STATE OF CONNECTICUT

AUDITORS’ REPORT
DEPARTMENT OF ECONOMIC AND
COMMUNITY DEVELOPMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2016

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN  ROBERT J. KANE
March 4, 2020

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Department of Economic and Community Development. The objectives of this review were to evaluate the department’s internal controls; compliance with policies and procedures, as well as certain legal provisions; and management practices and operations for the fiscal years ended June 30, 2015 and 2016.

The key findings and recommendations are presented below:

| Page 10 | DECD awarded $16,042,050 excess financial assistance than permitted under the General Statutes. DECD should ensure that the amount of financial assistance it provides to a business is not greater than amounts allowed under the General Statutes without obtaining authorization from the General Assembly. (Recommendation 1.) |
| Page 12 | DECD amended or modified the assistance agreements for 3 companies, which resulted in the companies receiving $21,550,000 of loan forgiveness that they would not have been entitled to under the original assistance agreements. Prior to amending an assistance agreement, DECD should ensure that changes would result in an economic benefit to the state. (Recommendation 2.) |
| Page 15 | DECD did not always perform a financial review prior to awarding financial assistance. In addition, we noted instances in which DECD did not adequately address concerns raised during financial reviews. DECD should conduct financial reviews for all financial assistance provided and should clearly document that any concerns noted during the financial review process have been sufficiently resolved prior to awarding assistance. (Recommendation 3.) |
| Page 24 | DECD accepted improperly prepared job audits and did not always promptly review job audits. In addition, our review of loan forgiveness disclosed that a company received $1,250,000 in loan forgiveness without meeting its job creation requirements. DECD should ensure that job audits are properly prepared and reviewed in a timely manner. In addition, DECD should ensure that companies meet job creation and retention requirements prior to granting loan forgiveness. (Recommendation 7.) |
| Page 28 | We noted 3 companies delinquent on previous DECD loans that received $900,000 in additional loans. The companies were delinquent on their prior loans or they were not able to make the required payments. In addition, DECD did not always complete financial closeouts and job reviews on prior financial assistance before providing additional assistance. DECD should complete its due diligence before providing additional funding to a company, especially if the company is delinquent on past loans or has demonstrated an inability to create and retain jobs. As part of that due diligence, DECD should perform closeouts and job reviews on older projects before funding new projects. (Recommendation 9.) |
AUDITORS’ REPORT

We have audited certain operations of the Department of Economic and Community Development in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2015 and 2016. The objectives of our audit were to:

1. Evaluate the department’s internal controls over significant management and financial functions;

2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and

3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.
The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the department's management and the state's information systems, and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors’ Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Department of Economic and Community Development.

COMMENTS

FOREWORD

The Department of Economic and Community Development (DECD) operates principally under the provisions of Title 32, Chapter 578 and Title 10, Chapter 184b of the General Statutes. DECD administers programs and policies to promote business, community development, brownfield redevelopment, arts, culture and tourism, and is the state agency responsible for promoting economic growth.

The department’s mission is to develop and implement strategies to increase the state’s economic competitiveness. Specifically, DECD:

- Supports existing businesses and attracts new businesses and jobs with a wide range of programs and services to help companies prosper;
- Promotes Connecticut industries and businesses here at home, throughout the country, and across the globe;
- Strengthens Connecticut communities by providing funding and technical support for local community and economic development projects;
- Works to make tourism a leading economic contributor and a source of pride for Connecticut;
- Develops and strengthens the arts in Connecticut, making artistic experiences widely available to residents and visitors; and
- Helps to eliminate brownfield properties by promoting smart growth principles, strengthening public-private partnerships, and providing a one-stop resource for expertise.

Catherine H. Smith was appointed commissioner of DECD in April 2011 and served in that capacity until January 2019. David Lehman was appointed as commissioner of DECD in February 2019.
Significant Legislation

The following notable legislative changes affecting the department took effect during the audited period:

- **Public Act 14-85**, effective October 1, 2014, required DECD, before granting economic development financial assistance, to determine if the applicant or any of the applicant’s principals is (1) currently subject to litigation in civil court for a debt, or (2) owes taxes to the state or a municipality.

- **Public Act 14-98**:  
  - Section 43, effective July 1, 2014, authorized the DECD commissioner to waive, for small businesses in the state’s 25 distressed municipalities, the requirement that they provide a match for grants received under the small business express program.  
  - Sections 47 – 49, effective May 22, 2014, established the Connecticut Manufacturing Innovation Fund, administered by DECD, to provide financial assistance to targeted disciplines and industries that are likely to improve or develop commercial products, make businesses more competitive, and create jobs. Businesses, nonprofits, and other organizations may apply for the assistance, which can be in the form of grants, loans, equity, or vouchers and must help develop manufacturing equipment, educate and train workers, or support research, amount other things.

- **Public Act 14-217**:  
  - Section 47, effective July 1, 2014, eliminated the annual transfer of funds from the dry cleaning remediation account to DECD to cover DECD’s administrative costs for the Dry Cleaning Establishment Remediation Program. Under prior law, DECD annually received from the account the greater of $100,000 or 5% of the account’s maximum balance in the previous year.  
  - Sections 165-168, effective July 1, 2014, consolidated 2 DECD programs that provide tax credits to people and business entities rehabilitating certain historic structures. The consolidated program contains many elements of the separate programs but imposes new project and annual program caps.

- **Public Act 15-151**, effective October 1, 2015, required DECD to include in grant agreements a date by which a grant recipient must either (1) return unused grant funds to DECD, or (2) apply to DECD for authorization to use the funds for another purpose.

- **Public Act 15-192**, effective upon passage, transferred the Connecticut Airport Authority’s administrative functions related to airport development zones to DECD.

- **Public Act 15-193**, effective July 1, 2015, made the following programmatic changes in DECD’s brownfield remediation programs.  
  - Added new components to the Municipal Brownfield Grant program, which provides grants to municipalities and economic development agencies for assessing and remediating contaminated property. One component allows DECD to make additional
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- grants needed to complete an ongoing project. The other allows DECD to make grants for developing a comprehensive plan to remediate and redevelop multiple brownfields.
  - Precludes recipients from lending grant proceeds to brownfield redevelopers.
  - Increases maximum loan amounts from $2 million per year for up to two years to $4 million per year, with no limit on the number of years.
  - Expands the range of brownfields DECD may market and remediate by allowing it to add formerly state-owned brownfields to its brownfield priority list.

- Public Act 15-5 of the June Special Session
  - Section 8, effective July 1, 2015, allowed the Connecticut Port Authority and DECD to enter into a memorandum of understanding under which (1) DECD provides administrative support and services, including all staff support necessary for the operation of the Connecticut Port Authority, and (2) a provision is made for the coordination of management and operational activities.
  - Section 407, effective July 1, 2015, increased the percentage of Small Business Express program funds that DECD may use to cover the program’s administrative costs from 4% to 5%. The additional 1% shall be dedicated to develop capacity for capital construction projects for minority business enterprises.

Boards, Commissions, Committees, and Councils

<table>
<thead>
<tr>
<th>Name</th>
<th>General Statute Section</th>
<th>Statutory Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Historic Preservation Board</td>
<td>§10-321q</td>
<td>To review nominations to the National Register of Historic Places to determine whether or not the property meets the National Register criteria for evaluation and to make a recommendation that the State Historic Preservation Officer either nominate or reject the proposed nomination.</td>
</tr>
<tr>
<td>Culture and Tourism Advisory Committee</td>
<td>§10-393</td>
<td>To provide guidance to DECD with regard to enhancing and promoting culture, history, the arts, and the tourism and digital media and motion picture industries in Connecticut.</td>
</tr>
<tr>
<td>Connecticut Arts Council</td>
<td>§10-408a and §10-408b</td>
<td>To foster and support the arts and manage the Connecticut Arts Council Foundation, which was established to raise funds for the purposes of fostering the creation, preservation and expansion of the arts in the state and the dissemination of information related to such activities.</td>
</tr>
<tr>
<td>Historic Preservation Council</td>
<td>§10-409</td>
<td>To advise DECD on critical historic preservation functions, review and approve requests to perform rehabilitation work on properties that DECD holds preservation restrictions, prevent the unreasonable destruction of historic properties with the assistance of the Office of the Attorney General, place and maintain suitable markers, memorials or monuments to designate sites or places of historical significance, and develop a</td>
</tr>
</tbody>
</table>
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model ballot for use by clerks of municipalities considering the establishment of local historic districts.

| Sports Advisory Board | §10-425 | To advise DECD on the most effective ways to utilize state resources to promote, attract, and market in-state professional and amateur sports and sporting events. In addition, to coordinate the use of state-owned facilities in order to enhance sports-related tourism in the state and to develop methods for the dissemination of information concerning in-state professional and amateur sports and sporting events to residents of the state and the northeast. |
| Committee for the Restoration of Historic Assets in Connecticut | §32-6a | To encourage quality tourism and contribute to the overall historic preservation program. The commissioner of DECD may provide grants or loans as approved by the committee for projects of historic preservation and restoration from the Restoration of Historic Assets in Connecticut Fund. |
| Manufacturing Innovation Advisory Board | §32-7n | To oversee the Connecticut Manufacturing Innovation Fund, which supports the growth, innovation, and progress of the advanced manufacturing sector, establish an application and approval process for financial assistance, and approve fund expenditures, budgets, and reports. |
| Small Business Advisory Board | §32-9xx | To provide guidance to DECD with regard to resources available to small businesses. |
| Commission on Connecticut’s Future | §32-245 | To advise the General Assembly and DECD on issues related to defense conversion, industrial policy, and the state’s business climate; evaluate legislation related to the state’s economy, particularly as it affects manufacturers and defense-related businesses; provide a forum for business issues; stimulate and review public and private assistance to improve the state’s economy; and prepare a report to the Governor and General Assembly concerning the economic renewal of Connecticut. |

RÉSUMÉ OF OPERATIONS

DECD operations for the fiscal years ended June 30, 2015 and 2016 were accounted for in the General Fund, special revenue funds, capital and non-capital improvement funds, and a trust fund. The activity of each of the funds is presented in the sections that follow.

General Fund

A summary of General Fund receipts during the audited period and the preceding fiscal year follows:
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<table>
<thead>
<tr>
<th>Receipt Description</th>
<th>Fiscal Year Ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Refunds of Expenditures</td>
<td>$39,656</td>
</tr>
<tr>
<td>Sales and Use Tax</td>
<td>1,460</td>
</tr>
<tr>
<td>All Other</td>
<td>460</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td>$41,576</td>
</tr>
</tbody>
</table>

The majority of General Fund revenues are from grant refunds. When a grant recipient does not spend all funds received for project expenditures, the excess disbursement is due to the state.

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

<table>
<thead>
<tr>
<th>Expenditure Description</th>
<th>Fiscal Year Ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Personal Services</td>
<td>$7,977,806</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>629,471</td>
</tr>
<tr>
<td>Statewide Marketing</td>
<td>12,016,248</td>
</tr>
<tr>
<td>Capital Region Development Authority</td>
<td>9,620,145</td>
</tr>
<tr>
<td>Arts Commission</td>
<td>1,788,312</td>
</tr>
<tr>
<td>Arts Grants</td>
<td>4,624,503</td>
</tr>
<tr>
<td>Tourism Grants</td>
<td>2,216,671</td>
</tr>
<tr>
<td>Aquarium/Zoo/Museum Grants</td>
<td>1,959,339</td>
</tr>
<tr>
<td>Business Development</td>
<td>2,520,633</td>
</tr>
<tr>
<td>Main Street Initiatives</td>
<td>162,305</td>
</tr>
<tr>
<td>Office of Military Affairs</td>
<td>181,636</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$43,697,069</td>
</tr>
</tbody>
</table>

General Fund expenditures decreased by $1,209,095 and $9,179,569 during the fiscal years ended June 30, 2015 and 2016, respectively. The decrease in total expenditures during the fiscal year ended June 30, 2016 was primarily attributable to reductions in the department’s budget. The largest reductions were for statewide marketing and the Capital Region Development Authority (CRDA). Statewide marketing expenditures funded the state's tourism marketing activities including the "Still Revolutionary" campaign. DECD also provided an operational grant to CRDA to fund its administrative costs. CRDA is a quasi-public agency in charge of directing and managing state-supported economic development in and around the Hartford area, and is responsible for the development and/or management of a number of major venues including the XL Center and the Connecticut Convention Center. The decrease in personal services expenditures during the fiscal year ended June 30, 2016 was primarily due to unfilled positions and the transfer of an architect position to the Department of Housing.

The increase in other expenses during the fiscal year ended June 30, 2015 is primarily attributable to DECD transferring $500,000 from the Tobacco Settlement Fund to Connecticut Innovations, a quasi-public agency, for administrative and peer review costs associated with the Regenerative Medicine Research and Connecticut Bioscience Innovation Funds.
Special Revenue Funds

DECD uses one of these funds to account for federal and other restricted monies. In addition, DECD utilized 8 other special revenue funds during the audited period. These funds were used primarily for providing financial assistance in the form of grants or loans for economic development.

A summary of receipts from special revenue funds during the audited period and the preceding fiscal year follows:

<table>
<thead>
<tr>
<th>Receipt Description</th>
<th>Fiscal Year Ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Federal Contributions</td>
<td>$12,610,366</td>
</tr>
<tr>
<td>Restricted Contributions, Other</td>
<td>14,797,921</td>
</tr>
<tr>
<td>Principal and Interest on Loans</td>
<td>13,042,526</td>
</tr>
<tr>
<td>All Other</td>
<td>-</td>
</tr>
<tr>
<td>Total Receipts</td>
<td>$40,450,813</td>
</tr>
</tbody>
</table>

Total receipts from special revenue funds decreased by $4,427,726 during the fiscal year ended June 30, 2015 and increased by $450,093 during the fiscal year ended June 30, 2016. The changes were mainly attributable to fluctuations in the federal grants, and an increase in interest and principal payments for the Small Business Express program. The Small Business Express program’s active portfolio increased by over 36% during the audited period. DECD reports principal and interest payments for the Small Business Express program as a restricted contribution.

A summary of expenditures from special revenue funds during the audited period and the preceding fiscal year follows:

<table>
<thead>
<tr>
<th>Expenditure Description</th>
<th>Fiscal Year Ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Loans</td>
<td>$89,083,111</td>
</tr>
<tr>
<td>Grants</td>
<td>72,163,206</td>
</tr>
<tr>
<td>Administration</td>
<td>9,086,323</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$170,332,640</td>
</tr>
</tbody>
</table>

Total expenditures from special revenue funds increased by $94,495,798 and $21,405,975 during the fiscal years ended June 30, 2015 and 2016, respectively. Increases in loans and grants were mainly in the Manufacturing Assistance Act, Small Business Express, and Brownfield programs. The State Bond Commission authorizes these funds.

Capital and Non-Capital Improvement Funds

Total expenditures from capital and non-capital improvement funds were $43,549,544 and $45,878,578 for the fiscal years ended June 30, 2015 and 2016, respectively. The majority of these funds were for the Urban Act program. Urban Act program funds are authorized by the State
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Bond Commission for the purpose of redirecting, improving, and expanding state activities, which promote conservation and development, and improve the quality of life for urban residents of the state.

Connecticut Arts Endowment Trust Fund

The Connecticut Arts Endowment Fund operates under the provisions of Sections 10-406 through 10-408 of the General Statutes. This fund is financed from the proceeds of state bonds that serve as the principal balance of the Arts Endowment Fund. The interest earnings for the current year become available for state matching grants to eligible arts organizations for the subsequent year. DECD provided arts organizations grants totaling $446,513 and $385,301, during the fiscal years ended June 30, 2015 and 2016, respectively. A summary of financial transactions for the audited period follows:

<table>
<thead>
<tr>
<th>Book Value, beginning of year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares Purchased</td>
<td>1,363,957</td>
<td>967,842</td>
<td>984,998</td>
</tr>
<tr>
<td>Shares Redeemed</td>
<td>(1,728,528)</td>
<td>(1,411,091)</td>
<td>(1,364,522)</td>
</tr>
<tr>
<td>Gains/(Loss) on Shares Redeemed</td>
<td>160,720</td>
<td>189,190</td>
<td>133,694</td>
</tr>
<tr>
<td>Net Investment Income Earned</td>
<td>135,496</td>
<td>3,356</td>
<td>5,777</td>
</tr>
<tr>
<td>Net Investment Income Distributed</td>
<td>(135,496)</td>
<td>(3,356)</td>
<td>(5,777)</td>
</tr>
</tbody>
</table>

The fair market value of trust fund assets as of June 30, 2016, was $18,958,582.

Other Reviews

Section 32-1m of the General Statutes provides that, not later that February 1st annually, the Commissioner of Economic and Community Development shall submit a report that includes information regarding the activities of DECD, and business assistance or incentive programs not administered by the department, during the preceding state fiscal year.

Section 2-90c of the General Statutes requires the Auditors of Public Accounts to evaluate DECD annual reports, including:

1. A determination of whether evidence is available to support the accuracy of the data presented in such annual report;

2. An evaluation of management practices and operations regarding the ease or difficulty for taxpayers to comply with the requirements of the incentive programs;

3. Recommendations for improving the administrative efficiency or effectiveness of the incentive programs; and
4. An evaluation of whether such annual reports satisfy the reporting requirements under subsection (a) of Section 32-1m of the General Statutes.

On April 24, 2018, our office completed a preliminary review of the DECD annual report for the fiscal year ended June 30, 2017. Our preliminary review focused on determining whether evidence was available to support the accuracy of the data presented in the annual report and an evaluation of whether the annual report satisfied the reporting requirements under Section 32-1m of the General Statutes. The preliminary review disclosed statutorily required items that were not included in the report, unsupported data, excluded programs, and issues with DECD’s economic impact calculations. As a result of our review, DECD issued a revised report on May 31, 2018. Our evaluation of the revised DECD 2017 annual report was published on September 21, 2018.

On May 21, 2019, we issued a performance audit that focused on evaluating management practices and operations with respect to the ease or difficulty for taxpayers to comply with the requirements of the incentive programs and made recommendations for improving the administrative efficiency or effectiveness of the incentive programs. Our recommendations for improving the administrative efficiency or effectiveness of the incentive programs focused on the Urban and Industrial Site Reinvestment Tax Credit and Small Business Express programs.
STATE AUDITORS’ FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Department of Economic and Community Development disclosed the following 20 findings and recommendations, 10 of which have been repeated from the previous audit:

Excess Manufacturing Assistance Act Funding

Criteria: Section 32-462(b)(1) of the General Statutes provides that no agency may award more than a total of $10 million of financial assistance during any 2-year period to an applicant or for a business project unless such financial assistance is specifically authorized by the General Assembly.

Section 32-223 of the General Statutes provides that Manufacturing Assistance Act (MAA) financial assistance shall not exceed 50% of the total project cost, or in the case of financial assistance to any project in a targeted investment community, 90% of the project cost.

Section 32-41 of the General Statutes provides that DECD establish a First Five Plus program to encourage business expansion and job creation. A business development project eligible for financial assistance shall commit to create not less than 200 new jobs within 24 months or invest at least $25 million and create not less than 200 new jobs no later than 5 years after the date such application is approved. Financial assistance for the First Five Plus program is exempt from the provisions of Section 32-223 and 32-462 of the General Statutes.

Condition: DECD awarded $16 million in assistance to a First Five Plus company to create 200 jobs in 5 years. Since the company was not required to create the jobs in 24 months, it should have been required to invest at least $25 million. However, the budget only called for the company to invest $9.1 million of the total project cost of $25.1 million. Without investing at least $25 million, it appears the company did not qualify as a First Five Plus company and should not have been awarded more than $10 million in assistance.

DECD awarded $20 million in assistance to a company required to create 100 jobs. Since the company was not required to create more than 200 jobs, it was not considered a First Five Plus company and therefore should not have received more than $10 million in assistance. The General Assembly did not approve the additional financing.

DECD provided more than 90% of the total project costs for a project located in a targeted investment community. As a result, DECD provided $42,050 more than was allowed under the General Statutes.
Context: During the fiscal years ended June 30, 2015 and 2016, DECD awarded funding for 71 Manufacturing Assistance Act projects consisting of $81,955,000 in grants and $234,086,579 in loans.

Effect: DECD awarded $16,042,050 more in financial assistance than permitted under the General Statutes.

Cause: For the first project, DECD maintained that since the total budget was over $25 million that it qualified for First Five Plus. For the second project, DECD maintained that since the financial assistance was structured through a milestone payment plan and DECD issued payments over a 4-year period, that the department could award more than $10 million in assistance. For the third project, the company provided 10% of the amount of financial assistance provided by DECD rather than 10% of the total project costs.

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

Recommendation: The Department of Economic and Community Development should ensure that the amount of financial assistance it provides to a business is not greater than amounts allowed under the General Statutes without obtaining authorization from the General Assembly. (See Recommendation 1.)

Agency Response: “DECD disagrees with the first condition of this finding. The total project cost of $25,100,000 (inclusive of the state’s $16,000,000), meets the second category of eligibility criteria in the First Five statute: “that a business development project eligible for financial assistance shall invest at least $25,000,000 and create not less than 200 new jobs no later than 5 years from the date the application is approved.” (Section 32-4l)

DECD agrees with the second condition of this finding. DECD obtained Bond Commission approval to fund $20,000,000 over a 4 year-period in financial assistance for the company with the intent of funding no more than $10,000,000 in any two-year period of time so as to comply with the General Statutes. The financial assistance agreement should have included qualifying language making the funding amount $10,000,000 at the State’s sole discretion. DECD will require internal legal review of transactions over $10,000,000 prior to issuing a letter of intent and finalizing financial assistance agreements.

DECD agrees with the third condition of this finding. A mathematical error was made in the calculation of financial assistance. The company’s contribution was calculated as 10% of DECD contribution rather than 10% of the total project cost. DECD will modify the Project Budget Financing Plan and Budget to include an automated calculation of company contributions at 90% of total project cost limitation.”
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Auditors’ Concluding Comments:

We would note that the DECD First Five Report stated that a company needs to invest $25 million, not that the total investment must be $25 million, which contradicts the agency’s argument in its response to this finding. DECD should either seek a formal opinion from the Office of the Attorney General on this question, or ask the General Assembly to clarify the statute.

Loans Amended to Change Loan Forgiveness Requirements

Criteria:

Section 32-1c (b) of the General Statutes allows DECD to provide financial assistance to organizations for planning and other functions pertinent to economic development. The commissioner and the organization receiving financial assistance shall enter into a contractual arrangement in accordance with its respective needs.

For projects greater than $500,000, DECD conducts an economic impact analysis using statistical models to quantify the impact of the proposed project on a city, a region, and the state. The economic impact analysis helps DECD determine the economic development need of a project and its return on investment, to justify the investment of public dollars.

Assistance agreements between DECD and recipients of funding include job creation and retention requirements, the specific period used to determine compliance with the employment obligation, and the deadline for completing and submitting a job audit to the state. In addition, the assistance agreement states whether recipients will be assessed any penalties or awarded loan forgiveness due to the business meeting job creation requirements.

Section 32-701 of the General Statutes provides that if a recipient fails to create or retain the number of jobs stipulated in an agreement for state assistance greater than $1 million due to circumstances within its control, the recipient shall repay an amount in proportion to the number of jobs that it failed to create or retain. This is not required if the awarding authority deems it is in the best interests of the state or the host community to revise such job creation goals. The awarding authority, in its discretion, may modify the terms and conditions of any state assistance, including, but not limited to, forgiveness of a loan repayment, revision of job creation and retention goals, or changes to interest rates, provided the awarding authority notifies the State Bond Commission or the appropriate board of directors of the modification.

While Section 32-701 of the General Statutes only applies to financial assistance over $1 million, good business practice provides that prior to amending an assistance agreement, DECD should ensure that changes would result in an economic benefit to the state.
Condition:

Our review disclosed that DECD amended the assistance agreements for 2 companies to change the original job creation requirements. These changes resulted in the companies receiving loan forgiveness that they would not have been entitled to under the original assistance agreements. DECD did not conduct an updated economic impact analysis to determine whether it was in the best interests of the state or the host community to revise such job goals. In addition, DECD did not notify the State Bond Commission of the change.

- For one project, the original assistance agreement required the company to retain an average of 2,000 full-time employees between 2012 and 2016. If the company satisfied the employment obligation, DECD would forgive the company’s entire $20 million loan. However, in June 2015, DECD signed an amendment with the company that allowed for loan forgiveness in phases, rather than at the end of the loan and extended the employment obligation from 2016 to 2021. It also allowed for partial forgiveness even if the company did not retain all 2,000 of its employees. In fact, the company could reduce its workforce to 1,000 employees and still have a portion of its loan forgiven. During the calendar year ended December 31, 2018, the company reported 1,264 employees, 1,326 less than on December 31, 2012. Under the original agreement, the company would not have been eligible for loan forgiveness and would have owed a $1.5 million penalty. However, due to the amended agreement, DECD forgave $11.4 million of the company’s loan to date.

- For one project, the original assistance agreement provided that the company retain 1,600 positions and create 200. If the company satisfied the employment obligation, DECD would forgive $10 million of the company’s loan. The assistance agreement was amended one day before the job audit was completed to allow for the inclusion of employees of the company’s vendors who substantially perform their work at the company’s facility. Without the amendment, the company would not have received the $10 million in forgiveness and instead would have owed a $782,144 penalty.

In addition, our review disclosed that DECD modified an assistance agreement that would allow a company to receive loan forgiveness even if it eliminated positions. DECD modified a $150,000 loan to forgive $77,206 of the loan for the company having reported 38 full-time employees and would forgive $72,794 if it retained 30 of its 38 jobs over an 18-month period. Loan forgiveness was not part of the original assistance agreement.
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Context: During the fiscal years ended June 30, 2015 and 2016, DECD granted $67,132,116 in loan forgiveness.

Effect: The companies reviewed received $21,550,000 of loan forgiveness that they would not have been entitled to under the original assistance agreements. In addition, two of the companies would have owed a total of $2,282,144 in penalties under their original assistance agreements. Without conducting new economic impact analyses, we do not know whether the changes are in the best interests of the state. In addition, the changes may have allowed the companies to receive loan forgiveness for reducing their workforce.

Cause: In the first 2 cases, it appears that assistance agreements were amended because the companies were not going to meet the loan forgiveness requirements. In the third case, it is unclear why DECD modified the assistance agreement to allow for loan forgiveness.

Prior audit finding: This finding has not been previously reported.

Recommendation: Prior to amending an assistance agreement, the Department of Economic and Community Development should notify the State Bond Commission and should ensure that changes would result in an economic benefit to the state. In addition, DECD should document the reason for amending assistance agreements. (See Recommendation 2.)

Agency Response: “DECD partially agrees with the first bullet of this finding. DECD agrees that the Bond Commission had not been notified of this amendment. DECD acted in accordance with its statutory authority to amend an existing financial assistance agreement to retain jobs in Connecticut and secure future revenues. DECD evaluated the potential impact of losing all jobs due to a relocation of the company. The counterfactual Regional Economic Models Inc. (REMI) (econometric model) analysis projected the probable outcome had the financial assistance agreement not been amended. The REMI models completed in 2014 of the direct, indirect, and induced economic impact projected a significant negative financial impact on the State from the loss of jobs had the financial assistance agreement not been amended.

DECD has implemented new policies and procedures regarding loan amendments, which require the involvement of legal staff to review amendments. Furthermore, DECD will modify agency procedures to ensure that the Bond Commission is notified when there is a change in the annual funding amount due to the extension of funding period and/or change in job requirements from its original terms of the assistance agreements.

DECD partially agrees with the second bullet of this finding. Although the condition is true, these two activities are independent of each other and
coincidental. DECD completed due diligence regarding the business facts of the company prior to executing a contract amendment. The amendment allowed the company to count contracted employees working exclusively for the company at their facility to be considered as employees of the company for purpose of meeting job creation requirements. The agreement with the company included a provision to allow it to request a job audit if the job creation obligation was met before the project ends. At the request of the company, the job audit was completed three years prior to the end of the project. The company met its job creation obligations in accordance with the assistance agreement.

DECD agrees with the facts of the last paragraph of the condition section of this finding. DECD performed a review of the most current employment information. After a review of the business facts and the potential negative impact on the State, the Commissioner determined that amending the requirement was necessary to ensure the company continued to do business and maintain employment in the state.”

**Auditors’ Concluding Comments:**

DECD performed a REMI analysis for the first company, which only considered the effect to the state if the company entirely relocated. It did not consider other factors in the amended assistance agreement such as loan forgiveness or relocation penalties that the company would owe if it left the state. As part of receiving the initial financial assistance, the company agreed not to relocate out of state for 10 years. If the company relocated, it would have been required to repay the $20 million DECD loan and a $1.5 million penalty. Without conducting an economic impact analysis that considers all factors of the amendment, we do not know whether the changes were in the best interests of the state.

For the second company in the finding, the initial job count did not include contracted employees working exclusively for the company at their facility. By allowing these employees in the job audit counts, it overstated the amount of jobs that the company created. As a result, we cannot determine how many jobs the company actually created and whether the company would have satisfied its employment obligation.

**Inadequate Financial Review Process**

**Criteria:** The DECD Development Manager’s Client Service Manual documents various procedures for the entire business assistance process. This includes identifying information that companies should provide and various forms and guidelines for completion. Prior to approving an application, the Office of Financial Review (OFR) performs a full checkup to uncover crucial facts about a company and to assure that DECD makes a knowledgeable financial assistance decision.
Financial reviews may include the following:

- Background investigations of the company, its officers and directors, and affiliated organizations.
- Reviews of legal and functional organization structures.
- Reviews of financial statements, business development plans, projects, and related assumptions.

**Condition:** Our examination of financial reviews for 18 projects, for which DECD provided $96,475,000 in financial economic development assistance, disclosed the following:

- DECD did not perform a financial review for a $10 million Manufacturing Assistance Act loan or a $48 million First Five Plus project consisting of a $10 million grant and a $38 million loan. A financial review was conducted for the First Five Plus project when it was estimated that DECD would provide $8 million in Manufacturing Assistance Act funding. This review identified several financial concerns about the company. When the project was expanded to $48 million of funding, DECD did not conduct an updated financial review and its program staff did not respond to the concerns raised in the initial financial review.

- The financial reviews for 7 DECD financial assistance projects, totaling $18,700,000, raised concerns regarding the companies’ ability to complete the projects or repay the loans. In many cases, it was noted that the DECD loans would be unsecured. In addition, some financial reviews noted that the department had not received all of the necessary financial documents to complete the review. DECD was not able to provide documentation to show that it adequately addressed the concerns noted or obtained missing financial documents, and that the Office of Financial Review reviewed them prior to the awarding of the financial assistance.

- We reviewed 10 delinquent or modified loans to determine whether there was a correlation between unaddressed concerns noted during the financial review process and companies that were delinquent or unable to make required loan payments. Our review noted that the financial review for 7 of the loans raised a number of significant concerns regarding the companies’ ability to repay the loans. Of the 10 loans reviewed, only one company was current with its loan payments as of our review in June 2018. All 7 loans with financial reviews that raised significant concerns were delinquent.
Context: During the fiscal years ended June 30, 2015 and 2016, DECD awarded funding for 576 Manufacturing Assistance Act (including First Five Plus), Small Business Express, and Brownfield projects consisting of $112,133,904 in grants and $324,575,243 in loans.

Effect: Without performing a comprehensive financial review or following up on concerns identified during the financial review, there is increased risk that a company will default on its loans or will be unable to successfully complete the proposed project and create or retain jobs. In addition, if DECD is unsecured on loans, it will be unable to recover funds if the company goes out of business.

Cause: DECD does not require financial reviews for First Five Plus projects. DECD did not document any follow-up to financial review findings for the project after it was expanded from a regular Manufacturing Assistance Act project to a First Five Plus project. We were unable to determine why DECD did not complete a financial review for the $10 million Manufacturing Assistance Act loan.

DECD informed us that the project manager addresses concerns noted during the financial review process, or the Letter of Intent (LOI) Committee discusses them when it reviews the proposed financial assistance. Since the LOI Committee does not keep meeting minutes, there is no documentation available to determine whether the committee adequately addressed the concerns. In addition, DECD does not require the Office of Financial Review to confirm that all financial concerns were addressed or that the department received missing documentation prior to approving financial assistance.

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

Recommendation: The Department of Economic and Community Development should conduct financial reviews for all financial assistance provided, including assistance provided under the First Five Plus program. In addition, DECD should clearly document that any financial review concerns have been sufficiently resolved. (See Recommendation 3.)

Agency Response: “DECD disagrees with the first bullet of the first condition of this finding. The financial review reflected past events at the time of funding application and the REMI analysis provided future expected financial/economic impact to the state of the proposed project and employment. DECD considered additional REMI analysis coupled with the initial financial review as the support for the business decision to invest in this company.

DECD agrees with the second bullet of the first condition of this finding. Financial reviews were not consistently required in developing project
proposals or letters of intent. DECD will standardize its procedures to include financial review and feasibility studies to mitigate fiscal risks.

DECD disagrees with the last condition of this finding. The Small Business Express program was designed to provide credit to job-creating small businesses that do not have access to traditional lending institutions. These loans may have heightened risk as compared to those made in a commercial loan environment. As a result, higher rates of delinquencies are expected. DECD has a process in place that identifies and mitigates all concerns raised.”

Auditors’ Concluding Comments:
Performing a REMI analysis does not take the place of doing a financial review. A financial review looks at whether the proposed project appears to be feasible by examining the overall financial health of a company and whether it will have the resources to complete the project and service the loan. A REMI analysis estimates the economic impact to the state assuming the company creates and retains the required amount of jobs for a 10-year period.

While loans made under the Small Business Express program may be riskier than loans in a commercial loan environment, in order to protect the state’s limited resources, DECD needs to ensure that it has reduced its risk to an acceptable level. Our review found that DECD does not adequately document that it has mitigated concerns raised during the financial review process.

Inadequate Controls over Relocated Businesses

Criteria: Section 32-5a of the General Statutes provides that the DECD commissioner shall require, as a condition of any financial assistance provided, that such business organization shall not relocate out of state for 10 years after receiving such assistance or during the term of a loan or loan guarantee, whichever is longer, unless the full amount of the assistance is repaid to the state and a penalty equal to 5% of the total assistance received is paid to the state.

Section 32-7(g) of the General Statutes provides that for the Small Business Express program, notwithstanding the provisions of section 32-5a, the department may require, as a condition of receiving financial assistance, that a small business receiving such assistance shall not relocate for 5 years after receiving such assistance or during the term of the loan, whichever is longer.

Condition: Our review disclosed the following:
In September 2017, a company that received a $20 million loan, $6 million grant, and $5 million in Urban and Industrial Site Reinvestment tax credits, notified DECD that it intended to relocate out of state. The company repaid the grant, loan, and relocation penalty, but did not repay the $5 million in tax credits.

Relocation terms in the assistance agreement for a Manufacturing Assistance Act project did not require the company to repay a $10 million grant if the company relocated out of state during the relocation period. The project involved a $10 million grant and a $38 million loan.

DECD does not adequately track whether all companies that received financial assistance remain in the state during the relocation period.

**Effect:**
DECD did not require a company that relocated out of state to repay $5 million in tax credits and a $250,000 penalty. In addition, if the other reviewed company left during the relocation period, the state would not be able to recoup the $10 million grant it provided to the company. Without adequate tracking procedures, a company could relocate out of state without repaying its financial assistance and paying a penalty.

**Cause:**
It is unclear whether Section 32-5a of the General Statutes applies to tax credits. In addition, DECD does not consistently apply relocation requirements to tax credits. Our review of DECD assistance agreements disclosed that DECD requires some companies to repay all tax credits and a penalty if the company relocates, only requires other companies to pay a penalty but not the tax credits, and does not require others to repay the tax credits or penalty.

For the second company, the language in the assistance agreement was modified during negotiations with the company. The standard language requires the repayment of all funding. However, the language was changed to only require repayment of the loan. In addition, DECD has not fully implemented procedures to determine whether companies that received financial assistance have relocated out of state.

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

**Recommendation:**
The Department of Economic and Community Development should ensure that it requires companies to repay all forms of financial assistance if they relocate out of state within the relocation period, and should implement adequate procedures to determine whether companies have relocated out of state. In addition, DECD should seek clarification whether Section 32-5a of the General Statutes applies to tax credits and should establish
policies to apply consistent relocation requirements to tax credits. (See Recommendation 4.)

Agency Response: “DECD partially agrees with the first bullet of this audit finding. Although we agree that there was no tax credit recapture, DECD is in compliance with requirements and contractual agreements. The tax credit is a business incentive to attract companies to stay in our state. It is not a state financial assistance as defined in regulation Section 32-5a, which calls for the repayment of all assistance in the event of a relocation does not include tax credit incentives. The Public Act 93-360 with the accompanying explanation states, “loan, loan guarantee or other forms of assistance to be repaid”. The codified language does not contain the reference to other forms of assistance. Furthermore, Public Act 93-218 defines the financial assistance as a DECD grant or loan, including loan guarantees and equity investments. Therefore, there is no statutory or regulatory requirement to recapture tax credits in combination with the refund and penalties already applicable to the state financial assistance. DECD did not recapture the tax credits since there is no statutory or contractual requirements to do so.

DECD agrees with the second bullet of this finding. This contract agreement was an isolated case and in force prior to the audit period. DECD’s current financial assistance agreement includes language that requires the total amount of financial assistance must be returned to DECD in the event of relocation.

DECD agrees with the third bullet of this finding. DECD did not have a tracking mechanism to identify businesses that have relocated during the audit period. DECD implemented a corrective action by developing a spreadsheet that monitors all activities to ensure contract compliance of all financial assistance recipients including: annual surveys, state single audits, and job audits of all companies. This spreadsheet was developed after this audit period. DECD shall continue to enhance this spreadsheet to provide effective tracking of relocated businesses. In FYE 2019, DECD developed a digital project management tool to monitor all the activities of a project cycle including tracking relocated businesses.”

Auditors’ Concluding Comment: The public acts cited by DECD passed before the creation of the Urban and Industrial Site Reinvestment tax credit program and have since been superseded. The current statute provides that relocation requirements should be a condition of any financial assistance. However, the statute does not define financial assistance. Our review noted that DECD has not consistently applied relocation requirements to tax credits. Some assistance agreements require companies to repay tax credits and others do not.
Improper or Unsupported Project Payments

Criteria: Assistance agreements between DECD and recipients can require special conditions for funding such as the following:

- Unless authorized by the commissioner in writing, no costs incurred prior to a specified date are eligible for payment.

- The applicant shall submit to DECD a project administration plan that describes how they will document and monitor the financial and construction oversight of the state funds as required by the assistance agreement and as approved in the DECD Project Financing Plan and Budget. The purpose of this plan is to ensure the completion of the project within the approved Project Financing Plan and Budget and that the recipient used state funds appropriately.

- Grant advances shall be subject to the applicant developing a training program, which shall be subject to DECD’s reasonable approval.

Condition: A review of 5 Brownfield, 5 Urban Act, and 5 Manufacturing Assistance Act (MAA) project files identified the following deficiencies:

- For one Brownfield project, DECD reimbursed $112,519 of costs incurred prior to the eligible starting date stipulated in the assistance agreement. The commissioner did not authorize the payment.

- For one of the 2 Brownfield projects tested that required a project administration plan, DECD did not obtain the plan prior to making a $200,000 grant payment.

- For one of the 3 Urban Act projects tested that required a project administration plan, DECD did not obtain the plan prior to making $4 million in grant payments.

- The assistance agreement for one MAA project provided that the applicant would receive one-half of a $1 million training grant after it developed a DECD-approved training program. The remainder of the grant would be paid one year after DECD approved the training program. Our review disclosed that DECD disbursed the entire $1 million grant without obtaining a training program from the company.

Context: During the fiscal years ended June 30, 2015 and 2016, DECD paid $423,594,261 for Manufacturing Assistance Act, Urban Act, and Brownfield projects.
**Effect:** DECD reimbursed $112,519 of ineligible costs and issued $5.2 million of grant payments prior to receiving documents stipulated in the assistance agreements.

**Cause:** Administrative controls over project payments were inadequate.

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

**Recommendation:** The Department of Economic and Community Development should ensure that it only reimburses eligible project costs and that recipients meet assistance agreement payment requirements before disbursing funds. (See Recommendation 5.)

**Agency Response:**

“DECD agrees with the first bullet of this finding. The Office of Brownfield Remediation and Development will provide training to project managers to ensure that all invoices are dated after the Project Financing Plan and Budget/Assistance Agreement have been received. In addition, there shall be communication to business clients about the validity and appropriateness of billable items.

DECD agrees with the second bullet of this finding. The project administration plan was not obtained from the client. However, these plans are not necessary one for assessment projects. DECD shall revise the financial assistance agreement template wording under the Administration and Project Monitoring Plan clause to exempt all assessment projects from this submission requirement.

DECD agrees with the third bullet of this finding. Project administration plans are obtained at the discretion of project managers as a monitoring tool. DECD shall include a requirement in the program monitoring policy that all programs receiving state financial assistance submit a project administration plan prior to committing the funds. Also, DECD implemented an application that will ensure that required documentation is received prior to contract signing.

DECD agrees with the fourth bullet of this finding. While the current payment procedures requires staff review and management approval, DECD will improve its procedures to include having supporting documentation available for management at the time of review for approval. In addition, DECD has obtained the training plan from the company as required.”
Inadequate Program Monitoring

Criteria: The DECD Development Manager’s Client Service Manual documents various procedures for the entire business assistance process. This includes identifying information that companies should provide and various forms and guidelines for completion. The manual specifies that DECD should receive either an audit or project financial statements within 90 days of completion of the project, as applicable. In the event that these documents demonstrate that the applicant’s actual project expenditures are less than the maximum allowable amounts for state disbursement, any excess disbursement shall become immediately due and payable to the state by the applicant.

In addition to reports submitted at the completion of the project, some assistance agreements also require the submission of periodic reports during the project. Those include federal and/or state single audits, financial statements, and semi-annual project financial statements. The types of reports required vary for each assistance agreement.

Condition: A review of 23 projects identified that DECD did not close out 6 projects for 1 to 5 years from the due date of the final audit or project financial statements. In addition, DECD did not close out one project for 10 years. DECD was unable to determine if funds were expended in accordance with the assistance agreement, because the department never received any financial statements for the project.

A review of 5 Manufacturing Assistance Act, 5 Urban Act, and 5 Brownfield project files identified the following deficiencies:

- For 3 of the 5 projects requiring state single audits tested, DECD did not conduct its reviews of the reports until 17 months after receiving them.

- For one project involving a for-profit recipient, DECD did not obtain any financial statements.

- For 6 of 8 projects requiring semi-annual project financial statements tested, DECD did not obtain completed statements for 5 projects. The recipient submitted the statements for one project 5 and 11 months after they were due.

Context: During the fiscal years ended June 30, 2015 and 2016, DECD paid $300,241,102 for MAA projects, $87,179,191 for Urban Act projects, and $36,173,967 for Brownfield projects.
Effect: DECD may make inappropriate payments if it does not obtain and review periodic reports when required. In addition, the department may not identify and recover excess disbursements in a timely manner.

Cause: Administrative controls over the projects were inadequate. DECD informed us that due to staffing constraints and task priorities, it could not complete these tasks in a timely manner.

Prior Audit Finding: This finding has been previously reported in the last 2 audit reports covering the fiscal years ended June 30, 2011 to 2014.

Recommendation: The Department of Economic and Community Development should ensure that it performs a complete review of all projects from application until financial closeout. In addition, the department should ensure that assistance agreement requirements are followed. (See Recommendation 6.)

Agency Response: “DECD agrees with the first and second bullets of this audit finding. DECD did not perform job desk reviews of State Single Audits and financial audits on a timely basis due to lack of staffing. DECD is now caught up with this backlog and on current schedule for financial desk reviews. DECD is developing a SSA desk review database to track the timeliness of SSA reviews.

DECD agrees with the third bullet of this audit finding of missing the submission of semi-annual financial statements. DECD has implemented a corrective action plan by updating terms and conditions in the new Assistance Agreement/Financial Assistance Proposal templates (used for newer projects) which do not require the collection of a semi-annual financial statements. The OBRD clients provide a detailed schedule of expenditures with every payment reimbursement request; therefore there is sufficient tracking of project expenditures to mitigate the risk of paying excess funds related to these projects.”

Inadequate Controls over Job Audits

Criteria: Assistance agreements between DECD and recipients of funding include job creation and retention requirements, the specific period used to determine compliance with the employment obligation, and the deadline for completing and submitting a job audit to the state. In addition, the assistance agreement will state whether recipients will be assessed any penalties or awarded loan forgiveness related to job creation requirements. Once DECD completes a job review, it issues a letter to the recipient outlining the results of its review.

Assistance agreements between DECD and recipients of Small Business Express (EXP) funding state that following the end of the employment
obligation, the applicant will receive a job review package from the state which must be completed and submitted within 30 days.

Most assistance agreements between DECD and recipients of Manufacturing Assistance Act (MAA) funds provide that each applicant shall furnish to DECD by the deadline specified in the assistance agreement, a job audit performed by a certified public accountant (CPA) in accordance with the DECD Audit Guide. If a job audit by a CPA is not required, then the recipient will receive a job review package from the state, which must be completed and submitted within 30 days.

**Condition:** A review of 10 EXP and 10 MAA job audits identified the following:

- DECD did not promptly review job audits for 8 EXP projects and one MAA project. DECD did not complete the desk reviews until 8 to 21 months after the due dates in the assistance agreements.
- For one project, the recipient did not submit a job audit to DECD until 5 months after the due date in the assistance agreement.
- DECD accepted a job review package that was not prepared by a CPA, as required. The funding recipient did not meet the job obligation for the project and DECD did not apply the penalty until 7 months after its review.
- DECD accepted a job review package for one project that used an incorrect employment obligation period. The funding recipient did not create the required amount of jobs before the job retention period began. As a result, we could not determine whether the recipient met the employment obligation.
- For one project outside our sample, we noted that it took DECD 18 months to finalize the job audit after completing a draft. During that time, the company received additional funding for another project.

Our review of 10 companies that received loan forgiveness as a result of meeting their job retention or creation requirements disclosed the following:

- For one project, the company did not create the required jobs prior to the start of the retention period. As a result, the company did not meet the job creation requirement and DECD improperly forgave $1,250,000.
- For one project, the job review resulted in DECD applying a loan forgiveness credit of $125,000 to the outstanding principal loan balance. However, DECD did not reduce the interest accrual amount of the loan accordingly.
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**Context:** During the fiscal years ended June 30, 2015 and 2016, DECD completed 280 EXP and 38 MAA job audits. As a result, DECD granted $67,132,116 in loan forgiveness.

**Effect:** DECD may not be promptly applying employment obligation penalties or loan forgiveness credits or properly calculating interest accruals. In addition, by accepting non-CPA or improperly prepared job audits, there is reduced assurance that recipients actually complied with their employment obligations. Our review noted that a company received $1,250,000 in loan forgiveness without meeting its job creation requirements.

**Cause:** Administrative controls over job audits are inadequate. DECD informed us that, due to staffing constraints and task priorities, it could not complete these tasks in a timely manner.

**Prior Audit Finding:** This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2013 and 2014.

**Recommendation:** The Department of Economic and Community Development should ensure that job audits are properly prepared and reviewed in a timely manner. In addition, DECD should ensure that companies meet job creation and retention requirements prior to granting loan forgiveness. (See Recommendation 7.)

**Agency Response:** “DECD agrees with the finding in the first and second bullets of the first condition that job reviews were not always received and performed in a timely manner due to the large volume of projects funded in 2014 under the Small Business Express and MAA programs. DECD developed an MAA and EXP database to assist in the tracking of outstanding job audits due. Job audit notification letters are sent to clients based on their financial assistance agreement conditions in electronic form. These audits are in accord with the procedure audit guide for MAA projects. In addition, projects that are funded after March 31, 2019 are entered into a newly implemented CRM application. The CRM system will generate automated reminder letters when job audit requirements are due.

DECD agrees with the finding in the third bullet of the first condition, that DECD accepted a job review package without an independent public accountant’s (IPA) job audit. DECD performed the job audit for this MAA client in lieu of an IPA prepared job audit to save the client the cost of the job audit. The penalty was not applied until seven months after the review due to staffing constraints and other task priorities of Compliance Unit.

DECD agrees with the finding in the fourth bullet of the first condition, that employment requirements were changed. Although the client met the employment obligation requirement of employing an average of 38 FTEs
for a 12 consecutive month period, the start date was three months prior to
the client achieving the job creation date.

DECD agrees with the finding in the fifth bullet of the first condition. While
a job audit draft was completed but not yet finalized, the final audit was
delayed during the client negotiation with DECD regarding applying for
additional financing.

DECD agrees with the finding in the first bullet of the second condition.

DECD agrees with finding in the second bullet of the second condition,
that interest continued to accrue after the loan was forgiven. The job audit
was completed on July 3, 2014. The write-off on the principal for $125,000
was processed late on September 1, 2014. Hence, the interest on the
forgiven principal continued to accrue after July 3, 2014. DECD will
correct and write-off the interest related to the $125,000 principal covering
July 3, 2014 through September 1, 2014.”

Unreasonable Sponsorship

**Background:** DECD sponsors conferences, tradeshows, and expos to increase visibility
of the agency and its programs and services. Sponsorship activities include
networking, speaking roles, panel discussions, advertising, marketing
opportunities, workforce development, and educational opportunities.

**Criteria:** Section 32-1c (b) of the General Statutes allows DECD to provide financial
assistance to organizations for planning and other functions pertinent to
economic development. The commissioner and the organization receiving
financial assistance shall enter a contractual arrangement for this purpose.

In order to support the growth and innovation of Connecticut businesses,
DECD administers a number of financing programs to assist businesses.
DECD assistance agreements stipulate the terms and conditions of the
assistance, including any penalties that could be assessed.

**Condition:** Our review disclosed that DECD gave a $350,000 sponsorship to a
company in exchange for putting the state’s logo on print and digital
material and displaying the logo at the company’s facility. In addition, the
facility would provide DECD with quarterly meeting space. This amount
is excessive compared to DECD’s other sponsorships and appears to be
financial assistance.

DECD previously provided the company with a $1.8 million Manufacturing
Assistance Act loan, $1.25 million of which the department forgave, and a
$100,000 Small Business Express grant. DECD modified the company’s
loan 3 times to defer principal and interest payments for almost 2.5 years.
The department modified the loan a fourth time to continue the DECD
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Sponsorship for 4 additional years, defer payments for 5 years, reduce the interest rate to 0%, and allow the remaining loan balance of $612,072 to be forgiven if the company maintained 10 full-time jobs and 20 part-time jobs over a 4-year period.

Context: During the audited period, DECD spent $733,889 on 29 sponsorships.

Effect: Without a formal contractual agreement in place for financial assistance, there is less accountability for the state funding.

Cause: DECD did not interpret the payment to be financial assistance. However, the amount appears to be excessive for a sponsorship.

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

Recommendation: The Department of Economic and Community Development should ensure that financial assistance is properly documented using an assistance agreement that stipulates the terms and conditions of the assistance. (See Recommendation 8.)

Agency Response: “DECD disagrees with this finding. This sponsorship was for promotional activities over a two-year period and was consistent with agency business practices. The provisions of the sponsorship were specifically detailed and approved in writing by the commissioner.

DECD acknowledges the importance of evaluating all sponsorship opportunities to secure a return on investment. A review of all requests for sponsorship is now being conducted on a quarterly basis.”

Auditors’ Concluding Comments: We do not dispute that the commissioner approved the sponsorship. However, the amount of the sponsorship accounted for more than half of the department’s sponsorship expenditures during the audited period and was more than double the next highest sponsorship. The cost to the department seemed excessive in relation to the benefits. As a result, it appears that the sponsorship was a form of financial assistance to the company.

Additional Funding Provided to Delinquent Companies

Criteria: The State Accounting Manual establishes policies and procedures for all state agencies in the management and collection of receivables. Accounts receivable records, including loans receivable, should be accurate, complete, and maintained in a manner to indicate the length of time the debt has been outstanding. When an account becomes 60 days past due, further credit should be denied until the account is returned to a current status. Deferred payment terms should be extended on a limited basis, only upon
determining that the debtor is unable to pay the balance in full. The agency should not extend payment terms beyond 6 months. However, where large balances are concerned and payment of such balances within 6 months would create a hardship, terms can be extended for a few months more.

Assistance agreements and promissory notes with recipients stipulate the terms and conditions of assistance provided including job creation and retention requirements. At the completion of the project, DECD performs a financial closeout to ensure that the recipient properly used the financial assistance and a job review to determine whether job requirements were met.

Before any additional funding is provided to a borrower, the company should be current on payments for previous loans. In addition, DECD should ensure that it has performed all financial closeouts and job reviews on prior projects.

**Condition:** We noted 3 companies delinquent on previous DECD loans that received $900,000 in additional loans. The companies were delinquent on their prior loans or they were not able to make the required payments. As a result, DECD modified the loans to defer principal and interest payments. DECD had deferred the loans between 9 months and 2.5 years prior to the companies receiving additional funding. The financial reviews performed for these companies raised concerns regarding their ability to complete the new projects or repay the loans. In addition, DECD did not always complete financial closeouts and job reviews on prior financial assistance before providing additional assistance.

**Context:** DECD has provided at least 50 companies with multiple loans.

**Effect:** There is increased risk that borrowers will default on loans and the state will be unable to recover its resources.

**Cause:** DECD had deferred the borrower’s original loans through loan modifications at the time it provided the additional assistance. As a result, DECD did not consider the loans delinquent.

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

**Recommendation:** The Department of Economic and Community Development should complete its due diligence before providing additional funding to a company, especially if the company is delinquent on past loans or has demonstrated an inability to create and retain jobs. As part of that due diligence, DECD should perform closeouts and job reviews on older projects before funding new projects. (See Recommendation 9.)
Agency Response: “DECD agrees with the finding. Job audits and close outs were not done timely prior to loan modifications due to the significant volume of audits due during this audit period. A spreadsheet will be developed in FYE 2020 to track the audit deadlines and close out audits. An automated notification to the companies is generated to remind them of these audit deadlines. In addition, DECD implemented a new project management database system in FYE 2019 that would generate these automated audit letters to notify the companies of their audit deadlines as specified in their financial assistance agreement.”

Multiple Loan Deferments

Background: Section 32-1c (b) of the General Statutes allows DECD to provide financial assistance to organizations for planning and other functions pertinent to economic development. The commissioner and the organization receiving financial assistance shall enter a contractual arrangement for this purpose.

In order to support the growth and innovation of Connecticut businesses, DECD administers a number of financing programs to assist businesses. DECD assistance agreements stipulate the terms and conditions of the assistance.

If a company is delinquent on a loan or is unable to make the required payments, DECD may modify the loan to defer interest or principal payments or extend the terms of the loan to reduce monthly payments.

Criteria: The State Accounting Manual establishes policies and procedures for all state agencies in the management and collection of receivables. Each state agency is responsible for the collection of amounts owed to the state in the most effective and efficient manner. Deferred payment terms should be extended on a limited basis, only upon determining that the debtor is unable to pay the balance in full. Terms should not be extended beyond 6 months. However, terms can be extended an additional few months when large balances are due and payment within 6 months would create a hardship.

Condition: During our review, we noted 4 loans, totaling $1 million, that DECD modified multiple times to defer principal and interest payments. These modifications resulted in DECD deferring principal and interest payments between 2 and 7.5 years.

Context: As of November 2017, DECD had modified 55 loans more than once, 7 of which were modified at least 4 times.

Effect: When payments are deferred for extended periods, there is a reduced chance that loan funds are ever collected.
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Cause:  DECD has not established clear guidelines for when companies qualify for loan modifications and how long the department defers principal and interest payments.

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

Recommendation:  The Department of Economic and Community Development should limit the time it defers loan payments and should establish clear guidelines for when borrowers should qualify for loan modifications. (See Recommendation 10.)

Agency Response:  “DECD acknowledges that multiple loan deferments were made; however, DECD disagrees that by doing so the likelihood of the State being repaid was reduced. DECD’s mission is to preserve jobs and enhance economic activity. When companies fail, reduced repayment is the result. By modifying payment terms for struggling companies, DECD attempts to collect all amounts owed to the State.

DECD has modified its policies to use deferments only when review indicates that to do so will increase a company’s viability. Documentation of the assessment that leads to a deferment decision will be enhanced.”

Auditors’ Concluding Comments:  It seems unlikely that deferring principal and interest payments for an extended period will help the department maximize its collection efforts. Modified payment terms should require struggling companies to make minimum monthly payments rather than deferring payments entirely.

Improper Loan Setup

Background:  Section 32-1c (b) of the General Statutes allows DECD to provide financial assistance to organizations for planning and other functions pertinent to economic development. The commissioner and the organization receiving financial assistance shall enter a contractual arrangement for this purpose. DECD assistance agreements and promissory notes with recipients stipulate the terms and conditions of the assistance, including any interest or penalties that could be assessed. The department enters executed loans into its loan management system, which automatically generates monthly invoices detailing principal and interest amounts due.

Criteria:  The State Accounting Manual establishes policies and procedures for all state agencies in the management of receivables. Accounts receivable records, including loans receivable, should be accurate, complete, and maintained in a manner to indicate the length of time the debt has been outstanding. Each state agency is responsible to immediately notify the
person or entity that money is owed and to collect amounts owed to the state in the most effective and efficient manner.

Good business practice dictates that agencies record loans receivable and bill borrowers in a timely manner in accordance with agreed-upon contractual arrangements.

**Condition:**
Our review of 5 Manufacturing Assistance Act and 3 Brownfield loan projects disclosed the following:

- For 4 loans, DECD did not input advances into the loan management system in a timely manner. We noted 10 loan advances that DECD did not input into the system until 2 to 4 months after it made the payments.
- The promissory note for a $38 million loan called for principal payments to begin 6 years after the date of the note. However, the loan repayment schedule was setup for payments to begin 6 years after the initial advance. This will result in principal payments beginning one year late. The assistance agreement allows DECD to forgive up to $28 million of the $38 million loan if the company meets job requirements.

**Context:**
DECD made loan advances to 78 Manufacturing Assistance Act and 30 Brownfield loans during the fiscal years ended June 30, 2015 and 2016.

**Effect:**
The department’s ability to track and bill for loans is impaired if it does not input advances in its loan system in a timely manner. In addition, there is reduced assurance that DECD recorded all loans receivable. Repayment for one loan will start a year later than stipulated in the promissory note.

**Cause:**
DECD did not ensure that it input loan advances into its loan system in a timely manner. In addition, the loan error noted was due to the incorrect initial setup of the loan terms.

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

**Recommendation:**
The Department of Economic and Community Development should enter advances into the loan management system in a timely manner and should ensure that it sets up loans in accordance with the repayment terms of the promissory notes. (See Recommendation 11.)

**Agency Response:**
“DECD agrees with the first bullet of this finding and recognizes the importance of entering loans into the loan accounting system promptly. A corrective action plan was implemented during the first quarter of FYE 16 to ensure timely entry. Core Accounts Payable vouchers are reconciled to the loan management system to ensure that loans are set up promptly.
DECD disagrees with the second bullet of this finding. The promissory note for a $38 million loan called for principal payments to begin 6 years after the date of the note. It is DECD policy that the repayment schedule is effective as of the advancement date. The loan repayment schedule was setup for payment to begin 6 years after the advancement date. DECD will work with legal counsel to review the language in our standard promissory note to address this issue.”

**Auditors’ Concluding Comments:**
Terms established in a recipient’s promissory note are legally binding. While the DECD policy makes the repayment schedule effective as of the advancement date, the department should have established the loan repayment schedule in accordance with the loan’s promissory note.

**Incorrect Interest Calculation Method**

**Background:**
Section 32-1c (b) of the General Statutes allows DECD to provide financial assistance to organizations for planning and other functions pertinent to economic development. Financial assistance shall be rendered upon such contractual arrangements as may be agreed upon by the commissioner and any such organization for this purpose.

DECD assistance agreements and promissory notes with recipients stipulate the terms and conditions of the assistance, including any interest or penalties that could be assessed. The department enters executed loans into its loan management system, which automatically generates monthly invoices detailing principal and interest amounts due.

Each year, DECD reports its June 30th receivable balances to the State Comptroller, including loan interest and late fee receivables, based on reports from its loan management system. The State Comptroller includes reported amounts in the state’s Comprehensive Annual Financial Report.

**Criteria:**
The State Accounting Manual establishes policies and procedures for all state agencies in the management and collection of receivables. Accounts receivable records, including records related to interest and penalties assessed against individuals and organizations, should be accurate, complete, and properly maintained.

Good business practice dictates that agencies accrue and bill interest to borrowers properly and in accordance with agreed-upon contractual arrangements.

**Condition:**
During our previous audit, we noted that 146 loans were set up in the loan management system using an incorrect interest calculation method. We reviewed these loans as of May 3, 2018 and determined that 68 loans were still incorrect, 37 were transferred to the Department of Housing, and 41 no
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longer required correction because they were paid off, written off, or modified. The 68 loans that are still using the wrong interest calculation method total $35 million.

In addition, we reviewed 15 reported receivables and noted that DECD incorrectly calculated the interest billed or capitalized for 7 loans during the tested fiscal year. DECD understated the interest billed or capitalized for 4 loans totaling $222 and overstated for 3 loans totaling $333.

Context: DECD reported receivables for interest and late fees of $4,257,926 and $4,337,342, for the fiscal years ended June 30, 2015 and 2016, respectively.

Effect: DECD did not always calculate interest accruals in accordance with the terms of the assistance agreements. In addition, DECD reported inaccurate interest receivable amounts to the State Comptroller.

Cause: The differences noted were due to DECD incorrectly setting up the interest calculation methods in the loan management system.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2013 and 2014.

Recommendation: The Department of Economic and Community Development should ensure that loan interest is calculated and billed or capitalized in accordance with financial assistance agreements. (See Recommendation 12.)

Agency Response: “DECD agrees with this finding and has recognized and corrected the miscalculations. Corrective actions to prevent this issue have been implemented including: use of templates, staff training in the proper setup of loans, use of a loan check list to assure accuracy, and supervisory review of all loans.”

Erroneous Loan Receivable Balances

Criteria: The State Accounting Manual establishes policies and procedures for all state agencies in the management and collection of receivables. Accounts receivable records, including loans receivable, should be accurate, complete, and maintained in a manner to indicate the length of time the debt has been outstanding.

The Office of the State Comptroller requires all state agencies to report accurate accounts receivable balances as of June 30th including the amount of receivables that are estimated to be uncollectible. The State Comptroller includes reported amounts in the state’s Comprehensive Annual Financial Report.
Our testing of DECD’s reported receivable balances disclosed that the department understated loan receivables by $21,322,038 for the fiscal year ended June 30, 2015 and overstated them by $185,097 for the fiscal year ended June 30, 2016.

In addition, DECD has not developed a sufficient method to estimate the amount of uncollectible receivables. DECD only reports receivables as uncollectible for borrowers that are out of business. We reviewed receivables as of June 30, 2018 and noted DECD did not include $11.5 million of receivables that were delinquent over 2 years, and are likely uncollectible, in its estimate of uncollectible receivables.

DECD reported loan receivables of $419,391,871 and $530,650,015 for the fiscal years ended June 30, 2015 and 2016, respectively.

Errors were due to clerical mistakes and oversights. The majority of the 2015 understatement was attributable to DECD omitting receivables for the Brownfield program. In addition, DECD did not develop a sufficient method to estimate the amount of uncollectible receivables, and did not include receivables that their lending partners previously determined to be uncollectible.

This finding has been previously reported in the last 3 audit reports covering the fiscal years ended June 30, 2009 to 2014.

The Department of Economic and Community Development should strengthen its internal controls to ensure that the amount of loan receivables reported to the Office of the State Comptroller is accurate and includes estimated uncollectible receivables. (See Recommendation 13.)

“DECD agrees with the finding that a receivable was understated by $21,322,038 in FYE 2015 and overstated by $185,097 in FYE 2016. DECD did not report Brownfield loans for FYE 2015 or prior years due to a misunderstanding of their source (state vs. federal). The FYE 2015 loan balance was restated based on the auditor’s reconciliation of loan balances. DECD confirmed that the correct balance is carried forward in the FYE 2016 GAAP report. DECD will ensure that receivable balances and estimated uncollectible loans from the lending partners reports are included in the year end GAAP reports. DECD has provided additional staff training to avoid a recurrence of this error.

DECD agrees with the finding regarding the estimation of uncollectible accounts. However, DECD continues collection efforts even when an account is deemed uncollectible. DECD will modify procedures to
document analysis of the probability of collection for all accounts more than 360 days past due. This analysis will include accounts deemed uncollectible by lending partners.”

Lack of Monitoring of Lending Partners

Background: Section 32-9yy of the General Statutes provides that the commissioner of DECD shall establish the Connecticut Credit Consortium, which shall be a small business assistance revolving loan program to provide direct loans and lines of credit to qualified businesses. A separate, non-lapsing small business assistance account (SBAA) was established for the purpose of funding the small business assistance revolving loan program.

Section 32-7g of the General Statutes established the Small Business Express program (EXP) within DECD to provide small businesses with various forms of financial assistance, including revolving loans to support growth, deferrable or forgivable job creation incentive loans, and matching grants. DECD may partner with lenders of the Connecticut Credit Consortium, established under Section 32-9yy of the General Statutes, to fulfill the requirements of the program.

The amount of loan receivable balances for the lending partners per DECD’s loans system is included on the state’s Comprehensive Annual Financial Report (CAFR).

Criteria: Adequate internal controls would include properly monitoring that service providers are using state funds for their intended purpose and ensuring that financial amounts provided by the service provider are accurate. This can be accomplished by requiring all service organizations to obtain a Service Organization Controls 1 (SOC 1) Report. A SOC 1 report is a report on the controls at a service organization, which are relevant to a user entity’s internal controls over financial reporting.

The DECD agreements with SBAA and EXP lending partners require them to submit semi-annual reports on all loans (due within 45 days after June 30 and December 31), and annual independent audits if subject to a single audit. Semi-annual reports shall contain but not be limited to borrower name, address, type of loan, original loan amount, principal repaid during the reporting period, loan amount outstanding, rate, term, use of funds, payment status, industry, full and part time jobs at application and anticipated to be created. The December 31 reports should also include revenue for the borrower's most recent fiscal year, and borrower's current number of jobs.

The DECD agreements with SBAA lending partners provide that borrowers can receive up to $100,000. However, if the loan was to assist
with the negative impacts of Tropical Storm Irene, $200,000 may be provided.

**Condition:**

DECD has not established adequate procedures to monitor the lending partners responsible for administering, servicing, and monitoring financial assistance provided under EXP and SBAA. Our review disclosed the following:

- DECD has not implemented procedures to ensure that lending partners are using funds in accordance with the lending agreements. In addition, DECD does not require lending partners to have SOC 1 reports on their financial applications and processes.

- DECD did not always promptly review lending partner independent audit reports. In addition, our review of EXP lending partner audit reports disclosed that one report identified a material internal control weakness over financial reporting. DECD did not follow up with the lending partner on this issue.

- DECD does not receive all of the SBAA semi-annual reports that are required by the lending partner agreements. DECD only receives reports from the lending partners on December 31st, but not June 30th. In addition, the report formats vary from partner to partner and they are not reporting on all the elements required by their agreements.

- DECD does not reconcile EXP and SBAA lending partner loans reported in semi-annual reports to amounts in its loan system. Reports from the lending partners indicate that some loans were written off, paid off, or forgiven, but the loans still have outstanding balances in DECD’s loan system. The unreconciled loan balance reported by DECD as of June 30, 2016 was $4,936,956 for SBAA and $22,254,812 for EXP.

- SBAA lending partner reports indicate that they provided 3 loans in excess of the $200,000 limit stipulated in their agreement. As a result, lending partners provided an additional $250,000 in funding.

**Context:**

DECD entered into lending agreements with 7 SBAA lending partners and 6 EXP lending partners to administer, service, and monitor the financial assistance. As of June 30, 2016, DECD provided SBAA lending partners with $8,790,406 and EXP lending partners with $29,985,000 to administer the programs.

**Effect:**

By not adequately monitoring the lending partners or requiring them to obtain a SOC 1 report, DECD has limited assurance that funds were used
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for the intended purpose and that the lending partner controls are properly
designed and operating effectively. SBAA lending partners awarded
$250,000 in funding is excess of limits in their agreement with DECD.
Furthermore, DECD recorded inaccurate loan receivable balances in the

Cause:
DECD has not implemented procedures to adequately monitor lending
partners or require that they obtain SOC 1 reports.

Prior Audit Finding:
This finding is restated from a finding that was previously reported in the
last audit report covering the fiscal years ended June 30, 2013 and 2014.

Recommendation:
The Department of Economic and Community Development should
establish and implement procedures to monitor the activities of its lending
partners that administer, service, and monitor financial assistance provided
under the Small Business Assistance Account and Small Business Express
programs. In addition, the department should ensure that lending partner
loan receivable balances are accurately and properly recorded in the state’s
financial statements. (See Recommendation 14.)

Agency Response:
“DECD agrees with the finding in the first bullet. The cost of a SOC-1 report
is prohibitive for our lending partners, DECD will demonstrate oversight of
the lending partners to ensure accuracy of fiscal reporting and compliance
with our policies by performing an annual onsite audit of each partner
beginning in July 2019.

DECD agrees with the finding in the second bullet. The financial statements
are reviewed by the Office of Policy & Management (OPM) and any
material weaknesses are referred to DECD to address. The material internal
control weakness noted in the 2015 partner entity audit was corrected in the subsequent 2016 state single audit. DECD reviewed the
report to ensure the finding was addressed. While DECD’s review was
delayed due to a staff shortage in 2015, going forward all audits will be
reviewed by DECD’s compliance unit and any deficiency noted by the OPM
review will be addressed in a timely manner.

DECD agrees with the finding in the third bullet. DECD shall improve its
internal procedures to include reconciliation of EXP and SBAA lending
partner loans as reported in the semi-annual reports to the amounts in the
agency loan system.

DECD agrees with the finding in the fourth bullet. DECD has taken steps
to reconcile EXP and SBAA lending partner loans as reported in semi-
annual reports to amounts in its loan management system. In addition,
DECD shall require the lending partners to submit the semi-annual reports
directly to our Office of Fiscal Administration loan unit to ensure the proper
reconciliation of the loan balances to agency loan system. The semi-annual
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Department of Economic and Community Development 2015 and 2016

reports shall be due at the beginning of each subsequent year of reporting with the remittance of their loan collections from the preceding year.

DECD agrees with the fifth bullet pertaining to the excess loan limits under the SBAA program. DECD will review reports and work with the lending partners to identify any other instances of misreporting or overfunding and take the appropriate action. DECD will develop procedures to ensure that all agreements are amended within statutory provisions as applicable.”

Adherence to Travel Policies

Criteria: On February 9, 2011, Governor Dannel Malloy modified the out-of-state travel ban in effect since May 2008 to allow out-of-state travel if the agency head approves the trip and it meets 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; and

- The agency uses non-state funds to cover the cost of the trip.

Section 5-141c-4(a) of the Regulations of State Agencies provides that all travel by air, rail, or bus shall only be authorized at the lowest reasonable rate. Unused tickets or portions thereof, shall be returned immediately to the employee’s agency for possible credit or reuse. Additional costs incurred for the personal convenience of the employee shall be the responsibility of the employee.

Condition: Our review of 10 travel expenditures, totaling $29,223, disclosed the following:

- DECD paid an additional $303 because an employee needed a flight changed for personal reasons. The employee traveled out-of-state prior to leaving for a conference. As a result, the employee traveled to the conference from Chicago rather than Hartford. The flight from Chicago was $103 more than the original flight from Hartford. In addition, the department paid a $200 fee to change the flight. The employee did not reimburse DECD for any of the additional costs. Furthermore, the travel agent did not credit DECD $402 for the original flight.
DECD paid $3,924 for 2 airline tickets for canceled trips. DECD did not reuse or receive credit for these tickets. Our review noted 4 additional tickets, totaling $3,077, for canceled trips. The tickets were not reused or credited.


Effect: Travel expenses were unreasonable. DECD spent an additional $303 for a flight changed for the personal convenience of an employee and was not reimbursed $402 for the original flight. In addition, DECD did not receive a credit or reuse $7,001 of airline tickets for canceled trips.

Cause: There is a lack of administrative oversight over travel expenditures. DECD did not seek reimbursement from its employee when it incurred additional costs to reschedule their flight for personal reasons. In addition, DECD does not adequately monitor whether unused airline tickets are credited or reused.

Prior Audit Finding: This finding has been restated from a finding that was previously reported in the last 3 audit reports covering the fiscal years ended June 30, 2009 to 2014.

Recommendation: The Department of Economic and Community Development should ensure that all travel expenses are necessary and reasonable and that any unused airline tickets are credited or reused. In addition, employees should reimburse the department for any travel costs incurred for their personal convenience. (See Recommendation 15.)

Agency Response: “DECD disagrees with the statement that the travel expenses are unreasonable. The nature of DECD’s economic development mission requires extensive travel. DECD agrees with the fact that a $303 charge was incurred due to a flight change because of an unforeseeable personal emergency while an employee was travelling on business. This was an incidental expense and not a regular business practice of this agency.

DECD agrees that airline tickets were not re-used. Every effort is made to purchase the lowest possible airfares, which often have travel restrictions. Changes in events and staff availability including retirements and expiration dates may not allow for tickets to be reused or credited.”

Auditors' Concluding
Comments: Our review disclosed that DECD incurred excess travel costs due to a flight change for the personal convenience of an employee and did not ensure that it received credit or reused unused airline tickets. This is not a prudent use of agency resources.
Inadequate Controls over Time and Attendance

**Criteria:**

Section 5-245 of the General Statutes provides that employees can receive overtime pay when authorized by the employee’s appointing authority.

Collective bargaining agreements permit agency employees to earn compensatory time with prior supervisory approval. The P-5 bargaining unit agreement provides that employees can bank up to 100 hours of compensatory time. If, at any time an employees’ compensatory time bank exceeds the 100-hour maximum, the employee shall be paid for the excess time as soon as practicable.

DECD policies and procedures require that the office/unit administrator and commissioner authorize compensatory time and overtime at least 24 hours in advance using the appropriate request form.

Some collective bargaining agreements require that employees charge leave time at a minimum increment. The NP-2 bargaining unit agreement provides that all paid leave may be taken in increments of one-half (1/2) hour and shall be charged against the employee’s leave records. The NP-3 bargaining unit agreement provides that employees are encouraged to use vacation credits in full days, but may use them in minimum increments of one hour.

**Condition:**

Our review of time and attendance during the fiscal years ended June 30, 2015 and 2016 disclosed the following:

- A review of 74 instances of overtime paid to 5 employees disclosed that request forms were not on hand in 17 instances.

- A review of 69 instances of compensatory time for 5 employees disclosed the following:
  - Request forms were not on hand in 13 instances.
  - Request forms were not approved in advance in 4 instances.
  - One P-5 bargaining unit employee banked more than 100 hours of compensatory time. The employee banked 114 hours and was not paid for the time in excess of 100 hours.

- Our review disclosed that 11 NP-2 and NP-3 bargaining unit employees charged leave time 36 times in increments less than allowed by their contracts during the audited period.

**Context:**

During the audited period, DECD paid 21 employees $39,101 in overtime and 32 employees earned 1,715 hours of compensatory time.
Effect: There is reduced assurance that DECD properly authorized all earned compensatory time and overtime, and complied with the time and attendance requirements in collective bargaining agreements. Our review disclosed that DECD supervisors did not preapprove $3,808 of overtime and 82 hours of compensatory time.

Cause: The DECD controls over time and attendance are inadequate.

Prior Audit Finding: This finding has been previously reported in the last 5 audit reports covering the fiscal years ended June 30, 2005 to 2014.

Recommendation: The Department of Economic and Community Development should ensure that it follows time and attendance requirements in the General Statutes, collective bargaining agreements, and DECD policies. (See Recommendation 16.)

Agency Response: “DECD agrees with the findings regarding advance approval for compensatory time and overtime. During 2016, all employees were educated regarding the importance of prior authorization for compensatory time and overtime and the corrective action was taken as indicated. Payroll notifies the chief administrative officer when a timesheet entry is made for compensatory time and overtime without proper authorization in place.

DECD agrees that employees in the NP-2 and NP-3 bargaining units charged benefit time in increments less than is allowed by the bargaining unit contracts. All employees and managers shall be reminded to follow contract provisions regarding minimum increments for benefit time.

DECD agrees that an employee was allowed to accumulate 14 hours of compensatory time above the allowable amount. This situation was corrected and is being monitored by the SMART payroll unit.”

Obligations Incurred Without Proper Accounting Commitments

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 transmitted to the State Comptroller to commit the agency’s appropriations and ensure that funds are available for such obligations.

Proper internal controls related to purchasing require proper authorization of commitment documents prior to the receipt of goods or services.

Condition: In our review of 46 expenditure transactions during the audited period, we noted that DECD created 11 purchase orders after the receipt of goods or services.
**Effect:** Without properly committing funds there is less assurance that funds will be available at the time of payment.

**Cause:** The department did not adequately carry out established control procedures.

**Prior Audit Finding:** This finding has been previously reported in the last 4 audit reports covering the fiscal years ended June 30, 2007 to 2014.

**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. (See Recommendation 17.)

**Agency Response:** “DECD agrees with this finding and acknowledges the importance of internal controls regarding the commitment of funds prior to purchasing goods and services. We note that no grant or loan payments were made without properly executed contracts and budget documents. On 7/1/15, DECD implemented a procedure for the submission of payment requests, which requires that a purchase order number be issued before a payment request is submitted. The Office of Finance and Administration is closely monitoring all purchases to be sure that purchase orders are properly issued in advance prior to a payment request.”

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**Asset Management Not in Accordance with Prescribed Procedures**

**Criteria:** Section 4-36 of the General Statutes requires that each state agency establish and maintain an inventory account in the form prescribed by the State Comptroller, and shall annually, on or before October 1st, transmit a detailed inventory as of June 30th of all real property and personal property to the Comptroller.

The State of Connecticut Property Control Manual provides the following standards and procedures for maintaining a property control system.

- Property records should be complete and accurate and should contain sufficient information to adequately track and report items. At a minimum, this information should include item description, cost, tag number, and location.

- Agencies should tag all personal property unless tagging the item would be impractical or would otherwise alter the item’s usefulness. The tag should provide a unique number and the property owner’s name.

- Agencies should continuously survey property to determine which assets are no longer needed, reassign property among its activities when it is no longer required for its current use, and report personal property
that become surplus to an agency’s needs, is unserviceable, obsolete, or otherwise unusable to the State Property Distribution Center.

- Property that is deemed lost, missing, unaccountable, expired, spoiled, or damaged must be removed from the property record.

**Condition:** Our review of DECD’s property control system disclosed the following.

- We selected 25 inventory items during a physical inspection of DECD assets to verify that the department properly included them in the inventory records. Our review disclosed the following:
  
  o We could not locate one item in the inventory records.
  o We found one item in a different location than DECD indicated in its inventory records.
  o DECD listed one item in its inventory records that had a Department of Housing tag.
  o DECD appeared to no longer be using 3 items, but the department did not dispose of them through the State Property Distribution Center and still included them in its inventory records.

- We noted that the department did not remove 20 surplus items from its inventory records that it disposed through the State Property Distribution Center.

**Context:** DECD reported $5,493,585 and $6,155,505 in real and personal property for the fiscal year ended June 30, 2015 and 2016, respectively.

**Effect:** If DECD does not maintain accurate inventory records, there is an increased risk that inventory can be lost or stolen and a decreased possibility of detecting such activity.

**Cause:** DECD has not made a sufficient effort to maintain accurate inventory records in accordance with the State of Connecticut Property Control Manual.

**Prior Audit Finding:** This finding has been previously reported in the last 2 audit reports covering the fiscal years ended June 30, 2011 to 2014.

**Recommendation:** The Department of Economic and Community Development should improve internal controls and should maintain its property control system in accordance with the State of Connecticut Property Control Manual. (See Recommendation 18.)
Agency Response: “DECD agrees with the finding that some assets were not properly recorded in CORE. The DOH item that was incorrectly recorded was corrected in FYE 2018 while performing the year end physical inventory. In FYE 2017, subsequent to the move of our office locations, the annual physical inventory included updating asset location and reconciliation of inventory records to surplus records. DECD has reviewed and updated its asset management policies and procedures to ensure assets are properly recorded. DECD now tags all computer monitors regardless of cost.

DECD agrees with the finding in the second bullet that assets were disposed of but continued to be listed in the department’s inventory records. DECD will update its procedures to ensure that surplus items are reconciled with our inventory records as soon as identified.”

Failure to Delete Core-CT Access for Separated Employees

Criteria: Core-CT is the state’s integrated human resources, payroll, and financial system. The Core-CT Security Liaison Guide states that each agency is responsible for assigning one or more Core-CT Security Liaisons to be the point of contact for security related requests, issues, and communications. The agency liaison is responsible for locking out functional Core-CT users immediately upon an employee’s termination.

Condition: Our review disclosed that the department did not immediately deactivate Core-CT access to 5 employees.

Context: During the fiscal years ended June 30, 2015 and 2016, 7 Core-CT users terminated, retired, or transferred to another agency.

Effect: There is an increased risk of unauthorized access to the system and possible manipulation of data, because DECD did not promptly terminate former employees’ access to Core-CT.

Cause: DECD has not established appropriate controls to ensure that staff immediately deactivate the Core-CT access of separated employees.

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

Recommendation: The Department of Economic and Community Development should immediately deactivate the Core-CT access of separated employees. (See Recommendation 19.)

Agency Response: “DECD agrees with this finding. DECD has terminated access to CORE CT for all former employees. As a result DECD shall update our procedures to ensure alignment with DAS policies to remove terminated employees from CORE CT access.”
Review of Boards, Councils, Committees, and Commissions

**Background:** The General Statutes relating to the Department of Economic and Community Development provide for the following boards, councils, committees, and commissions, which we will collectively refer to as boards.

- Commission on Connecticut’s Future
- Committee for the Restoration of Historic Assets in Connecticut
- Connecticut Arts Council
- Culture and Tourism Advisory Committee
- Historic Preservation Council
- Manufacturing Innovation Advisory Board
- Small Business Advisory Board
- Sports Advisory Board
- State Historic Preservation Board

**Criteria:** Section 1-225 of the General Statutes requires the meetings of all state agencies to be available for public inspection and posted to the agency’s website no later than 7 days after the meeting. In addition, public agencies must file their schedule of regular meetings for the ensuing year with the Secretary of the State no later than January 31st of each year and post the schedule on their website.

Section 10-408a of the General Statutes provides that any member of the Connecticut Arts Council who fails to attend three consecutive meetings or who fails to attend 50 percent of all meetings held during a calendar year shall be deemed to have resigned. Seven voting members of the council shall constitute a quorum for the transaction of any business for the exercise of any power of the council.

Section 32-6a of the General Statutes established the Committee for the Restoration of Historic Assets in Connecticut for the purposes of encouraging quality tourism and contributing to an overall historic preservation program.

Section 32-9xx of the General Statutes established the Small Business Advisory Board to provide guidance to DECD regarding resources available to small businesses, and requires that the board meet on or before December 31, 2010, and at least annually thereafter.

Section 32-245 of the General Statutes established the Commission on Connecticut’s Future, and required the commission to submit a report concerning the economic renewal of Connecticut to the Governor and the General Assembly on or before December 1, 2014. In addition, the statute required the chairperson to call a meeting not later than October 1, 2013 and at other times as deemed necessary.
Our review of the DECD boards disclosed the following:

- DECD has not posted approved meeting minutes of the State Historic Preservation Board on its website since June 2011.

- The 2017 schedule of meetings for the State Historic Preservation Board and the Historic Preservation Council were not filed with the Secretary of the State by the January 31st deadline. In addition, the Connecticut Arts Council and the Historic Preservation Council did not have their 2017 schedules of meetings posted to the DECD website by the January 31st deadline.

- A review of board meeting attendance disclosed that 2 members of the Connecticut Arts Council missed three consecutive meetings and/or failed to attend fifty percent of all the meetings held in a calendar year. These board members continued to serve, despite being deemed to have resigned. The Connecticut Arts Council failed to have a quorum in 5 of 14 meetings during the audited period.

- DECD informed us that the Commission on Connecticut’s Future, the Committee for the Restoration of Historic Assets in Connecticut, and the Small Business Advisory Board are not active.

Some of the boards did not comply with freedom of information requirements. As a result, the public was not able to review board activities. In addition, some boards did not actively meet in accordance with the General Statutes, and members failed to regularly attend meetings. Failure to have a quorum can delay the boards’ work.

A lack of administrative oversight and resources contributed to these conditions.

This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2013 and 2014.

The Department of Economic and Community Development should work with its boards to ensure that they comply with the Freedom of Information Act and applicable General Statutes. Boards with attendance issues should notify their appointing authorities to ensure adequate representation at all meetings.

In addition, the department should either pursue the repeal of the statutes establishing the Commission on Connecticut’s Future, the Committee for the Restoration of Historic Assets in Connecticut, and the Small Business
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Advisory Board if they are no longer active or necessary.  (See Recommendation 20.)

Agency Response:

“DECD agrees with the facts in this finding that the minutes were not posted for FYE 2015 and 2016 as noted in this report. However, the statute requirement is to have the minutes available to the public. Even if the minutes were not posted in our website during the audit period, the minutes are available to the public by Freedom of Information requests. DECD will add a general contact phone number on the web site for the public to request this information. In addition, DECD has posted 2017, 2018 and 2019 minutes of the meeting in our web site.

Additionally, the department will accept the recommendation above regarding the Commission on Connecticut’s Future, the Committee for the Restoration of Historic Assets in Connecticut, and the Small Business Advisory Board.”

Auditors’ Concluding Comments:

The Freedom of Information Act requires agencies to post meeting minutes to its website no later than seven days after the meeting. The public should not have to submit a Freedom of Information request in order to review meeting minutes, and it does not comply with the requirement.
RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Department of Economic and Community Development contained 18 recommendations. 8 have been implemented or otherwise resolved and 10 have been repeated or restated with modifications during the current audit.

- 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 collect refunds of overpayments. Rewording of assistance agreements should be considered to require more timely refunds. The majority of the errors noted during the prior audit related to housing programs. Public Act 13-234 transferred various functions, powers, and duties related to housing from DECD to the newly created Department of Housing (DOH) as of July 1, 2013. Testing at DECD during the current audit did not disclose exceptions in this area. As a result, this recommendation is not being repeated.

- The Department of Economic and Community Development should fully 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. The current audit disclosed that this recommendation has been resolved.

- 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.

Our current audit disclosed that the amount of loan receivables reported to the Office of the State Comptroller were inaccurate. Therefore, the 1st part of this recommendation will be repeated. (See Recommendation 13.)

The Energy Conservation Loan program was transferred to DOH as of July 1, 2013. Therefore, we will follow-up on the 2nd part of this recommendation during our audit of DOH.

- The Department of Economic and Community Development should ensure the proper calculation of loan interest receivables and consistency with the amounts billed to recipients in accordance with financial assistance agreements. The current audit disclosed that this condition has not been resolved. Therefore, this recommendation is being repeated. (See Recommendation 12.)
• The Department of Economic and Community Development should ensure that overtime and compensatory time is properly approved within the required timeframe. **This recommendation is being repeated.** (See Recommendation 16.)

• The Department of Economic and Community Development should ensure the correct recording and accrual of state service time eligible towards longevity to ensure that longevity payments are made in accordance with state statutes and collective bargaining agreements. **The current audit disclosed that this condition has been resolved.**

• The Department of Economic and Community Development should ensure that all out-of-state travel is properly documented, authorized, and reported. **Our current audit did not disclose problems with the out-of-state travel reports submitted to the Office of Policy and Management. However, our review noted some unreasonable travel expenses. Therefore, this recommendation will be restated to reflect current conditions.** (See Recommendation 15.)

• The Department of Economic and Community Development should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. **This recommendation is being repeated.** (See Recommendation 17.)

• The Department of Economic and Community Development should continue its efforts to develop a current comprehensive information technology disaster recovery plan, including the proper coordination and periodic testing of contingency provisions within the plan. **The department transferred its information technology infrastructure and applications to the Bureau of Enterprise Systems and Technology (BEST) within the Department of Administrative Services. DECD will now be covered by BEST’s disaster recovery plan. Therefore, this condition has been resolved and the recommendation is not being repeated.**

• The Department of Economic and Community Development should improve internal controls over asset accountability and reporting to ensure compliance with the requirements of the State Property Control Manual. **The current audit disclosed that this recommendation has been resolved.**

• The Department of Economic and Community Development should ensure the proper maintenance and control of its assets with detailed records, including tag numbers. Furthermore, the department should continuously survey its inventory levels and perform complete annual physical inspections. **This recommendation is being repeated.** (See Recommendation 18.)

• The Department of Economic and Community Development should ensure that assistance agreement requirements and internal control policies are followed. **This recommendation pertained to the Small Cities Community Development Block Grant, the HOME Investment Partnership, and the Affordable Housing (FLEX) programs.** These
programs were transferred to DOH as of July 1, 2013. Therefore, we will follow up on this recommendation during our audit of DOH.

- 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 ensure that assistance agreement requirements and internal control policies are followed. **This recommendation pertained to the Manufacturing Assistance Act and Urban Act programs. This recommendation was not resolved and is being repeated.** (See Recommendations 6 and 7.)

- The Department of Economic and Community Development should ensure that assistance agreement requirements are adhered to and that specific reports are requested, received, and reviewed within the stipulated timeframes. **This recommendation pertained to the Small Business Express program. This recommendation was not resolved and is being repeated.** (See Recommendations 6 and 7.)

- The Department of Economic and Community Development should ensure more careful analysis and consideration of any statutory limitations and other applicable requirements when executing assistance agreements to avoid any similar issues in the future. **The current audit disclosed that this recommendation has been resolved.**

- The Department of Economic and Community Development should consider requiring its lending partners, which are responsible for administering and servicing financial assistance provided under the Small Business Express program, to obtain a Service Organization Controls (SOC 1) Report prepared in accordance with Statement on Standards for Attestation Engagements No. 16 (SSAE 16). **DECD has not established adequate procedures to monitor its lending partners such as obtaining a SOC 1 Report. This recommendation will be restated to reflect current conditions.** (See Recommendation 14.)

- The Department of Economic and Community Development should require that any changes to approved contract terms be supported by adequate documentation authorizing such changes. **The current audit disclosed that this recommendation has been resolved.**

- The Department of Economic and Community Development should work with the boards to ensure compliance with Freedom of Information Act requirements and applicable General Statutes, and should notify appointing authorities of any attendance issues to ensure adequate representation at all board meetings. Also, the department should either pursue the repeal of the statutory mandate or reconstitute the Commission on Connecticut’s Future and the Small Business Advisory Board in accordance with Sections 32-245 and 32-9xx of the General Statutes, respectively. **This recommendation is being repeated.** (See Recommendation 20.)
Current Audit Recommendations:

1. **The Department of Economic and Community Development should ensure that the amount of financial assistance it provides to a business is not greater than amounts allowed under the General Statutes without obtaining authorization from the General Assembly.**

   Comment:

   DECD awarded $16,042,050 more in financial assistance than was allowable under the General Statutes.

2. **Prior to amending an assistance agreement, the Department of Economic and Community Development should notify the State Bond Commission and should ensure that changes would result in an economic benefit to the state. In addition, DECD should document the reason for amending assistance agreements.**

   Comment:

   DECD amended or modified the assistance agreements for 3 companies, which resulted in the companies receiving $21,550,000 of loan forgiveness that they would not have been entitled to under their original assistance agreements. DECD did not notify the State Bond Commission of the changes and did not perform economic impact analyses to determine whether the changes were in the best interests of the state.

3. **The Department of Economic and Community Development should conduct financial reviews for all financial assistance provided, including assistance provided under the First Five Plus program. In addition, DECD should clearly document that any financial review concerns have been sufficiently resolved.**

   Comment:

   DECD did not always perform a financial review prior to awarding financial assistance. In addition, we noted instances in which DECD did not adequately address concerns raised during financial reviews.
4. The Department of Economic and Community Development should ensure that it requires companies to repay all forms of financial assistance if they relocate out of state within the relocation period, and should implement adequate procedures to determine whether companies have relocated out of state. In addition, DECD should seek clarification whether Section 32-5a of the General Statutes applies to tax credits and should establish policies to apply consistent relocation requirements to tax credits.

Comment:

DECD does not consistently apply relocation requirements to tax credits. A DECD assistance agreement with a company did not require them to repay $5 million in tax credits and a $250,000 penalty when it relocated outside of the state. In addition, we noted the assistance agreement for a Manufacturing Assistance Act project did not require the company to repay a $10 million grant if the company ever relocated outside of the state during the relocation period. Furthermore, DECD does not adequately track whether companies have relocated out of state.

5. The Department of Economic and Community Development should ensure that it only reimburses eligible project costs and that recipients meet assistance agreement payment requirements before disbursing funds.

Comment:

DECD reimbursed $112,519 of ineligible costs and issued $5.2 million of grant payments prior to receiving documents stipulated in the assistance agreements.

6. The Department of Economic and Community Development should ensure that it performs a complete review of all projects from application until financial closeout. In addition, the department should ensure that assistance agreement requirements are followed.

Comment:

A review of 23 projects identified that DECD did not close out 6 projects for 1 to 5 years from the due date of the final audit or project financial statements. In addition, DECD did not close out one project for 10 years. DECD was unable to determine if funds were expended in accordance with the assistance agreement, because the department never received any financial statements for the project.
7. The Department of Economic and Community Development should ensure that job audits are properly prepared and reviewed in a timely manner. In addition, DECD should ensure that companies meet job creation and retention requirements prior to granting loan forgiveness.

Comment:

Our review of Small Business Express and Manufacturing Assistance Act projects disclosed that DECD accepted improperly prepared job audits and did not always promptly review job audits. In addition, our review of loan forgiveness disclosed that a company received $1,250,000 in loan forgiveness without meeting its job creation requirements.

8. The Department of Economic and Community Development should ensure that financial assistance is properly documented using an assistance agreement that stipulates the terms and conditions of the assistance.

Comment:

DECD provided a company a $350,000 sponsorship. This amount appears excessive when compared to other sponsorships and appears to be a form of financial assistance.

9. The Department of Economic and Community Development should complete its due diligence before providing additional funding to a company, especially if the company is delinquent on past loans or has demonstrated an inability to create and retain jobs. As part of that due diligence, DECD should perform closeouts and job reviews on older projects before funding new projects.

Comment:

We noted 3 companies delinquent on previous DECD loans that received $900,000 in additional loans. In addition, DECD did not always complete financial closeouts and job reviews on prior financial assistance before providing additional assistance.

10. The Department of Economic and Community Development should limit the time it defers loan payments and should establish clear guidelines for when borrowers should qualify for loan modifications.

Comment:

We noted 4 loans totaling $1 million that DECD modified multiple times to defer principal and interest payments. These modifications resulted in DECD deferring principal and interest payments between 2 and 7.5 years.
11. The Department of Economic and Community Development should enter advances into the loan management system in a timely manner and should ensure that it sets up loans in accordance with the repayment terms of the promissory notes.

Comment:

Our review of 5 Manufacturing Assistance Act and 3 Brownfield loan projects disclosed that DECD did not input loan advances for 4 loans into the loan management system in a timely manner and improperly setup one loan.

12. The Department of Economic and Community Development should ensure that loan interest is calculated and billed or capitalized in accordance with financial assistance agreements.

Comment:

Our review disclosed that DECD incorrectly set up 68 loans, totaling $35 million, by using the wrong interest calculation method. In addition, we reviewed 15 receivables and noted that DECD incorrectly calculated the interest billed or capitalized for 7 loans during the tested fiscal year.

13. The Department of Economic and Community Development should strengthen its internal controls to ensure that the amount of loan receivables reported to the Office of the State Comptroller is accurate and includes estimated uncollectible receivables.

Comment:

DECD understated reported receivable balances by $21,322,038 for the fiscal year ended June 30, 2015 and overstated them by $185,097 for the fiscal year ended June 30, 2016. In addition, DECD has not developed a sufficient method to estimate the amount of uncollectible receivables.

14. The Department of Economic and Community Development should establish and implement procedures to monitor the activities of its lending partners that administer, service, and monitor financial assistance provided under the Small Business Assistance Account and Small Business Express programs. In addition, the department should ensure that lending partner loan receivable balances are accurately and properly recorded in the state’s financial statements.

Comment:

DECD has not established adequate procedures to monitor the lending partners responsible for administering, servicing, and monitoring financial assistance provided under the EXP and SBAA programs. DECD has not implemented procedures to ensure that lending partners are using funds in accordance with the lending agreements; does not always review independent audit reports for the lending partners in a timely manner; and does not receive
all SBAA semi-annual reports. In addition, DECD does not reconcile EXP and SBAA lending partner loans as reported in semi-annual reports to amounts in its loan system.

15. **The Department of Economic and Community Development should ensure that all travel expenses are necessary and reasonable and that any unused airline tickets are credited or reused. In addition, employees should reimburse the department for any travel costs incurred for their personal convenience.**

Comment:

Our review disclosed that DECD spent an additional $303 for a flight changed for the personal convenience of an employee and was not reimbursed $402 from the travel agent for the original flight. In addition, DECD did not receive a credit or reuse $7,001 of airline tickets for canceled trips.

16. **The Department of Economic and Community Development should ensure that it follows time and attendance requirements in the General Statutes, collective bargaining agreements, and DECD policies.**

Comment:

Our review disclosed that DECD did not properly authorize all compensatory and overtime and did not comply with the time and attendance requirements in collective bargaining agreements.

17. **The Department of Economic and Community Development should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services.**

Comment:

Our review of 46 expenditures identified 11 purchase orders that DECD approved after the receipt of goods or services.

18. **The Department of Economic and Community Development should improve internal controls and should maintain its property control system in accordance with the State of Connecticut Property Control Manual.**

Comment:

Inventory records did not reflect the actual inventory on hand. We could not locate an item. We found one item in a different location than DECD indicated in its inventory records and DECD listed one item in its inventory records that had a Department of Housing tag.
19. **The Department of Economic and Community Development should immediately deactivate the Core-CT access of separated employees.**

Comment:

Our review disclosed that the department did not immediately deactivate Core-CT access of 5 employees that terminated, retired, or transferred to another agency.

20. **The Department of Economic and Community Development should work with its boards to ensure that they comply with the Freedom of Information Act and applicable General Statutes. Boards with attendance issues should notify their appointing authorities to ensure adequate representation at all meetings.**

In addition, the department should either pursue the repeal of the statutes establishing the Commission on Connecticut’s Future, the Committee for the Restoration of Historic Assets in Connecticut, and the Small Business Advisory Board if they are no longer active or necessary.

Comment:

Our review disclosed that some DECD’ boards did not comply with freedom of information requirements. In addition, some boards did not actively meet in accordance with the General Statutes, and members failed to regularly attend meetings.
ACKNOWLEDGMENTS

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

Bryne Botticelli
Catherine Dunne
Salvatore Marino
Kadie Noble
Marissa Sartirana
CONCLUSION

In 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 the course of our examination.

Catherine L. Dunne
Principal Auditor

Approved:

John C. Geragosian
State Auditor

Robert J. Kane
State Auditor