarterly Progress Reports missing. As soon as possible, DOH will institute a policy which requires an electronic submission of all quarterly reports by the 30th day following the end of the reporting period. Moving to an electronic submission process will allow DOH to better track and maintain quarterly reports. As the new DOH continues to review its processes and procedures, DOH is proposing that the submission of quarterly reports be decoupled from the payment approval process. Quarterly reports have no bearing on payment approval since each payment must include payment verification information. The Quarterly Report requirements as established in the Grant Management Manual will be updated to require that the reports be submitted within thirty (30) days from the end of each reporting period for both community and housing development programs, with the exception that federal funding recipients must submit Federal Section 3 and Labor Compliance information by the 5th day following the end of the March and September reporting periods to allow for the timely submission of this information to HUD. This change will also be incorporated into the contract language for such recipients.

**3)** DOH agrees that there are inconsistencies in the Assistance Agreement language and the policies regarding the Program Income Reuse Plan. The Department plans to address the language in Section 15, Program Income Reuse Plan (now Section 3.2 in the new DOH assistance agreement). DOH will make sure that the Program Income Policy on the retention of the Program Income is consistent.

As noted in the Effect section of the audit report, DOH would like to assure you that no inappropriate payments have been made because

of the missing quarterly reports. As stated above, Quarterly Reports have no bearing on payment approval as the payment process is a separate process."

*Auditors' Concluding Comments:*

According to the department's Internal Control Process Manual, project managers must verify the most recent quarterly development compliance report before approving the request for payment.

**Grant and Loan Monitoring - Manufacturing Assistance and Urban Act Programs**

*Background:*

The department has developed a Client Service Manual to document procedures in place for project review and monitoring. The manual addresses the various steps from pre-application to closeout and the information that should be obtained, and provides various forms and guidelines for completion

*Criteria:*

The Development Manager's Client Service Manual states that the pre-application initiates the formal application process and everything on this document should be filled in by the client and returned with the necessary documentation to the DECD project manager. The project manager is required to collect detailed information from the client in order to perform an adequate review, analysis, and evaluation of the project. The information that should be collected includes the pre-application, gift affidavit, project description, source and use information, business plan, schedule of related affiliated companies, terms of the conventional bank or source financing for the project, financial review checklist form, specific machinery and equipment to be financed, financial statements for the last three recent years and projected financial and business statements for three to five consecutive years. In addition, a financial analysis should be prepared. If the client cannot provide a particular item, a written waiver, which includes the reason why the item cannot be provided, must be submitted to the project manager.

Section 3.6 of the Assistance Agreement states that each applicant subject to a federal and/or Statewide Single Audit must have an audit of its accounts performed annually. All applicants not subject to a federal and/or Statewide Single Audit shall be subject to a project-specific audit of its accounts within 90 days of the completion of the project or at such times as required by the commissioner. Such audit shall be in accordance with the DECD Audit Guide. An independent public accountant, as defined by generally accepted government auditing standards, shall conduct the audit. At the discretion and with the

approval of the commissioner, examiners from the Department of Economic and Community Development may conduct project-specific audits.

Section 3.7 of the Assistance Agreement states that, in the event the audit referred to in Paragraph 3.6 of the assistance agreement demonstrates that the actual expenditures made by the applicant were less than the maximum allowable amounts for disbursement by the state, any such excess which has been disbursed to the applicant the stated amount of the funding under the agreement will be amended to reflect the actual amount of funding which has been received.

The Development Manager's Client Service Manual details the DECD financial closeout process for state-funded programs upon contract execution by determining whether the client is a non-state entity and subject to the Statewide Single Audit. If subject to a Statewide Single Audit, the Office of Financial Review should receive either the Statewide Single Audit by the statutory date or receive the Statewide Single Audit Exemption Notification Form indicating the entity's exempt status. If a project audit applies, an audit will be required within 90 days of completion of the project. The audit will be requested by the project manager. Upon financial completion of the project, the project manager will forward a copy of the closeout audit request; project completion notice sent to the entity, if applicable; latest approved project Financing Plan and Budget; and last project financial statement submitted to DECD. Upon receipt of each audit covering the project expenditures, the Office of Financial Review will perform a desk review of the audit to ensure compliance with DECD audit reporting requirements and to review the findings and recommendations section. Once any questions are resolved, the Office of Financial Review will prepare the financial closeout documents based on approved costs.

The Connecticut State Library, under authority of Sections 11-8 and 11-8a of the General Statutes, has established record retention schedules for grant-administrative records of three years or until audited, whichever is later.

*Condition:* The agency could not provide us with the required information that should be collected to adequately review, analyze and evaluate the potential project.

Out of the nine projects reviewed, we could not ascertain whether four of these documents were ever requested or reviewed. In addition, we were informed that financial analyses were not completed for three of the nine projects reviewed. A pre-application and/or formal

application, as well as the letter of interest, was not available for review for one of the nine projects. Interim financial reports were not being routinely requested or received.

Four projects were completed prior to our review. The agency had not completed a desk review of the audited financial statements or project audits for any of those projects. Audited financials were received for two projects, and one indicated a reporting finding under the Statewide Single Audit. Audits were not submitted for the other two projects, and the agency was not sure when these would be completed.

Although financial closeout for the four projects appeared warranted, these had not been completed as of April 3, 2014. Two of these projects were submitted to the Office of Financial Review for closeout on January 12, 2012 and December 14, 2011. The other two projects had budget end dates of December 31, 2010 and May 20, 2013. However, no request for closeout was submitted to the Office of Financial Review.

*Effect:* Without obtaining the proper supporting documents and conducting timely monitoring of projects, funding may be awarded to ineligible applicants.

*Cause:* Administrative controls over the projects were inadequate. We were informed that, due to staffing constraints and task priorities, the agency cannot complete these tasks in a timely manner.

*Recommendation:* The Department of Economic and Community Development should ensure that a complete review of all projects is performed from the point of application until financial closeout. The department should retain all supporting documentation used to evaluate the applicant's eligibility for financial assistance in accordance with the State Library's record retention requirements. (See Recommendation 13.)

*Agency Response* "In the last few years, activity of DECD has significantly increased relative to financial assistance and programmatic case management. This activity has been due to new programs and initiatives that resulted from a special legislative session in October 2011 resulting in new business development and job creation programs created under the current administration. DECD shifted significant personnel resources towards this new activity in order to accommodate the management of a significant amount of new financial assistance projects and programs. Staff project management volume increased dramatically and processes that had been in place either did not change with the volume or were eliminated without being documented in the Client Service Manual. Staff transitioned into new roles and responsibilities during this time

period, some without having the experience from past practices resulted in some procedures not followed completely.

DECD developed the Client Service Manual which outlines steps and processes taken in order to manage a financial assistance project. DECD believes that this manual provides steps for project management that may be applied to very different types of projects and businesses. DECD acknowledges that each step may not fit the size or scope of a business or project in every case and therefore the process used to manage a financial assistance project may be different from one project to another.

It is important to note that DECD ensures due diligence was performed and is certain that funding was not awarded to ineligible applicants. DECD's OFRSP will continue to work with project managers to ensure program requirements and expenditures are being properly monitored. As mentioned above, administrative controls have been put in place for project managers to ensure proper documentation, reporting, and Assistance Agreement requirements are being met or if not timely follow-up is implemented."

**Small Business Express Program - Lack of Program Cost Monitoring**

*Criteria:* The Department of Economic and Community Development's Assistance Agreement Section 3.6 requires that the applicant shall provide a cumulative Statement of Program Costs and Detailed Schedule of Expenditures to the commissioner in the approved DECD project statement format. This information is required to be provided within 90 days after the expiration date of the Project Financing Plan or Budget, or earlier as determined by the commissioner. Further information, such as supporting documentation for the expenditures charge may be requested from the applicant, as necessary.

The Department of Economic and Community Development's Assistance Agreement Section 3.7 further states that, in the event that an audit referred to in Section 3.6 demonstrates that the actual expenditures made by the applicant in connection with the project are less than the maximum allowable amounts for the disbursement by the state or amount of the loan or grant, any such excess disbursement made by the state in respect to funding shall become immediately due and payable by the applicant to the state.

*Condition:* A review of four project files revealed that all four applicants have not provided a completed Statement of Program Costs and Detailed Schedule of Expenditures, although three were due in April 2013 and

one in June 2013. Due to the lack of these statements, DECD has not yet verified the actual expenditures made by these applicants.

*Effect:* Program requirements and expenditures are not being properly monitored. Overpayments may have occurred.

*Cause:* Administrative controls over the procurement and review of these reports were inadequate.

*Recommendation:* The Department of Economic and Community Development should ensure that assistance agreement requirements are adhered to and specific reports are requested, received, and reviewed within the stipulated timeframes. (See Recommendation 14.)

*Agency Response:* "The Department funds a variety of projects that include multi-million dollar construction developments, downtown infrastructure improvements, acquisition of machinery and equipment, training and other activities. These projects can take several months and even years to complete. In order to meet the scheduling requirements of our funding recipients, there are many cases when DECD will advance funds based on an applicant's project schedule in order to ensure timely payments to vendors and to maintain project schedules. When funds are advanced to a client for a short term, they are based on the eligible expenditures being funded by a particular program. A second advance will not be approved by the Department until the client has provided documentation to the Department that initial advance has been expended or certain milestones are reached.

There are certain programs that require an applicant to match state financing with other sources of funds that may be provided to a project over the entire budget period, which in some cases can take longer to expend. In those cases however, DECD cannot perform a financial closeout of the project until it is completed, and at that time would determine if funds were due back to DECD.

The Department ensures due diligence was performed and overpayments are not a normal occurrence. DECD's Office of Financial Review and Special Projects will continue to work with project managers to ensure program requirements and expenditures are being properly monitored. As mentioned above, administrative controls have been put in place for project managers and their supervisors to ensure proper documentation, reporting, and Assistance Agreement requirements are being met or if not timely follow-up is implemented."

**Legislatively Directed Funds - Lack of Accountability**

*Background:* Certain entities receive state funding each year through the appropriation of line items in the state budget. Since 2005, Amistad related entities have been receiving state funding for maintaining the schooner Amistad. Other than the amount and the recipient name and a brief description of use, the legislature does not include any requirements or restrictions on the use of the funds.

The Department of Economic and Community Development requires recipients of line item amounts to complete an application, execute a grant contract, complete a final report evaluation, and undertake an independent audit. However, these requirements do not appear to be mandated by the General Assembly in the state budget or other statutory language. Therefore, DECD feels that the grantee is entitled to the funding regardless of any contractual restrictions that may be in place. Furthermore, the agency would like to see more stringent guidelines set in order to properly award and monitor these amounts.

*Criteria:* Proper internal controls and business practices dictate that restrictions and requirements, including proper monitoring, be placed on amounts appropriated though line items contained within the state budget, especially if the recipients are awarded funds each year.

*Condition:* Currently, no legislative restrictions or requirements exist on line item amounts given to recipients other than a brief description of the purpose. Although certain requirements may be documented within a grant contract, it is unclear whether they are mandatory for receipt of funds. Additionally, the receipt of funds is not contingent or restricted to certain uses other than the brief description of the overall purpose. Legislative restrictions on use, conditions imposed, monitoring and reporting requirements would promote accountability and enable an agency to withhold amounts if these are not met or deficiencies are found.

*Effect:* Lack of oversight and potential for misuse.

*Cause:* There are no requirements or restrictions regarding the use of funds in certain line item funding in the state budget. It is unclear whether other statutory provisions would apply.

*Recommendation:* The Department of Economic and Community Development should seek legislative clarification regarding the department's ability to impose requirements and restrictions on the funding of certain budgetary line items. Consideration should be made to enact legislation

detailing stated requirements on directed legislative funds or line item amounts given to recipients within the budget. (See Recommendation 16.)

*Agency's Response:* "DECD disagrees with this finding being directed toward DECD. DECD has followed all stated requirements enacted by current legislation.

This is a legislative recommendation and should be part of a statewide audit not DECD's audit. DECD's audit should focus on whether DECD is performing the tasks it is required to perform for legislatively directed funds according to our internal processes and statutory required steps. These steps include requiring recipients of funds to submit an application, execute a grant contract, complete a final report evaluation and undertake an independent audit (for recipients who receive $250,000 or more of state funds in a given year from all sources). During the audit years of this report, all of the recipients of legislatively directed funds submitted applications, executed grant contracts, completed final report evaluations, and if required, undertook an independent audit, or received approval from OPM of a time extension to undertake an independent audit."

*Auditors' Concluding Comments:* DECD notes that it has followed all the stated requirements enacted by current legislation. Currently, there are no such stated requirements for line items enacted within the budget and DECD had over 40 such line items within the 2011-2012 state budget. Therefore, it would be beneficial to DECD as well as other state agencies to have stated requirements in place.

## RECOMMENDATIONS

Eight recommendations were presented in our prior report. As indicated below, all eight have not been fully resolved and are therefore repeated in this report.

*Status of Prior Audit Recommendations:*

- DECD should improve its cash management procedures by disbursing funds for only immediate needs and reducing the time to receive refunds of overpayments. Re-wording assistance agreements should be considered to require earlier refunds.

  This recommendation was not implemented and is being repeated. (See Recommendation 1.)

- DECD should implement formal policies and procedures to ensure that unused balances from prior State Bond Commission approvals are identified in a timely manner and returned to the unallotted balance under the fund once a project is completed or cancelled.

  This recommendation was not implemented and is being repeated. (See Recommendation 2.)

- DECD should perform complete reconciliations of receivable activity and balances before reporting balances to the State Comptroller.

  For Energy Conservation Loan balances, DECD should request from the loan servicer its annual reconciliations of beginning balances, activity and ending balances, and reconcile with department records. When preparing its next contract with the loan servicer, DECD should require a report prepared pursuant to Statement on Standards for Attestation Engagements No. 16 (SSAE 16).

  This recommendation was not implemented and is being repeated. (See Recommendation 3.)

- DECD should ensure that periodic performance appraisals are performed on all its employees.

  This recommendation was not implemented and is being repeated. (See Recommendation 4.)

- DECD should ensure that payroll cost allocations are completed accurately for all employees and reflect all payroll costs in the Core-CT general ledger.

  This recommendation was not implemented fully and is being repeated. (See Recommendation 5.)

- DECD should maintain required recordkeeping for overtime approval.

  This recommendation was not implemented and is being repeated. (See Recommendation 6.)

- DECD should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services, and receipt dates are recorded accurately.

  This recommendation was not implemented and is being repeated. (See Recommendation 8.)

- DECD management should test its Information Technology Disaster Recovery Plan and properly coordinate all contingency provisions with the plan.

  This recommendation was not implemented and is being repeated. (See Recommendation 9.)

*Current Audit Recommendations:*

1. **The Department of Economic and Community Development should improve its cash management procedures by only disbursing funds for immediate needs and reducing the time to receive refunds of overpayments. Re-wording assistance agreements should be considered to require earlier refunds.**

   Comment:

   During the audited period, the department issued 297 Certificates of Approved Program Costs and State Funding that reflected amounts due to DECD totaling $1,293,995.

   The length of time that clients held unexpended state funds before returning them to DECD appeared excessive.

2. **The Department of Economic and Community Development should implement formal policies and procedures to ensure that unused balances from prior State Bond Commission approvals are identified in a timely manner and returned to the unallotted balance under the fund once a project is completed or cancelled.**

   Comment:

   In our three prior audits, we found that the department had not developed formal policies and procedures to address the administration of unexpended balances on bond-financed projects. Our current review found that condition continued.

3. **The Department of Economic and Community Development should perform complete reconciliations of receivable activity and balances before reporting balances to the State Comptroller.**

   **For Energy Conservation Loan balances, DECD should attempt to reconcile the differences between the loan servicer and DECD amounts. DECD should require a report prepared pursuant to Statement on Standards for Attestation Engagements No. 16.**

   Comment:

   Grant refunds:
   No reconciliations were performed of grant refund activity and reported receivable balances. We identified unreconciled variances of $237,468 in 2010-2011 and $73,123 in 2011-2012.
   ECL Loans:
   Department reconciliations of ECL principal balances in its records to amounts reported monthly by the loan servicer include unresolved reconciling items.

   The department did not require that the ECL loan servicer provide a report on its controls pursuant to Statement on Auditing Standards No. 70. (For reporting periods ending on or after June 15, 2011 Statement on Standards for Attestation Engagements No. 16 is applicable.)

4. **The Department of Economic and Community Development should ensure that all managers are evaluated on an annual basis through the use of PARS evaluation forms.**

   Comment:

   We reviewed the personnel files of most of the DECD managers and noted that out of 15 tested, only one annual evaluation had been completed during the audited period.

5. **The Department of Economic and Community Development should reconcile total payroll costs allocated by its Time Processing System to total payroll costs reflected in appropriation expenditure accounts in Core-CT's general ledger. Payroll costs allocated by the Time Processing System should ultimately be recorded in the general ledger appropriation accounts, or alternately, if not recorded, be sufficiently documented by DECD explaining the reason(s) why the costs were not recorded.**

   Comment:

   We reviewed one payroll adjustment consisting of 26 pay periods for eight employees. We compared the payroll costs of the eight employees initially charged in the general ledger ($589,884.74) to the re-calculated costs prepared from information in TPS

($587,169.39) and noted a variance of $2,715.35. We found that salary and wage costs in TPS were different than salary and wages charged to the general ledger. The recalculated costs prepared from TPS information forms the basis of the accounting adjustment in the general ledger.

**6. The Department of Economic and Community Development should ensure that overtime earned is properly approved within the timeframe that is required.**

Comment:

A review of five employees who charged overtime hours during the fiscal year 2011-2012 disclosed that one employee was paid for 41 hours of overtime, but the approval request was not signed until after all the overtime had been worked. Additionally, another employee worked a holiday and was compensated overtime pay, but had no written authorization in their personnel file.

**7. The Department of Economic and Community Development should ensure all out-of-state travel is properly documented, authorized and reported.**

Comment:

Our review of 68 out-of-state travel documents disclosed that one employee submitted and approved two of his own travel authorization and reimbursement forms. The department's commissioner did not have the proper approvals for five out-of-state trips that were reimbursed, and four of the five were not reported to the Office of Policy and Management.

**8. The Department of Economic and Community Development should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services, and receipt dates are recorded accurately.**

Comment:

We found that receipt dates were recorded incorrectly for 20 transactions and 42 purchase orders were created and/or approved after the receipt of goods or services.

**9. The Department of Economic and Community Development management should test its Information Technology Disaster Recovery Plan and properly coordinate all contingency provisions within the plan.**

Comment:

Management has neither made provisions for a backup site, computer hardware and software, nor performed a test of its information technology disaster recovery plan.

**10. The Department of Economic and Community Development should meet the reporting deadline and requirements when submitting the Asset Management/Inventory Report/GAAP Reporting Form CO-59.**

Comment:

The department did not submit the CO-59 form for the fiscal year ended June 30, 2012 until June 13, 2013, eight months after its due date of October 1, 2012.

In addition, the CO-59 deletion amounts were unsupported. We were informed that these amounts were made so that the ending balances were the same as those shown on the state's accounting system, Core-CT.

All four museums' reportable collection items were not reported on the CO-59 form.

**11. The Department of Economic and Community Development should ensure all offices maintain and control its assets with detailed records, including tag numbers, and should perform complete annual physical inspections.**

Comment:

Our review of 50 assets revealed that assets could not be identified due to being among other similar assets or not having tag numbers; one asset could not be located; and one asset tag number listed did not match the tag number on the asset. Four tagged assets physically inspected were not listed in the Core-CT Asset Management module.

Our review of the Core-CT Physical Inspection Report indicated that 493 assets did not appear to have been physically inspected during fiscal year 2011-2012 and there were no physical inspections conducted at the four museums for the collection items.

Collection items do not appear to contain the minimum data required that each property control record should contain. In addition, we were informed that not every collection item is recorded in the system.

**12. The Department of Economic and Community Development should ensure that assistance agreement requirements as well as internal controls and record retention policies are followed.**

Comment:

Our review of five Small Cities and five HOME projects revealed missing quarterly reports, eligibility review forms and ranking forms. One project that generated program income was missing a Program Income Reuse Plan, and the municipality failed to return program income to the state.

13. **The Department of Economic and Community Development should ensure that a complete review of all projects is performed from the point of application until financial closeout. DECD should retain all supporting documentation used to evaluate the applicant's eligibility for financial assistance in accordance with the State Library's record retention requirements.**

Comment:

Our review of nine projects revealed that the agency could not provide us with all the required information that should be collected to adequately review, analyze and evaluate the potential project. Desk reviews of audited financial statements or project audits were not being completed in a timely manner. Although financial closeouts of four projects appear warranted, these were not completed as of April 3, 2014.

14. **The Department of Economic and Community Development should ensure that assistance agreement requirements are adhered to and specific reports are requested, received, and reviewed within the stipulated timeframes.**

Comment:

A review of four project files revealed that all four applicants have not provided a completed Statement of Program Costs and Detailed Schedule of Expenditures although three were due in April 2013 and one in June 2013. Due to the lack of these statements, DECD has not yet verified the actual expenditures made by these applicants.

15. **The Department of Economic and Community Development should seek legislative clarification regarding the department's ability to impose requirements and restrictions on the funding of certain budgetary line items. Consideration should be made to enact legislation detailing stated requirements on directed legislative funds or line item amounts given to recipients within the budget.**

Comment:

Currently, no legislative restrictions or requirements exist on line item amounts given to recipients other than a brief description of the purpose. Although certain requirements may be documented within a grant contract, it would appear that these are not

mandatory for receipt of the funds. The receipt of the funds is not contingent or restricted to certain uses other than the brief description of the overall purpose. Legislative restrictions on use, certain conditions imposed, and monitoring and reporting requirements would promote accountability and enable an agency to withhold amounts if these are not met and/or deficiencies are found.

## 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, 2011 and 2012. This audit was primarily limited to performing tests of the department's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the department are complied with, (2) the financial transactions of the department are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2011 and 2012 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 auditing standards generally accepted in the United States of America and the standards applicable to financial 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

Management of the Department of Economic and Community Development is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Department of Economic and Community Development's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the department's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Department of Economic and Community Development's internal control over those control objectives.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Department of

Economic and Community Development's financial operations will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Department of Economic and Community Development's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendation 10 – Asset Management – CO-59 Reporting; Recommendation 11 – Asset Management – Physical Inspections; Recommendation 12 – Grant Monitoring – Housing Programs; Recommendation 13 – Grant and Loan Monitoring – Manufacturing Assistance and Urban Act Programs; Recommendation 14 – Small Business Express Program – Lack of Program Cost Monitoring;; and Recommendation 15 – Legislatively Directed Funds – Lack of Accountability.

**Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Department of Economic and Community Development complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the department's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to agency management in the accompanying Condition of Records and Recommendations sections of this report.

The Department of Economic and Community Development's response to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the Department of Economic and Community Development's response and, accordingly, we express no opinion on it.

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

## 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.

Christine J. Delaney
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts