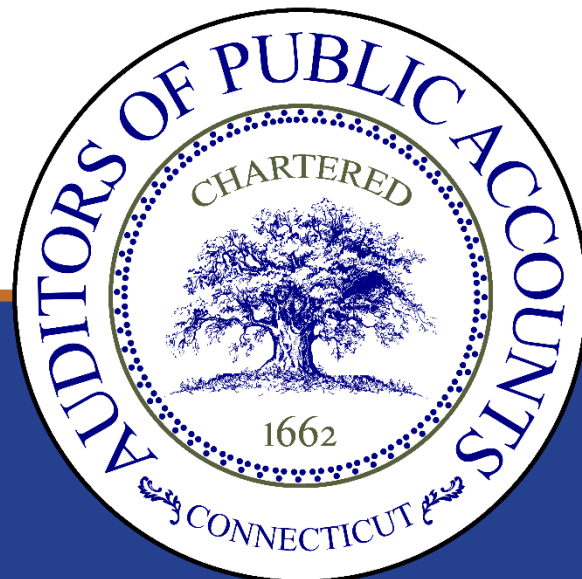


AUDITORS' REPORT

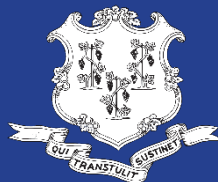
Department of Economic and Community Development

FISCAL YEARS ENDED JUNE 30, 2020, 2021, AND 2022



STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor



CRAIG A. MINER
State Auditor

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

CRAIG A. MINER

April 2, 2024

INTRODUCTION

We are pleased to submit this audit of the Department of Economic and Community Development (DECD) for the fiscal years ended June 30, 2020, 2021, and 2022 in accordance with the provisions of Section 2-90 of the Connecticut General Statutes. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, or policies; and a need for improvement in practices and procedures that warrant management's attention.

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Economic and Community Development during the course of our examination.

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

Bryne Botticelli
Hunain Bukhari
Rigoberto Escalera
Natercia Freitas
Hygens Joka
Kadie Noble
Alexandra Skabardonis

A handwritten signature in black ink, appearing to read "Natercia Freitas".

Natercia Freitas
Principal Auditor

Approved:

A handwritten signature in black ink, appearing to read "John C. Geragosian".

John C. Geragosian
State Auditor

A handwritten signature in black ink, appearing to read "Craig A. Miner".

Craig A. Miner
State Auditor

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Department of Economic and Community Development disclosed the following 17 recommendations, of which 12 were repeated from the previous audit. There were four new findings. One of the prior audit recommendations being repeated was split into two recommendations.

Finding 1

Film Tax Credits

Criteria

Section 12-217ll of the General Statutes provides that DECD shall administer a system of tax credit vouchers for digital animation companies undertaking digital animation production activity in the state. Any digital animation production company receiving a tax credit pursuant to this section shall not be eligible to apply for or receive a tax credit pursuant to Section 12-217jj. Any state-certified digital animation production company incurring production expenses or costs of more than \$1 million shall be eligible for a credit equal to 30 percent of such expenses or costs. The aggregate amount of all tax credits which may be reserved by the department pursuant to this section shall not exceed \$15 million in any one fiscal year.

Section 12-217jj of the General Statutes provides that DECD shall administer a system of tax credit vouchers for eligible film production companies producing a state-certified qualified production in the state. Any eligible film production company incurring production expenses or costs of more than \$1 million shall be eligible for a credit equal to 30 percent of such expenses or costs.

Condition

DECD offers two types of film production tax credits, the Film Production Tax Credit and Digital Animation Production Company Tax Credit. During our prior audit, we noted that DECD issued \$15 million in annual tax credits to a digital animation company under the digital animation production company tax credit program through the fiscal year ended June 30, 2016. This company was the only recipient of credits under the program. DECD subsequently issued film production tax credits to the company even though Section 12-217ll of the General Statutes prohibits any digital animation company from receiving the film production tax credit if it received the digital animation tax credit.

Context	DECD issued one digital animation production company \$94,410,602 of film production tax credits for the fiscal years ended June 30, 2016, through 2020. DECD issued this company an additional \$50,103,700 of film production tax credits for the fiscal years ended June 30, 2021 and 2022.
Effect	DECD may allow ineligible digital animation companies to receive a film production tax credit.
Cause	In its response to our prior audit recommendation, DECD stated that it would seek legislative clarification that would allow digital animation companies to receive both credits. However, DECD did not propose legislation to clarify Sections 12-217jj and 12-217ll of the General Statutes.
Prior Audit Finding	This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2017 through 2019.
Recommendation	The Department of Economic and Community Development should seek legislative clarification regarding Sections 12-217jj and 12-217ll of the General Statutes to specify whether a digital animation production company receiving a digital animation production tax credit can also be eligible to receive a film production tax credit.
Agency Response	“We disagree with this finding. DECD’s interpretation of the legislation in question is that a digital animation company that is applying under 2-217ll cannot simultaneously apply under 12-217jj, but that does not prohibit a company from applying under one, and then subsequently applying for a separate production under the other. DECD will seek to amend the statute to clarify the language.”

Finding 2

Inadequate Controls over Urban and Industrial Site Reinvestment Tax Credit Fees

Criteria	Section 32-9t created an Urban and Industrial Site Reinvestment (URA) program under which taxpayers who invest in eligible urban reinvestment projects or eligible industrial site investment projects may be allowed a tax credit in an amount equal to their approved investment. Any taxpayer or fund manager, community development entity, or contractually bound community development entity wishing to make an investment under the
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provisions of this section shall apply to the commissioner. The commissioner can impose a fee for such application.

Assistance agreements between DECD and recipients of URA tax credits may specify a fee the applicant is required to pay with the submission of its annual certification.

Condition

In our review of five judgmentally selected companies that received \$39,000,000 in URA tax credits we noted the following:

- DECD did not collect a \$10,000 application fee before issuing an \$8 million tax credit to one company.
- DECD did not collect \$9,000 in annual fees before issuing \$10.3 million in tax credits to three companies.

Context

During the fiscal years ended June 30, 2020, 2021, and 2022, DECD issued \$92,602,351 in URA tax credits to 22 companies.

Effect

DECD did not receive all funds it was entitled to.

Cause

DECD does not have an adequate process to track whether it has collected all fees prior to issuing tax credits.

Prior Audit Finding

This finding was previously reported in the last audit report covering the fiscal years ended June 30, 2017 through 2019.

Recommendation

The Department of Economic and Community Department should strengthen internal controls to ensure that it collects the proper amount of application and annual fees for Urban and Industrial Site Reinvestment tax credits prior to their issuance.

Agency Response

"We agree with both conditions of this finding. DECD has updated its internal control procedures applicable to the administration of the tax credit program to provide reasonable assurance that certificates are not issued if fees are owed by the entity."

Finding 3

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 a business organization shall not relocate out of state for ten years after receiving 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 five percent of the total assistance received is paid to the state.
Condition	<p>Our review of four Urban and Industrial Site Reinvestment tax credits disclosed that DECD's contracts did not require the companies to repay the credits when they relocated out of state.</p> <p>DECD did not adequately track whether companies that received financial assistance remained in the state during the relocation period.</p>
Context	During the fiscal years ended June 30, 2020, 2021, and 2022, DECD approved \$37,400,000 of Urban and Industrial Reinvestment tax credits for four companies.
Effect	If the companies left during the relocation period, the state would not be able to recoup the tax credits it provided to the companies. Without adequate tracking procedures, a company could relocate out of state without repaying its financial assistance and paying a penalty.
Cause	DECD lacked adequate administrative controls over assistance agreements.
Prior Audit Finding	This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2015 through 2019.
Recommendation	The Department of Economic and Community Development should ensure that its contracts require 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.
Agency Response	"We disagree with this finding. Tax credits are neither 'State assistance' under CGS sec. 32-700 nor 'state financial assistance' under CGS sec. 4-230. Tax credit programs are administered by application processes. DECD determines an applicant's eligibility

under the appropriate governing statute and may issue certificates of eligibility for the applicant to submit to the Department of Revenue Services for an appropriate credit.”

Auditors’ Concluding Comments

The definitions of state assistance and state financial assistance in Sections 32-700 and 4-230 of the General Statutes are specific to Sections 32-700 to 32-703 and 4-230 to 4-236, respectively. They do not apply generally and do not establish restrictions on what should be considered financial assistance subject to the requirements of Section 32-5a. The department referenced Section 32-700 in its response, but that section specifies that the issuance of tax benefit not of general applicability in its definition of state financial assistance.

Furthermore, DECD approved these tax credits under the Urban and Industrial Site Reinvestment Program, which is governed by Section 32-9t of the General Statutes. Section 32-450 of the General Statutes makes it clear that tax credits approved pursuant to section 32-9t constitute financial assistance.

In our prior report, DECD’s response to the same finding acknowledged that the requirements of Section 32-5a applied to tax credits and stated that it implemented the necessary internal control procedures to adequately track whether all companies that received financial assistance remain in state during the relocation period.

Finding 4

Inadequate Financial Review Process

Criteria

The DECD Office of Financial Review performs a full review to uncover crucial facts about a company and assure that the department 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; and
- Reviews of financial statements, business development plans, projects, and related assumptions.

Condition

Our examination of 19 projects for which DECD provided \$34,151,592 in financial economic development assistance, disclosed the following:

- DECD did not perform a financial review for five projects totaling \$19,139,324.
- DECD did not provide documentation that the department addressed all concerns and findings identified in the financial reviews for five projects totaling \$8,390,603.

Context

During the fiscal years ended June 30, 2020, 2021, and 2022, DECD awarded \$51,910,561 in financial assistance to 58 projects. We judgmentally selected 19 projects for review (seven Small Business Express, six Brownfield, and six Manufacturing Assistance Act).

Effect

Without performing a comprehensive financial review or following up on concerns identified, there is increased risk that a company will default on its loans, improperly use state funds, or will be unable to successfully complete the proposed project and create or retain jobs.

Cause

DECD lacked adequate administrative controls over these programs.

Prior Audit Finding

This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2015 through 2019.

Recommendation

The Department of Economic and Community Development should conduct financial reviews for all of its funding in the Small Business Express, Brownfield, and Manufacturing Assistance Act programs. In addition, the department should clearly document that it sufficiently resolved any financial review concerns.

Agency Response

“We agree with the first condition of this finding in part. DECD agrees that a financial review was not conducted for the two Brownfield projects, however, DECD has since provided documentation that a financial review was done for the third Brownfield project. DECD may not have conducted a financial review for two of the Brownfield projects because the loan recipients are public/quasi-public entities. DECD has since updated its financial review policy for Brownfield projects requiring a financial review of all loan applications submitted, no matter the nature of the entity, under the competitive funding rounds process. We agree that a financial review was not conducted for the three MAA projects.

We disagree with the second condition of this finding. DECD did address the concerns and findings resulting from the financial review process.”

Auditors' Concluding Comments

DECD did not provide any documentation to support its assertion that it addressed these concerns and findings.

Finding 5

Inadequate Program Monitoring - Grants

Criteria

When DECD awards financial assistance, DECD and the grantee enter an agreement which stipulates the terms and conditions of the assistance including the documents the recipient must submit. They include project administration plans, periodic reports such as federal and/or state single audits, financial statements, milestone and progress reports, and notice that the grantee must immediately return any unspent funds to the state. The terms, conditions, and documentation vary for each agreement.

Condition

Our examination of 12 grants totaling \$76,492,404 disclosed the following:

- DECD did not obtain required reports for five grants.
- DECD did not promptly close out one Urban Act project to determine if there were any unspent funds. At the time of our review, the department had not completed the close out for more than a year.
- DECD did not obtain a loan portfolio analysis in the required format for one grant.
- DECD did not obtain semi-annual project financial statements for one grant.

Context

During the fiscal years ended June 30, 2020, 2021, and 2022, DECD expended \$193,689,118 for grants. We judgmentally selected 12 grants for review (one Brownfield, two Urban Act, five Arts and Tourism, and four miscellaneous).

Effect

There is increased risk that DECD may not promptly identify and recover excess disbursements. In addition, DECD may make inappropriate payments if it does not obtain, and review required periodic reports.

Without the required information, there is increased risk that DECD's ability to monitor project performance would be impaired.

Cause	DECD lacked adequate administrative controls over the grants. DECD informed us that it awarded the Urban Act grantee additional funds and elected to wait to simultaneously close out both grants.
Prior Audit Finding	This finding has been previously reported in the last four audit reports covering the fiscal years ended June 30, 2011 through 2019.
Recommendation	The Department of Economic and Community Development should strengthen internal controls to ensure that it performs a complete review of all grant projects from application until financial closeout.
Agency Response	<p>“We disagree with the first condition of this finding. Weekly reports were submitted and reviewed for the Brownfield project, which is more frequent than quarterly, and DECD believes is a more thorough review process.</p> <p>We disagree with the second condition of this finding. The recipient of the Urban Act grant received two separate grants in different years. Therefore, DECD closed out both projects in the same year rather than closing out the first grant before closing out the second grant.</p> <p>We agree with the third condition of this finding. It was an oversight that the final report for the Tourism grant was not obtained by DECD.</p> <p>We agree with the fourth, fifth, and seventh condition of this finding. DECD is committed to adhering to the procedures and guidelines for obtaining and reviewing the required reports for its various grant programs.</p> <p>We agree with the sixth condition of this finding in part. DECD believes that while the loan portfolio analysis form was not submitted in the required format, the loans were discussed and analyzed during the monthly board meetings.”</p>
Auditors’ Concluding Comments	While DECD submitted weekly reports for the Brownfield project, the August 20, 2019, report was last one on file and the project was ongoing at the time of our review. In addition, DECD should complete financial closeouts promptly to determine if the state is due any unspent funds.

Finding 6

Inadequate Program Monitoring - Loans

Criteria

The DECD Office of Brownfield Remediation and Development Standard Operating Procedures Manual requires the department to review and score the program's applications. DECD uses the rating and ranking scores to determine which projects to fund.

DECD and the company enter into an assistance agreement which stipulates the terms and conditions of the assistance including the documents the recipient must submit. They include project administration plans and periodic reports such as federal and/or state single audits, financial statements, and milestone and progress reports. The documentation varies for each assistance agreement.

DECD collection procedures require that a default letter is issued for any loans 90 days past due.

Condition

Our examination of 19 projects totaling \$31,346,639 identified the following:

- DECD did not obtain a statement of program costs and a detailed schedule of expenditures within 90 days after the expiration of the latest approved project financing plan and budget for six Small Business Express projects.
- DECD did not issue a notice of default letter for one Small Business Express client.
- DECD did not promptly issue a notice of default letter for one Small Business Express client.
- DECD processed a loan disbursement prior to the approval of the payment request for one Small Business Express project.
- DECD disbursed \$200,000 to a company for a Small Business Express project that did not meet the requirements of the assistance agreement.
- DECD did not have a project score on file for two Brownfield projects.
- DECD did not obtain a project administration plan for two Brownfield projects.
- DECD did not obtain a semi-annual report for one Brownfield project.

Context	During the fiscal years ended June 30, 2020, 2021, and 2022, DECD expended \$37,107,939 for Manufacturing Assistance Act, \$9,010,252 for Brownfield, and \$5,792,370 for Small Business Express projects. We judgmentally selected 19 projects for review (six Manufacturing Assistance Act, six Brownfield, and seven Small Business Express).
Effect	There is increased risk that DECD may not promptly identify and recover excess disbursements. In addition, DECD may make inappropriate payments if it does not obtain, and review required periodic reports.
Cause	Administrative controls over the projects were inadequate.
Prior Audit Finding	This finding has been previously reported in the last four audit reports covering the fiscal years ended June 30, 2011 through 2019.
Recommendation	The Department of Economic and Community Development should strengthen internal controls to ensure that it performs a complete review of all loan projects from application until financial closeout.
Agency Response	<p>"We agree with the first, second, and third conditions in this finding. DECD will continue to improve its response time to project audits and company defaults.</p> <p>We disagree with the fourth condition in this finding. DECD submitted documentation to the state audit team that confirmed the payment request was signed by the project manager and the director on October 21, and subsequently transmitted to the Office of Finance and Administration (OFA) for processing.</p> <p>We agree with the fifth condition of this finding in part. DECD used sales projections instead of actual sales revenue to disburse the funds to the client. DECD allowed the funds to be released to the company based on its projected sales, as a means of assisting the company with its immediate working capital needs during the COVID pandemic.</p> <p>We agree with the sixth condition of this finding.</p> <p>We agree with the seventh condition of this finding in part. DECD acknowledges that the project administration plan for one of the two Brownfield projects was not in the file, however, the project administration plan for the second Brownfield project is in the file.</p> <p>We agree with the eighth condition of this finding. DECD does not anticipate a repeat finding for this condition since the policy has been revised for collecting semi-annual reports."</p>

Auditors' Concluding Comments

With respect to the fourth condition, although the documentation provided shows DECD received the request on December 27, 2019, department records show that it did not approve the request until September 26, 2022.

Finding 7

Improper Loan Setup

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.

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.

Condition

Our review of 19 loan advances disclosed the following:

- DECD did not properly set up a loan in the loan management system. The system did not generate \$3,472 in late fees in accordance with the promissory note for one Small Business Express project.
- DECD reversed a loan advance in the loan management system, resulting in the understatement of \$67,604 of principal and \$946 in accrued interest for one Brownfield project.

Context

DECD made 58 loan advances during the fiscal years ended June 30, 2020, 2021, and 2022. We judgmentally selected 19 loan advances for review.

Effect

The department's ability to track and bill for loans is impaired if it does not set up loans correctly or input advances in its loan system.

Cause

DECD did not ensure that it accurately input loan advances into its loan system.

Prior Audit Finding

This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2015 through 2019.

Recommendation

The Department of Economic and Community Development should strengthen internal control to ensure that it accurately enters loan advances into the loan management system and sets up loans in accordance with the repayment terms of the promissory notes.

Agency Response

"We agree with both conditions of this finding. DECD has implemented a loan checklist and supervisory review process, which summarizes interest calculation terms in accordance with financial assistance agreements, and this process has vastly improved loan set-up accuracy."

Finding 8**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. If a recipient fails to perform any act, duty, or obligation in the assistance agreement, it shall constitute a default of the agreement.

Assistance agreements between DECD and recipients of Small Business Express funding state that following the end of the employment obligation, the applicant will receive a job review package from the state, which it must complete and submit within 30 days. DECD uses information from the Department of Labor to verify the accuracy of information in the job review package.

Condition

We judgmentally selected 19 projects for review and identified that DECD did not perform job audits and did not request the job review packages for 11 projects.

Context

During the fiscal years ended June 30, 2020, 2021, and 2022, DECD completed 211 Small Business Express and 47 Manufacturing Assistance Act job audits.

Effect

DECD may not be properly calculating or promptly applying employment obligation penalties. In addition, there is reduced

assurance that recipients complied with their employment obligations.

Cause	DECD lacked adequate administrative controls over job audits. DECD did not request job review packages.
Prior Audit Finding	This finding has been previously reported in the last three audit reports covering the fiscal years ended June 30, 2013 through 2019.
Recommendation	The Department of Economic and Community Development should strengthen internal controls to ensure that it promptly receives and reviews recipient job audits.
Agency Response	"We agree with the finding that some job audits are not done in a timely manner. DECD will continue to work on completing job audits on time."

Finding 9

Inadequate Controls over Small Business Express CT Recovery Bridge Loan Program

Background	The Small Business Express CT Recovery Bridge Loan Program provided emergency cash flow relief in the form of no interest loans to small businesses and nonprofits negatively impacted by COVID. A Federal Deposit Insurance Corporation (FDIC) insured nationally chartered bank assisted DECD with application review and approval and disbursement of funding at no cost to the state under an agreement with DECD.
Criteria	<p>To be eligible for financial assistance under the Small Business Express CT Recovery Bridge Loan Program guidelines, a business had to meet several criteria including it had to be in good standing with the Department of Revenue Services DRS and have at least one guarantor with a consumer credit score of 575 or higher.</p> <p>Program administrators were to obtain a business delinquency score to determine if the business was likely to delay payment or become insolvent. In addition, administrators used a fraud check to provide assurance that the business was genuine.</p>
Condition	Our review of ten randomly selected loans, totaling \$229,270, made under the Small Business Express CT Recovery Bridge Loan Program disclosed the following:

- DECD did not document that five of the businesses were in good standing with the Department of Revenue Services.
- DECD did not document that it reviewed two of the businesses' credit or business delinquency scores.
- DECD did not provide documentation explaining why it considered four businesses high risk or how it mitigated related concerns.
- DECD executed an assistance agreement for a \$12,500 loan that a business did not receive. The provider asserted that the deposit was successful, but the company's bank confirmed that it did not receive the deposit. DECD did not investigate this discrepancy and does not know what happened to the \$12,500. DECD's loan system still showed a \$12,500 past due balance on the loan as of July 24, 2023.

Context During the fiscal years ended June 30, 2020, 2021, and 2022, DECD expended \$41,833,220 under the Small Business Express CT Recovery Bridge Loan Program.

Effect DECD does not have adequate assurance that only eligible businesses received assistance under the Small Business Express CT Recovery Bridge Loan Program and that program funds were properly disbursed.

Cause DECD lacked adequate administrative controls over the Small Business Express CT Recovery Bridge Loan Program.

Prior Audit Finding This finding has not been previously reported.

Recommendation The Department of Economic and Community Development should strengthen internal control to ensure it adequately monitors its Small Business Express CT Recovery Bridge Loan Program.

Agency Response "We agree with all three conditions of this finding. The bridge loan program was a one-time rapid response to the COVID pandemic that provided loans to over 2,000 businesses in a short period of time. DECD does not believe that the exceptions noted had a material negative impact on the outcome of assistance provided to the businesses during the COVID pandemic.

With regards to the \$12,500 loan, we disagree that DECD did not investigate this discrepancy. We took every effort to track down this payment but were unsuccessful. The loan balance will remain until we are able to write it off."

Auditors' Concluding Comments

DECD should pursue the \$12,500 discrepancy further and determine what happened to these funds. Since the company did not receive the money, it is not a loan that the department can write off. If the department cannot recover the money, it should report the loss to the Auditors of Public Accounts and State Comptroller in accordance with Section 4-33a of the General Statutes.

Finding 10

Inadequate Estimate of Uncollectible Loans Receivable

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 Annual Comprehensive Financial Report.

Condition

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, 2020 and 2021 and noted that DECD's estimate of uncollectible receivables did not include \$10,167,277 and \$5,823,922 of receivables, that were delinquent over two years and likely uncollectible. We reviewed receivables as of June 30, 2022, and noted that DECD's estimate did not include \$26,322,621 of receivables that were delinquent over one year and likely uncollectible.

Context

DECD reported loans receivable of \$677,940,386, \$538,489,042, and \$443,998,354 for the fiscal years ended June 30, 2020, 2021, and 2022, respectively.

Effect

Errors in reported balances increase the risk the Office of the State Comptroller may report inaccurate information in the state's Annual Comprehensive Financial Report.

Cause	DECD did not develop a sufficient method to estimate the amount of uncollectible receivables and did not include receivables that lending partners determined to be uncollectible.
Prior Audit Finding	This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2015 through 2019.
Recommendation	The Department of Economic and Community Development should strengthen internal controls to ensure that the amount of loans receivable reported to the Office of the State Comptroller includes estimated uncollectible receivables.
Agency Response	“We agree with this finding, but this finding ignores the fiscal reality faced by businesses during the pandemic. DECD changed its policy for recording estimated uncollectible receivables from businesses who didn’t make payments within 365-days to businesses who were out of business to accommodate businesses negatively impacted by the pandemic. Payment schedules were drastically altered during the pandemic, and this change was one-time in nature to reflect the dire situation many businesses were facing. Now that we are past the pandemic, DECD has updated its policies back to the 365-day requirement.”
Auditors’ Concluding Comments	DECD traditionally only reported receivables as uncollectible from borrowers that were out of business. This occurred before, during, and after the pandemic. This approach understates the amount of uncollectible receivables.

Finding 11

Lack of Monitoring of Lending Partners

Background	<p>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 was established for the purpose of funding the small business assistance revolving loan program.</p> <p>Section 32-7g of the General Statutes established the Small Business Express program 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</p>
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Connecticut Credit Consortium, established under Section 32-9yy of the General Statutes, to fulfill the requirements of the program.

Criteria	Adequate internal controls include properly monitoring that service providers are using state funds for their intended purpose and ensuring the accuracy of service provider financing.
Condition	DECD has not implemented adequate procedures to monitor the lending partners responsible for administering, servicing, and monitoring financial assistance provided under the Small Business Express program and Small Business Assistance Account. DECD did not conduct onsite reviews of lending partners during the audited period.
Context	DECD entered into lending agreements with seven Small Business Assistance Account lending partners and six Small Business Express lending partners to administer, service, and monitor the financial assistance. As of June 30, 2022, DECD provided Small Business Assistance Account lending partners with \$8,790,406 and Small Business Express lending partners with \$31,985,000 to administer the programs.
Effect	By not adequately monitoring the lending partners, DECD has limited assurance that funds were used for the intended purposes and that the lending partner controls were properly designed and operating effectively.
Cause	DECD did not prioritize the implementation of these monitoring procedures.
Prior Audit Finding	This finding has been previously reported in the last three audit reports covering the fiscal years ended June 30, 2013 through 2019.
Recommendation	The Department of Economic and Community Development should implement procedures to monitor the activities of its lending partners that administer, service, and oversee financial assistance provided under the Small Business Assistance Account and Small Business Express program.
Agency Response	"We agree with this finding. DECD will review its existing policies and procedures for monitoring lending partners and implement the necessary compliance procedures stated for monitoring lending partners."

Finding 12

Service Organizations Data Security Issues

Criteria

When an organization outsources a business function, it should obtain assurance that the service organization is accurately and reliably processing data to properly carry out the outsourced business function. It should also obtain assurance that the service organization's security environment is adequate to safeguard information related to the outsourced business function, especially confidential information.

One method of gaining this assurance is to obtain a service organization controls (SOC) report that addresses the service organization's control environment. The report provides assurance regarding organizational controls relevant to security, availability, confidentiality, processing integrity, and privacy. If a SOC report is not available, the organization should take other measures to obtain the same assurance.

DECD uses service organizations, referred to as lending partners, to assist in making loans to eligible recipients. The agreements between DECD and its lending partners included a requirement that the service organizations develop, implement, and maintain a comprehensive data security program for the protection of confidential information

Condition

DECD did not obtain SOC reports for its service organizations. Furthermore, DECD did not take other measures to obtain the same assurance that a SOC report would provide. When we requested copies of the data security programs for seven lending partners, DECD was unable to provide four of them.

We also inquired about the nature of the confidential data maintained by its service organizations. DECD was unable to explain what confidential data, if any, the service organizations maintained.

Context

As of June 30, 2022, DECD provided Small Business Assistance Account lending partners with \$8,790,406 and Small Business Express lending partners with \$31,985,000 to administer the programs. DECD needs to obtain assurance regarding business functions performed by its service organizations even though it may delegate the tasks involved. DECD retains responsibility for assuring that the service organizations are properly carrying out tasks.

Effect

There is an increased risk associated with outsourcing business functions when they are not adequately monitored. Outsourcing the

responsibility to safeguard confidential information is of special concern due to the potential effects of inappropriate disclosure.

Cause	DECD has not sufficiently prioritized its responsibility to properly monitor its service organizations.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Department of Economic and Community Development should monitor its service organizations to ensure that they are processing data accurately and reliably and that they are properly safeguarding data.
Agency Response	“We agree with this finding in part. Although DECD did not obtain SOC reports from its lending partners or service organizations, DECD did obtain written confirmation from its lending partners that they have the proper security protocols in place for safeguarding confidential information. DECD will be evaluating the contractual requirements that it has with its lending partners and service providers for possible conducting SOC reports.”
Auditors’ Concluding Comments	In four of the seven instances tested, DECD was unable to provide us with copies of the required comprehensive security programs. Furthermore, DECD did not provide us with any documentation supporting its assertion that it obtained written confirmation from those lending partners that they had the proper security protocols.

Finding 13

Lack of Data Classification Assessment

Criteria	Section 4d-8a of the General Statutes makes the Office of Policy and Management (OPM) is responsible for establishing statewide information and technology policies. OPM established a Data Classification Policy, which requires each executive branch agency to assign a classification to all of its data. Data classification is an integral function of an information security framework. Regular data classification assessments ensure that statewide information technology resources are appropriately allocated for planning, system design, development, and necessary recovery operations. This affords state agencies a mechanism to better utilize resources and triage systems and data, thereby ensuring continued focus on assets from most to least critical.
Condition	DECD did not classify its information systems and data.

Context	The purpose of the policy is to establish protection profiles and assign control element settings for each category of an agency's data. Security categorization is the basis for identifying an initial baseline set of security controls for the information and information systems.
	Each executive branch agency is required to assign a category and impact level to each data set in its custody, based on a federal data security matrix. The three federal security objectives (confidentiality, integrity, and accessibility) identify the parameters of information system reliability, and are matched with low, moderate, and high levels of risk for each objective. The agency's completion of this exercise for each data set ultimately establishes an overall criticality assessment, based on the most critical information system.
Effect	Lack of data classification could result in inefficiencies in assigning operational resources. It could also limit the department's capabilities to respond to identified risks and cost effectively allocate the appropriate resources to mitigate them.
Cause	DECD was not aware of the Office of Policy and Management's data classification requirement.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Department of Economic and Community Development should perform a comprehensive data classification assessment in accordance with Office of Policy and Management policy.
Agency Response	"We agree with this finding. DECD has communicated with the Bureau of Information Technology Solutions (BITS) for assistance in performing a comprehensive data classification assessment."

Finding 14

Unsupported Personnel Actions

Background	DECD entered a memorandum of understanding (MOU) with the Department of Administrative Services (DAS) to perform various DECD personnel, payroll, and affirmative action functions. DAS Small Agency Resources Team (SmART) is responsible for performing these functions and maintaining employee records. The MOU states that DAS will promptly provide DECD such information, records, and data in its possession or control that is required by DECD to meet audit requirements. It also states that DECD will maintain all pertinent reports and recommendations pertaining to
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work performed under the MOU and will make reports available to the Auditors of Public Accounts or other authorities upon request.

Criteria	Personnel actions including, but not limited to, hiring, promoting, and transferring must be adequately documented to provide accountability.
Condition	We judgmentally selected 27 personnel actions to review – six new hires, four rehires, three transfers, nine promotions, and five temporary worker rehires. DECD and DAS did not provide adequate documentation to support 16 personnel actions – six new hires, one rehire, two transfers, six promotions, and one temporary worker rehire.
Context	During the fiscal years ended June 30, 2020, 2021, and 2022, personnel actions included 45 new hires, 44 rehires, 11 transfers, 18 promotions, and six temporary worker rehires.
Effect	There is less assurance that DECD and DAS hired, promoted, or transferred the most qualified candidates. It is also not clear whether the departments followed an established process evidencing proper authorization and carried out for a legitimate business purpose.
Cause	DECD and DAS did not maintain effective controls over the hiring, promotion, and transfer of staff during the audited period.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Departments of Economic and Community Development and Administrative Services should strengthen their internal controls over personnel actions.
DECD Response	“We disagree that this finding should be in DECD’s departmental audit report. The agency’s personnel functions, including documenting personnel actions, are managed by DAS SmART Payroll Unit based on a MOU between the Department of Administrative Services (DAS) and DECD. Accordingly, DECD believes that this finding should be referred to the DAS SmART Payroll Unit for the appropriate corrections and recording of personnel actions.”
DAS Response	“DAS agrees with this finding in part. The agency acknowledges this finding but does not agree that it has inadequate documentation or controls when new hires and promotions occur. Although DAS maintains adequate documentation, it was not able to provide that documentation to the auditors during the audit period for a variety of reasons outside of the agency’s control. Specifically, during the

pandemic and the unexpected and abrupt transition to telework, new hire and promotion documentation was maintained by individual human resources (HR) staff until such time that it could be uploaded. Two (2) of the prior assigned HR staff who processed these personnel transactions have since left the agency and there is a backlog of filing DAS continues to address. Ultimate Kronos Group (UKG) has been implemented as a control for vacant position requests.”

Finding 15

Inadequate Controls over Time and Attendance

Criteria

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

The P-5 bargaining unit agreement exempts employees above salary grade 24 from receiving overtime.

Collective bargaining agreements permit agency employees to earn compensatory time with prior supervisory approval.

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 requires all paid leave be taken in half-hour increments and 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.

Core-CT has specific compensatory time plans for the various collective bargaining units. Core-CT Job Aids provide guidance for state agencies to input an employee’s compensatory plan in Core-CT. Enrollment in a compensatory plan is only necessary if the employee is eligible to earn compensatory or holiday time per their bargaining unit contracts. NP-2 and NP-3 collective bargaining unit employees are exempt from earning compensatory time. In addition, exempt, elected, and appointed employees are not allowed to earn compensatory time.

Section 5-247-11 of the State Regulations requires the submission of an acceptable medical certificate signed by a licensed physician or other practitioner whose method of healing is recognized by the

state to substantiate the use of sick leave for a period of more than five consecutive working days.

Condition

Our review of time and attendance during the fiscal years ended June 30, 2020, 2021, and 2022 disclosed the following:

- Our review of 322 hours of overtime paid to 13 and 24 judgmentally selected employees over the maximum eligible salary grade for overtime disclosed the following:
 - DECD did not approve eight hours of overtime in advance for one employee.
 - DECD paid four hours of overtime to one P-5 employee who was over the allowed salary grade and ineligible to receive overtime.
- Our review of 200 hours of compensatory time for ten judgmentally selected employees disclosed the following:
 - DECD did not preapprove 52 hours of compensatory time for two employees.
- We queried Core-CT and noted that DECD had 67, 66, and 49 employees enrolled in the wrong compensatory time plans in Core-CT for the fiscal years ended June 30, 2020, 2021, and 2022, respectively.
- We queried Core-CT to identify and review all leave time below the minimum increments allowed and noted that DECD permitted ten NP-2 and NP-3 bargaining unit employees to charge leave time below their contractual increments 51 times during the audited period.
- Our review of four employees that took more than five consecutive sick days disclosed that DECD did not have a medical certificate on file for three employees

Context

During the audited period, DECD paid 85 employees 4,353 hours of overtime totaling \$207,156, 66 employees earned 2,824 hours of compensatory time, and four employees took more than five consecutive sick days.

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. The incorrectly enrolled P-5 employees could bank more than 100 hours of compensatory time in violation of their bargaining unit contract. In addition, without obtaining medical

certificates for employees with more than five consecutive sick days, there is an increased risk that sick leave abuse may go undetected.

Cause

DECD lacked adequate time and attendance controls.

Prior Audit Finding

This finding has been previously reported in the last seven audit reports covering the fiscal years ended June 30, 2005 through 2019.

Recommendation

The Department of Economic and Community Development should strengthen internal controls to ensure that it follows time and attendance requirements as promulgated in the General Statutes, state regulations, collective bargaining agreements, and department policies.

DECD Response

"We disagree that this finding should be included in DECD's departmental audit report. The agency's payroll functions, including "Time and Attendance," are managed by DAS SmART Payroll Unit in accordance with a memorandum of understanding (MOU) between the Department of Administrative Services (DAS) and DECD. Accordingly, DECD believes that this finding should be referred to the DAS SmART Payroll Unit for the appropriate corrections and recording of employee's job classification, compensatory time plans, union leave policies, overtime approval codes and time-off codes in Core-CT."

DAS Response

"DAS administers and processes payroll and time and attendance for DECD staff. DECD management is responsible for preapprovals of compensatory and overtime requests. DAS SmART payroll paid the compensatory and overtime upon receiving timesheet approval from management. DAS SmART Human Resources (HR) will work to redistribute the policy and procedures regarding compensatory and overtime approval to all DECD staff.

Regarding leave time increments, all employees are provided orientation, which includes access to their collective bargaining agreements and information regarding use of leave accruals. DAS SmART Payroll does not review or approve time submittals. Employees and management are responsible for complying. DAS SmART HR will work to redistribute the policy and procedures regarding use of leave accruals.

In August of 2020, the HR Benefits and Leaves unit was created under HR Centralization. This has provided controls over obtaining and filing of proper documentation for sick time taken in excess of 5 consecutive days requiring a medical certificate."

Finding 16

Inadequate Reporting

Criteria

DECD is required to comply with numerous reporting requirements set forth by the General Statutes and public and special acts. These reports are due at different times throughout the year. An adequate system of internal control should include a method for management to track and monitor the submission of mandated reports.

The Office of the State Comptroller requires state agencies to annually prepare and submit Generally Accepted Accounting Principles (GAAP) closing packages. Agency submissions contain financial information not available on the state's Core-CT accounting system. The Office of the State Comptroller uses this information in preparation of the state's financial statements. The State Accounting Manual and the State Comptroller's GAAP closing and reporting instructions stipulate the procedures for completing GAAP reporting forms.

Condition

DECD did not submit four semi-annual reports for Small Business Express required by Section 32- 7g of the General Statutes.

DECD submitted six statutorily required reports between 15 days and 27 months late.

DECD misstated contractual obligations, interest, and late fees by \$2,633,618, \$18,227,950, and \$115,826,459 on its GAAP reporting forms for the fiscal years ended June 30, 2020, 2021, and 2022, respectively.

Context

We judgmentally selected 26 of 46 required reports to review for the fiscal years ended June 30, 2020, 2021 and 2022.

Effect

DECD does not promptly provide decision makers with necessary program information.

In addition, errors in reported balances increase the risk the Office of the State Comptroller may report inaccurate information in the state's Annual Comprehensive Financial Report.

Cause

There was a lack of administrative oversight.

Prior Audit Finding

This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2017 through 2019.

Recommendation

The Department of Economic and Community Development should strengthen internal controls to ensure all required reports are complete, accurate, and submitted on time.

Agency Response

"We agree with this finding. DECD will implement the necessary control procedures to comply with the numerous reporting requirements set forth by the General Statutes and Public and Special Acts for the programs that DECD administers.

Regarding the State Economic Development Strategic Plan, DECD had the plan drafted, but the pandemic occurring in early 2020 required DECD to put the plan on hold and modify its contents to reflect the dramatic economic changes that occurred.

Regarding the GAAP closing package finding. The contractual obligations of \$116,489,009 for the fiscal year ended June 30, 2022, are obligations recognized by DECD as of June 1, 2022, however they were effective July 1, 2022. DECD will provide additional staff training, implement a peer review process, and a supervisory review process."

Finding 17**Inadequate Controls over Asset Management****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 Property Control Manual provides the following standards and procedures for maintaining a property control system.

- Agencies should report the value of all capitalized real and personal property on the CO-59 property control report.
- 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.
- Appraisals for works of art and historical treasures are no longer mandatory but are highly recommended when resources are available.

Condition

Our review of DECD's property control system disclosed the following.

- Our review of prior audit exceptions disclosed that DECD did not properly correct the coding of four assets totaling \$22,108 in Core-CT.
- DECD misstated its CO-59 property control reports by \$1,789,865, \$2,082,960, and \$771,938 for the fiscal years ended June 30, 2020, 2021, and 2022, respectively.
- DECD has not appraised its museum artifacts since 2014.
- We judgmentally selected 30 items, totaling \$1,068,698, from DECD's inventory records and 30 items, totaling \$357,373, during a physical inspection of DECD's assets to verify that the department properly included the items in its inventory records. Our review disclosed the following:
 - We could not locate six items in the inventory records.
 - We could not locate two items, totaling \$2,133, listed on the inventory records.

Context

DECD reported \$5,557,037, \$5,380,112, and \$8,182,079 in real and personal property for the fiscal years ended June 30, 2020, 2021, and 2022, respectively. Fine Arts totaled \$2,311,107, \$2,040,120, and \$4,875,910 for the fiscal years ended June 30, 2020, 2021, and 2022, 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. In addition, the Office of State Comptroller will report inaccurate asset information in the state's Annual Comprehensive Financial Report.

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 four audit reports covering the fiscal years ended June 30, 2011 through 2019.

Recommendation

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

Agency Response

"We agree with the first condition in this finding. DECD will work with the CORE-CT help desk to identify the corrections that are needed.

We agree with the second condition in this finding. The agency has made the corrections to the fiscal year 2021 CO-59 report.

We agree with conditions three and four of this finding in part. During the height of the pandemic during fiscal year 2020, resources were unavailable to safely complete a physical asset inventory and no appraisals were completed. The agency is currently working with the State Insurance team to update museum collection information and the agency has successfully completed the updates values of 90% of the collection. Also, some agency staff have received additional training and the required Core-CT roles necessary to apply asset reclassifications in Core-CT including updates to the fiscal 2014 records."

STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our [prior audit report](#) on the Department of Economic and Community Development contained 26 recommendations. 14 have been implemented or otherwise resolved and 12 have been repeated or restated with modifications during the current audit.

Prior Recommendation	Current Status
<p>The Department of Economic and Community Development should ensure that digital animation companies do not receive more than \$15 million in tax credits in any one fiscal year as required by Section 12-217ll of the General Statutes.</p>	<p>REPEATED Modified Form</p> <p>Recommendation 1</p>
<p>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.</p>	<p>RESOLVED</p>
<p>The Department of Economic and Community Development should ensure that amendments or modifications to assistance agreements would result in an economic benefit to the state and should notify the State Bond Commission of these changes when applicable. In addition, the department should document its reason for amending or modifying assistance agreements.</p>	<p>RESOLVED</p>
<p>The Department of Economic and Community Development should conduct financial reviews for all of its funding in the First Five, Brownfield, and Manufacturing Assistance Act programs. In addition, the department should clearly document that any financial review concerns have been sufficiently resolved.</p>	<p>REPEATED Modified Form</p> <p>Recommendation 4</p>
<p>The Department of Economic and Community Development should ensure that it performs a complete review of all projects from application until financial closeout.</p>	<p>REPEATED Modified Form</p> <p>Recommendation 5 and 6</p>
<p>The Department of Economic and Community Development should ensure that it only pays for eligible project costs.</p>	<p>RESOLVED</p>

<p style="text-align: center;">Prior Recommendation</p>	<p style="text-align: center;">Current Status</p>
<p>The Department of Economic and Community Development should enter advances or forgiveness 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 or loan modification letters.</p>	<p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 7</p>
<p>The Department of Economic and Community Development should ensure that it receives and reviews recipient job audits in a timely manner. In addition, the department should promptly and correctly apply penalties or loan forgiveness that results from those reviews.</p>	<p style="text-align: center;">REPEATED Modified Form</p> <p style="text-align: center;">Recommendation 8</p>
<p>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.</p>	<p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 3</p>
<p>The Department of Economic and Community Development should adequately monitor grant recipients and should ensure that they comply with reporting requirements. In addition, the department should complete its due diligence and sufficiently gauge the demand for equipment prior to awarding a grant for its purchase and should ensure that the grantee uses the equipment for a sufficient period.</p>	<p style="text-align: center;">RESOLVED</p>
<p>The Department of Economic and Community Development should ensure it gives the regional tourism districts sufficient time to spend grant funds and should ensure that the districts comply with the General Statutes and requirements in grant agreements. In addition, the department should require the tourism districts to submit a copy of their board-approved partner agreements.</p>	<p style="text-align: center;">RESOLVED</p>
<p>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 job reviews on older projects before funding new projects.</p>	<p style="text-align: center;">RESOLVED</p>
<p>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.</p>	<p style="text-align: center;">RESOLVED</p>

<p style="text-align: center;">Prior Recommendation</p>	<p style="text-align: center;">Current Status</p>
<p>The Department of Economic and Community Department should ensure that it collects the proper amount of application and annual fees for Urban and Industrial Site Reinvestment tax credits prior to their issuance.</p>	<p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 2</p>
<p>The Department of Economic and Community Development should strengthen its internal controls to ensure that the amount of loans receivable reported to the Office of the State Comptroller is accurate and includes estimated uncollectible receivables.</p>	<p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 10</p>
<p>The Department of Economic and Community Development should ensure that loan interest is calculated and billed or capitalized in accordance with financial assistance agreements.</p>	<p style="text-align: center;">RESOLVED</p>
<p>The Department of Economic and Community Development should post deposits in a timely manner.</p>	<p style="text-align: center;">RESOLVED</p>
<p>The Department of Economic and Community Development should prepare monthly reconciliations of all cash receipts.</p>	<p style="text-align: center;">RESOLVED</p>
<p>The Department of Economic and Community Development should 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 loans receivable balances are accurately and properly recorded in the state's financial statements.</p>	<p style="text-align: center;">REPEATED Modified Form</p> <p style="text-align: center;">Recommendation 11</p>
<p>The Department of Economic and Community Development should require terminated lending partners to transfer active loans to the department or sign an amended lending agreement.</p>	<p style="text-align: center;">RESOLVED</p>
<p>The Department of Economic and Community Development should ensure that it follows time and attendance requirements as promulgated in the General Statutes, state regulations, collective bargaining agreements, and department policies.</p>	<p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 15</p>
<p>The Department of Economic and Community Development should comply with the State Personnel Act and bargaining unit agreements by not relying on consultants' work for extended periods for tasks that department employees can perform.</p>	<p style="text-align: center;">RESOLVED</p>

<p style="text-align: center;">Prior Recommendation</p>	<p style="text-align: center;">Current Status</p>
<p>The Department of Economic and Community Development should ensure all required reports are complete and accurate. In addition, the department should pursue the repeal of statutes requiring reports that are duplicative or are no longer necessary.</p>	<p style="text-align: center;">REPEATED Modified Form</p> <p style="text-align: center;">Recommendation 16</p>
<p>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. In addition, the department should reassign unused equipment or report it to the State Property Distribution Center.</p>	<p style="text-align: center;">REPEATED Modified Form</p> <p style="text-align: center;">Recommendation 17</p>
<p>The Department of Economic and Community Development should immediately deactivate the Core-CT access of separated employees.</p>	<p style="text-align: center;">RESOLVED</p>
<p>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.</p> <p>In addition, the department should pursue the repeal of the statutes establishing the Commission on Connecticut’s Future, the Committee for the Restoration of Historic Assets in Connecticut, the Small Business Advisory Board, the Culture and Tourism Advisory Committee, and the Sports Advisory Board if they are no longer active or necessary.</p>	<p style="text-align: center;">RESOLVED</p>

OBJECTIVES, SCOPE, AND METHODOLOGY

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 fiscal years ended June 30, 2020, 2021, and 2022. The objectives of our audit were to evaluate the:

1. Department's internal controls over significant management and financial functions;
2. 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. Effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

In planning and conducting our audit, we focused on areas of operations based on assessments of risk and significance. We considered the significant internal controls, compliance requirements, or management practices that in our professional judgment would be important to report users. The areas addressed by the audit included payroll and personnel, revenue and cash receipts, accounts receivable, purchasing and expenditures, asset management, reporting systems, information technology, grants, loans, and tax credits. We also determined the status of the findings and recommendations in our prior audit report.

Our methodology included reviewing written policies and procedures, financial records, meeting minutes, and other pertinent documents. We interviewed various personnel of the department and certain external parties. We also tested selected transactions. This testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

The accompanying financial information is presented for informational purposes. We obtained this information from various available sources including the department's management and state information systems. It was not subject to our audit procedures. For the areas audited, we identified

1. Deficiencies in internal controls;
2. Apparent non-compliance with laws, regulations, contracts and grant agreements, policies, or procedures; and

3. A need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Department of Economic and Community Development.

ABOUT THE AGENCY

Overview

The [Department of Economic and Community Development](#) 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.

David Lehman was appointed as commissioner of DECD in February 2019 and served in that capacity until January 2023. Alexander Daum was appointed commissioner of DECD in January 2023 and served in that capacity until December 2023. Daniel O'Keefe was appointed acting commissioner in December 2023 and currently serves in that capacity.

The Department of Administrative Services Small Agency Resource Team (SmART) administers DECD's payroll and human resource functions.

Significant Legislative Changes

Notable legislative changes that took effect during the audited period are presented below:

- **Public Act 19-54**, effective July 1, 2019, directed DECD to prioritize applications for tax credits for substantially rehabilitated certified historic structures, urban and industrial site reinvestment, and state financial assistance for brownfield remediation involving projects located in the state's federally designated opportunity zones.
- **Public Act 19-69**, effective October 1, 2019, expanded the state's whistleblower protection law to cover entities that receive state financial assistance under the commerce and economic and community development laws set forth in Title 32 of the General Statutes.

- **Public Act 21-1**, effective July 1, 2021, authorized DECD to enter agreements to provide tax incentives to qualifying data centers that locate within the state and make a minimum investment. It established an Office of Data Infrastructure Administration and Security within DECD to serve as a liaison between applicants and qualified data centers and other state agencies and assist applicants and qualified data centers.
- **Public Act 21-188 (Section 2)**, effective October 1, 2021, required DECD to prioritize applicants for economic development financial assistance that demonstrate a willingness to make jobs available to unemployed and low-income individuals, dislocated workers, those training for nontraditional employment, veterans, minorities, women, and individuals with disabilities.
- **Special Act 21-25 (Section 2)**, effective July 12, 2021, required DECD, in consultation with AdvanceCT, to develop a plan to support the state’s remote work economy, including, but not limited to, the promotion of existing remote work workspaces and incentives for the creation of new remote work workspaces in the state, including in central business district locations, underutilized office space, and unoccupied shopping malls.
- **Public Act 21-2 June Special Session (Section 475)**, effective July 1, 2021, authorized up to \$875 million in bonds to fund projects and grants in municipalities designated as public investment communities pursuant to Section 7-545 of the General Statutes or as alliance districts pursuant to Section 10-262u. It established a Community Investment Fund 2030 Board within DECD to effectuate the process.
- **Public Act 22-4**, effective April 28, 2022, authorized DECD to enter an assistance agreement with an eligible aerospace company that intends to take on a qualifying helicopter production project for the United States government in Connecticut. Under the act, the company’s aerospace manufacturing project must meet specified criteria, including agreeing to minimum requirements for total employment, average employee wages, supplier spend, and capital expenditures in furtherance of the project through at least June 30, 2042.

Boards, Commissions, Committees, and Councils

Name	General Statute Section	Statutory Responsibilities
State Historic Preservation Board	§10-321q	Reviews nominations to the National Register of Historic Places to determine whether the property meets the National Register criteria for evaluation and makes a recommendation that the State Historic Preservation Officer either nominate or reject the proposed nomination.
Connecticut Tourism Council	§10-397c	Represents the many sectors of the Connecticut Tourism industry.
Historic Preservation Council	§10-409	Advises DECD on critical historic preservation functions, reviews and approves requests to perform rehabilitation work on properties that DECD holds preservation restrictions, prevents

		the unreasonable destruction of historic properties with the assistance of the Office of the Attorney General, places and maintains suitable markers, memorials, or monuments to designate sites or places of historical significance, and develops a model ballot for use by clerks of municipalities considering the establishment of local historic districts.
Manufacturing Innovation Advisory Board	§32-7n	Oversees the Connecticut Manufacturing Innovation Fund, which supports the growth, innovation, and progress of the advanced manufacturing sector. Establishes an application and approval process for financial assistance, and approves fund expenditures, budgets, and reports.
Technology Talent Advisory Committee	§32-7p	Identifies shortages of qualified employees in specific technology sectors and develops pilot programs to address those shortages.
Minority Business Initiative Advisory Board	§32-7q	Advises the DECD commissioner about how to assist minority owned businesses and administers economic opportunity programs.
Community Investment Fund 2030 Board	§32-285a	Accepts applications for funding under the program from municipalities, community development corporations, and nonprofits undertaking eligible projects. Establishes a process by which the board reviews the applications and submits them to the governor for his review.

Financial Information

DECD operations for the fiscal years ended June 30, 2020, 2021, and 2022 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 Receipts

General Fund revenues were minor in amount and steady during the audited period. They totaled \$12,989, \$3,754, and \$7,161 during the fiscal years ended June 30, 2020, 2021, and 2022, respectively.

General Fund Expenditures

A summary of General Fund expenditures during the audited period follows:

	Fiscal Year Ended June 30,		
	2020	2021	2022
Personal Services	\$ 7,062,602	\$ 7,741,836	\$ 7,590,978
Other Expenses	634,913	664,089	41,541,171
Spanish-American Merchants Association	427,782	442,194	442,193
Office of Military Affairs	125,207	115,798	139,420
Connecticut Manufacturing Supply Chain	90,000	85,000	85,000
Capital Region Development Authority	6,249,121	12,249,121	13,736,121
Manufacturing Growth Initiative	81,207	134,483	153,884
Hartford 2000	20,000	14,000	20,000
Total	\$ 14,690,832	\$ 21,446,521	\$ 63,708,767

The increase in total expenditures during the fiscal year ended June 30, 2021 was primarily due to additional payments to the Capital Region Development Authority (CDRA). In addition to its regular operating subsidy of \$6,249,121, DECD paid CRDA \$3,000,000 to subsidize operating expenses of the convention center and other venues significantly impacted by the COVID-19 pandemic. DECD also paid CRDA \$3,000,000 of the \$10,487,000 in deficiency funds appropriated by Special Act 21-15. It paid the remaining \$7,487,000 during the fiscal year ended June 30, 2022.

The increase in total expenditures during the fiscal year ended June 30, 2022 was primarily due to various grant payments to specific entities authorized by Special Act 21-15. The budget act classified the amounts appropriated as other expenses.

Special Revenue Funds

DECD uses one of these funds to account for federal and other restricted monies. In addition, DECD utilized nine 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 follows:

	Fiscal Year Ended June 30,		
	2020	2021	2022
Federal Contributions	\$ 2,208,473	\$ 109,633,877	\$ 43,426,966
Restricted Contributions, Other	37,057,967	37,480,414	84,345,131
Principal and Interest on Loans	31,931,686	44,240,359	31,108,966
All Other	11,793,537	6,513,668	12,783,887
Total	\$ 82,991,663	\$ 197,868,318	\$ 171,664,950

The increase in federal contributions during the fiscal year ended June 30, 2021 and subsequent decrease during the fiscal year ended June 30, 2022, was primarily due to the timing of the receipt of federal Coronavirus Relief Fund monies, \$106,430,191 and \$3,743,023 during the fiscal years ended June 30, 2021 and 2022, respectively. The receipt of \$37,336,096 in federal funding under the new State Small Business Initiative Capital Grant Program in the fiscal year ended June 30, 2022 partially offset the decrease in the amount of Coronavirus Relief Fund monies received during that year.

The \$46,864,717 increase in other (non-federal) restricted contributions during the fiscal year ended June 30, 2022 was primarily due to an additional amount transferred from the STEAP-Grants to Local

Governments Fund to the Federal and Other Restricted Accounts Fund for the Small Business Express and Brownfield Remediation and Development Programs. These transfers are recorded as expenditures of the STEAP-Grants to Local Governments Fund and receipts of the Federal and Other Restricted Accounts Fund.

A summary of expenditures from special revenue funds during the audited period follows:

	Fiscal Year Ended June 30,		
	2020	2021	2022
Loans	\$ 74,163,137	\$ 18,867,079	\$ 967,601
Grants	92,518,873	193,373,487	199,685,390
Administration	10,030,461	10,117,874	20,243,105
Total	\$ 176,712,471	\$ 222,358,440	\$ 220,896,096

The growth during the fiscal year ended June 30, 2021 was primarily due to an increase of \$106,042,186 in federal Coronavirus Relief Fund expenditures, partially offset by a decrease of \$61,583,884 in Small Business Express Program expenditures from the Federal and Other Restricted Accounts Fund. Federal Coronavirus Relief Fund expenditures decreased to \$3,743,023 during the fiscal year ended June 30, 2022, but this reduction was largely offset by the expenditure of \$94,311,593 under the new federal Coronavirus State and Local Fiscal Recovery Funds program.

Capital and Non-Capital Improvement Funds

Total expenditures from capital and non-capital improvement funds were \$27,671,041, \$34,491,677, and \$28,734,362 during the fiscal years ended June 30, 2020, 2021, and 2022. The majority of these expenditures were for the Urban Act program. The State Bond Commission authorized Urban Act program funds 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. 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 \$804,072, \$802,536, and \$860,972, during the fiscal years ended June 30, 2020, 2021, and 2022, respectively. A summary of financial transactions for the audited period follows:

	Fiscal Year Ended June 30,		
	2020	2021	2022
Book Value, beginning of year	\$ 17,025,004	\$ 16,459,201	\$ 16,481,944
Shares Purchased	2,850,761	3,604,950	3,350,047
Shares Redeemed	(3,651,917)	(4,407,403)	(4,211,469)
Gain/(Loss) on Shares Redeemed	235,353	825,196	1,033,076
Net Investment Income Earned	2,285	678	410
Net Investment Income Disbursed	(2,285)	(678)	(410)
Book Value, end of year	\$ 16,459,201	\$ 16,481,944	\$ 16,653,953

The fair market value of trust fund assets as of June 30, 2022, was \$20,435,846.

Other Reviews

Section 32-1m(a)(4) of the General Statutes provides that, not later than 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 administered by Connecticut Innovations, Incorporated, during the preceding state fiscal year.

Section 2-90c of the General Statutes provides that, as part of each audit the Auditors of Public Accounts performs of DECD, the auditors shall evaluate the annual reports submitted since the last audit and the analyses required under subdivision (2) of subsection (a) of Section 32-1m of the General Statutes. Subdivision (2) pertains to analyses of the economic development portfolio of DECD that are included in the annual report. The auditor's evaluation shall include:

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 August 9, 2023, our office completed an [evaluation](#) of the DECD 2020, 2021 and 2022 annual reports. Our evaluation focused on determining whether fiscal year data presented in the annual reports for the fiscal years ended June 30, 2020, 2021, and 2022 appeared accurate and whether the annual reports satisfied the reporting requirements under subsection (a) of Section 32-1m of the General Statutes. We also evaluated the accuracy of portfolio data, including economic impact analyses, for 2022 which reflects activity from 2020, 2021, and preceding years. We evaluated the remaining requirements in a separate performance audit, which our office released on [May 21, 2019](#), and followed up on [April 6, 2022](#).