

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT PORT AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 and 2017*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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MAY 17, 2019

EXECUTIVE SUMMARY

This report presents the results of our audit of the Connecticut Port Authority (CPA) for the fiscal years ended June 30, 2016 and 2017. Under Section 1-122 of the General Statutes, we are required to conduct a compliance audit of CPA on a biennial basis.

CPA was created by Public Act 15-5, effective July 1, 2015. It did not commence operations until the following fiscal year. Executive Director Evan Matthews, who started in September 2016, was the only CPA employee during the fiscal year ended June 30, 2017.

The Department of Transportation (DOT) and the Department of Economic and Community Development (DECD) assist CPA with operations. Two DOT employees worked full-time on CPA projects and various DECD employees provided administrative assistance to the authority. CPA was not charged for these employees.

Our audit of CPA identified control deficiencies and instances of noncompliance with state statutory and federal regulatory requirements, which appeared to be attributable to a lack of resources during its first year of operations. CPA informed us that it has corrected or is in the process of correcting these deficiencies.

We present the following findings and recommendations for corrective action in this report:

- The Connecticut Port Authority did not adopt procedures concerning affirmative action, personnel practices, the use of surplus funds and the distribution of loans, grants and other financial assistance, during the audited period, as required by Section 1-121 and Section 1-122 of the General Statutes. We recommend that CPA adopts these procedures.
- In March 2017, the Connecticut Port Authority opened bank accounts, but did not maintain an accounting system for the accounts. We are not presenting a recommendation, because CPA hired an accounting firm in September 2017 to retroactively enter transactions in order to perform reconciliations of the accounts.
- The Connecticut Port Authority misclassified a temporary employee as a consultant. CPA did not withhold or pay income taxes, Social Security, Medicare, and unemployment taxes. We recommend that CPA takes corrective action.
- The Connecticut Port Authority did not prepare and submit the reports required by Section 1-123 of the General Statutes. We recommend that CPA comply with those requirements.

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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May 17, 2019

AUDITORS' REPORT CONNECTICUT PORT AUTHORITY FOR THE FISCAL YEARS ENDED JUNE 30, 2016 and 2017

We have audited certain operations of the Connecticut Port Authority in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2016 and 2017. The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;
2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the Connecticut Port Authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial assistance, as applicable; and
3. Evaluate the effectiveness, 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 authority, as well as certain external parties; 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 authority's management and the state's information systems, and was not subjected to the procedures applied in our audit of the authority. 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 Connecticut Port Authority.

COMMENTS

FOREWORD

The Connecticut Port Authority (CPA) was established by Public Act 15-5, effective July 1, 2015. CPA operates principally under the provisions of Title 15, Chapter 264a of the General Statutes. Section 15-31a subsection (a) of the General Statutes names CPA a public instrumentality and political subdivision of the state created for the performance of an essential public and governmental function. Pursuant to Chapter 12, Section 1-120 CPA is classified as a quasi-public agency subject to the requirements found in Chapter 12. As a quasi-public agency, the CPA financial information is included as a component unit in the state's Comprehensive Annual Financial Report (CAFR).

The authority oversees 3 deep water ports (Bridgeport, New Haven and New London) and various small and mid-size coastal and river harbors that make important contributions to the state's economy.

The authority's mission is to develop and market the state's ports and promote its maritime economy. Specifically, the authority:

1. Coordinates port development, focusing on private and public investments;
2. Pursues state and federal funds for dredging and other infrastructure improvements to increase cargo movement through the ports and maintain navigability of all ports and harbors;
3. Works with the Department of Economic and Community Development (DECD) and state, local, and private entities to maximize the ports' and harbors' economic potential;
4. Supports and enhances the overall development of maritime commerce and industries;
5. Coordinates the state's maritime policy and serves as the governor's principal maritime policy advisor.

Board of Directors and Administrative Officials

Pursuant to Section 15-31a of the General Statutes, the CPA Board of Directors consists of 15 voting members. Five serve as ex-officio members and 10 are appointed members.

Members of the board as of June 30, 2017, were as follows:

Ex-Officio Members:

Catherine H. Smith	Commissioner, Department of Economic and Community Development, Vice Chair
Garret Eucalitto	Undersecretary, Office of Policy and Management
Denise L. Nappier	State Treasurer, Office of the State Treasurer
James P. Redeker	Commissioner, Department of Transportation
Michael Sullivan	Deputy Commissioner, Department of Energy and Environmental Protection

Appointed Members:

Scott Bates	Chair
Nancy J. DiNardo	
Pamela K. Elkow	
Donald B. Frost	
Terry Gilbertson	
John Johnson	
Henry Juan III	
David E. Pohorylo	
Bonnie Reemsnyder	
Parker S. Wise	

The board appoints the CPA executive director. Evan Matthews was appointed executive director in September 2016, and served in that capacity throughout the audited period.

Significant Legislation

Noteworthy legislation that took effect during the audited period included:

- Public Act 14-222, created the CPA as a quasi-public agency effective October 1, 2015 and, effective June 13, 2014, required the development of a plan to move Department of Transportation (DOT) maritime functions to the authority.
- Public Act 15-5 of the June Special Session established the quasi-public CPA effective July 1, 2015 instead of October 1, 2015. It eliminated the Connecticut Maritime Commission, effective July 1, 2015 and transferred oversight of maritime and most harbor and port-related laws from DOT to the authority as of July 1, 2016. It required DOT to enter into 1 or more memoranda of understanding to provide for an orderly transition. On June 23, 2016, CPA and DOT executed a memorandum of understanding that transferred responsibility for the care, custody and control of state port property from the department to the authority. Additionally, on March 29, 2016, CPA and DECD executed a memorandum of understanding for administrative support services to be provided to the authority by DECD.

Connecticut Pilot Commission

The Connecticut Pilot Commission assists and advises the authority on matters related to the licensure of marine pilots, the safe conduct of vessels, pilotage rates and the protection of the ports and waters of Connecticut. Public Act 15-5 of the June Special Session transferred administrative oversight of the Connecticut Pilot Commission from DOT to the authority.

Accounting Policies

With the assistance of DECD, during the audited period, CPA utilized Core-CT to account for its operations. However, in March 2017, the authority also opened depository and disbursement bank accounts and started using them for general operating purposes. The authority did not maintain accounting system detailing the transactions and balances of its bank accounts during the audited period. In September 2017, the authority hired an accounting firm to retroactively enter the transactions in order to perform reconciliations, which is discussed further in the State Auditors' Findings and Recommendations section of this report.

RÉSUMÉ OF OPERATIONS

Introduction

The authority was established effective July 1, 2015 and the board held its first meeting on February 29, 2016. However, DOT did not transfer its responsibilities for the care, custody and control of state port property to the authority until June 23, 2016, when the authority and the

department executed a memorandum of understanding. Until that time, the operating expenditures were under the authority of the DOT Maritime Office. The fiscal year ended June 30, 2017 was the first operational year of the CPA.

Revenue Receipts

The principal sources of CPA revenue included state appropriations, pilotage fees, and lease revenue. CPA received \$519,506 from the state during the fiscal year ended June 30, 2017. This amount included \$119,506 collected by the DOT Office of Maritime in the fiscal year ended June 30, 2016 and \$400,000 in state funding appropriated to the authority for the fiscal year ended June 30, 2017. The \$519,506 was transferred from DOT, through DECD, to the authority. A summary of CPA revenue during FY 2017 is presented below:

Receipt Description	Fiscal Year Ended June 30, 2017
State funding	\$519,506
Assessable revenue from leases (6.75%)	394,540
Rent – docks and wharves	213,366
Pilotage – CT waters	66,126
Total	\$1,193,538

Revenue presented above includes revenue received and processed by DECD through Core-CT, the state’s accounting system, and revenue received by the authority and deposited to its bank account.

Expenditures

CPA major expenses are salaries, attorney and legal fees, additional staff, and marketing and business development.

A summary of CPA expenses processed by DECD through Core-CT and expenses processed by the authority through its own bank account during fiscal year ended June 30, 2017 follows:

Expenses Description	Fiscal Year Ended June 30, 2017
Salary expenses	\$205,252
Attorney/legal fees	119,183
Additional staff	54,989
Marketing and business development	44,781
Fixed expenses	23,625
Office relocation and equipment	5,843
Total	\$453,673

Expenses listed above do not include the salaries of 2 DOT employees working full time on CPA projects and various DECD employees providing administrative assistance to CPA.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Lack of Written Procedures

- Criteria:* Section 1-121 of the General Statutes establishes a process for the adoption of procedures by quasi-public agencies. Section 1-122 requires the Auditors of Public Accounts to determine compliance with procedures established concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial assistance. This legislation establishes the legislature's intent to require quasi-public agencies to adopt procedures concerning these specific matters.
- Condition:* The Connecticut Port Authority did not adopt procedures concerning affirmative action, personnel practices, the use of surplus funds and the distribution of loans, grants and other financial assistance during the audited period.
- Effect:* The lack of formal and written procedures increases the risk that CPA may perform certain functions inefficiently, inaccurately, or not perform them at all.
- Cause:* CPA is a recently created quasi-public agency, which may have caused this condition. CPA informed us that it was planning to develop procedures, but had not done so during the period of our field work.
- Recommendation:* The Connecticut Port Authority should develop and implement formal written procedures concerning affirmative action, personnel practices, the use of surplus funds and the distribution of loans, grants and other financial assistance. (See Recommendation 1.)
- Agency Response:* "The Audit Report incorrectly states that Section 1-121 of the General Statutes requires the CPA to adopt written procedures. Indeed, neither Chapter 264a of the General Statutes (C.G.S. § 15-31a - 15-31i) nor CPA's enabling legislation (P.A. No. 15-5 June Special Session (collectively, the "Act")) require the CPA to adopt written procedures concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds or the distribution of loans, grants and other financial assistance. While the Auditors of Public Accounts ("APA") maintain and interpret C.G.S. §§ 1-121 and 1-122 to demonstrate the legislature's intent to require all quasi-public agencies to adopt written procedures concerning the above-listed matters, specific

statutory requirements to adopt such written procedures are expressly enumerated in the respective enabling acts of most, but not all, of the quasi-public agencies, identified in C.G.S. § 1-120(1). (See generally C.G.S. §§ 8-119zz(d); 8-249(c); 10a-179(h); 10a-224(f); 15-120dd; 16- 245n(e)(2); 22a-268a; 31-417(j); 32-35(d) & 32-39h; & 32-603).

The Act does not specifically require the CPA to adopt any of the written procedures set forth in the Audit Report. As such, CPA was not on notice of and, as noted previously, its Act does not impose any statutory requirements to establish written procedures concerning the specific matters referenced in C.G.S. § 1-122. C.G.S. § 1-122 also states that the APA “shall determine whether the quasi-public agency has complied with its regulations” concerning the specific matters referenced in C.G.S. § 1-122. (emphasis added). Section 1-122, alone, only imposes a requirement upon some, but not all, quasi-public agencies to establish written procedures. While the APA deems it good business practice to adopt such written procedures, and cites the Connecticut Lottery Corporation—that adopted such written procedures though not required by its enabling act to do so—as evidence that the mandate applies to CPA, by implication. Nevertheless, the CPA is not expressly required to adopt such written procedures pursuant to C.G.S. § 1-122 or its Act. Principles of statutory construction prescribe that the legislature is presumed to act intentionally when it includes language in one area of the statutes, but excluded the language in another.

CPA’s Act provides that the regulations of the Department of Transportation are to become the written procedures of the CPA and any directives in the Act, concerning the establishment of written procedures, are limited to carrying out the purposes of specific sections. The CPA’s Navigable Waters – Marine Pilots Procedures, which were adopted in March of 2017, and Rates of Pilotage Procedures, which will be on the agenda for adoption at the March 7, 2018 meeting of the Board, address those specific sections and meet the directives of the Act.

The CPA does, however, agree that the written procedures enumerated for other quasi-public agencies are important procedures and some have been considered by the Board and undoubtedly others will be considered by the Board in the future.

The CPA has in fact been busy with the adoption of various procedures and policies as follows:

1. CPA adopted its Operating Procedures in accordance with C.G.S. § 1-121, which govern its procurement practices and some personnel practices in March, 2017.
2. In December of 2017, CPA adopted its Employee Manual, which comprises its affirmative action policy and other personnel matters.
3. CPA’s Finance Committee has internal procedures in place with respect to financial practices and CPA uses internal guidelines to govern each of its financial assistance programs (ex. Small Harbor Improvements Projects Program (“SHIPP”) Grant Policies and Procedures).”

Auditors’ Concluding

Comment:

We believe it was the legislature’s intent to require quasi-public agencies to adopt procedures in order to ensure that requirements prescribed within Section 1-122 of the General Statutes are satisfied.

Bank Account Control Deficiencies

Background:

In March 2017, the Connecticut Port Authority opened depository and disbursement bank accounts and began using them for general operating purposes. The depository account was used for revenues and the disbursement account for payments.

Criteria:

The maintenance of accounting records for bank accounts and the timely reconciliation of those records to bank statements are basic elements of internal control.

Condition:

The Connecticut Port Authority did not maintain accounting records detailing the transactions and balances of its bank accounts during the audited period. CPA could not perform bank reconciliations, because there were no accounting records to reconcile.

Effect:

These conditions increase the potential for errors or fraud and weaken financial reporting.

Cause:

CPA informed us that these conditions were due to a lack of staffing during its first operational fiscal year.

Conclusion: We are reporting this control weakness as it existed during the audited period. When we requested accounting records and bank reconciliations for the audited period, they were not available.

However, we are not presenting a recommendation, because the authority hired an accounting firm, which retroactively entered accounting transactions from the point the bank accounts were opened and performed reconciliations after our request for such records in September 2017.

Agency Response: “As noted, since the audited period, in September of 2017, CPA retained BlumShapiro as its accounting firm and Accurate Ledgers, LLC, as its bookkeeper, in efforts to perform reconciliations and address its bank account control deficiencies.”

Employee Misclassification as Consultant

Criteria: According to Internal Revenue Service (IRS) guidance, the classification of a worker as an employee, independent contractor, consultant, or other type of worker is primarily based on the degree of control that the hiring organization has over the worker. If a worker must follow the organization’s instructions on when, where, and how to conduct their work, they are likely to be an employee.

Condition: During the audited period the Connecticut Port Authority hired a worker and paid him as a consultant. The job description for this worker lists the following job functions:

- Distribute emails, marketing materials, and deliverables, as necessary;
- Provide assistance in website maintenance;
- Provide logistical support in planning of monthly meetings;
- Creation and preparation of deliverables (folders, presentations, etc.); and
- Other duties as determined by the executive director.

The job description also states that the worker should expect to work between 10 to 15 hours per week and describes the worker as an employee.

Based on the job description and functions performed by the temporary CPA worker, it appears that CPA misclassified the employee as a consultant.

- Effect:* CPA did not withhold or pay income taxes, Social Security, Medicare, and unemployment taxes.
- Cause:* Management did not properly apply IRS guidance regarding worker status classification.
- Recommendation:* The Connecticut Port Authority should take corrective action as necessary to address the effects of misclassification of a temporary employee as a consultant. (See Recommendation 2.)
- Agency Response:* “As an intern, the CPA understood that Michael McCaffrey would be providing services to the CPA. However, CPA did not understand, and was not initially aware, that a service provider, who would be providing part-time services for a short period of time, could be classified as an employee (the internship lasted from January through March 2017 on a part-time basis). Furthermore, Mr. McCaffrey often worked independently on CPA projects. For example, he helped to develop the grant-in-aid program known as SHIPP. CPA agreed to pay the service provider \$15 per hour worked and instructed Mr. McCaffrey to log his hours worked in an Excel file. Payment was made in several installments. CPA believed, at the time, that such service provider was an independent contractor. Therefore, the purchase order (and subsequent check requests) to DECD reflect payment for consulting services rather than a request that Mr. McCaffrey be added to payroll as a new employee. CPA now understands that neither the manner of payment, nor the length of service dictate whether an individual service provider is classified as an employee or an independent contractor; instead, it is the nature of the relationship between service provider and service recipient based on the type of service(s) performed that controls this classification. The CPA has committed to taking corrective action in this matter and, going forward, future service characterization decisions will be made with the IRS’ procedures regarding worker status classification in mind.”

Noncompliance with Reporting Requirements

- Criteria:* Section 1-123 subsection (a) of the General Statutes requires the board of directors of each quasi-public agency to annually submit a comprehensive report on agency operations to the Governor and the Auditors of Public Accounts. Section 1-123 sets forth specific information that must be presented in such report.

Section 1-123 subsection (b) requires that, for the quarter commencing July 1, 2010, and for each quarter thereafter, the board of directors of each quasi-public agency must submit a financial report to the Legislative Office of Fiscal Analysis.

Section 1-123 subsection (c) requires that, for the quarter commencing July 1, 2010, and for each quarter thereafter, the board of directors of each quasi-public agency must submit a personnel status report to the Legislative Office of Fiscal Analysis.

Condition: The Connecticut Port Authority did not submit the reports required by Section 1-123.

Effect: The failure to adhere to statutory reporting requirements prevents the distribution of information to the parties that need it to make informed decisions.

Cause: The Connecticut Port Authority is a recently created quasi-public agency with limited resources. Lack of resources was a factor in the noncompliance with the requirement.

Recommendation: The Connecticut Port Authority should comply with the reporting requirements of Section 1-123 of the General Statutes. (See Recommendation 3.)

Agency Response: “Reports required to be filed by the CPA for the audited period (FYE 6/30/16 & 6/30/17) were not completed. Going forward, CPA will endeavor to meet all of its reporting requirements set forth in the General Statutes. As evidence of CPA’s renewed commitment and ongoing efforts at compliance with its reporting requirements, since the close of the last fiscal year end, the Board of Directors has authorized the filing of CPA’s Annual Report, pursuant to C.G.S. § 15-31a(k), on December 6, 2017, which was filed on December 14, 2017. Furthermore, at the January 3, 2018 meeting of the Board, the Board authorized the filing of such other reports, as required by the General Statutes. Currently, CPA is in the process of preparing its FYE 7/1/17 – 6/30/18 annual and quarterly reports, pursuant to C.G.S. § 15-31a(o) & C.G.S. § 1-123 and C.G.S. §§ 1-123(b)-(c), respectively, for the filing of same.

Finally, with respect to all of the APA findings presented, please note that the fiscal year ended June 30, 2017 was CPA’s first operational year. While the Department of Economic and Community Development (DECD) provided administrative support to assist with the coordination of CPA’s management and

its operational activities, CPA was in its infancy and did not have the resources, or personnel, to properly handle its myriad responsibilities and the areas identified above. Presently, CPA is better staffed, and can focus its attention and efforts on compliance with all of its organizational, management, and reporting requirements under law.”

RECOMMENDATIONS

Prior Audit Recommendations:

There were no prior audit recommendations or findings. The Connecticut Port Authority is a recently created quasi-public agency and this audit is the first audit since it was created.

Current Audit Recommendations:

- 1. The Connecticut Port Authority should develop and implement formal written procedures concerning affirmative action, personnel practices, the use of surplus funds and the distribution of loans, grants and other financial assistance.**

Comment:

The Connecticut Port Authority did not adopt procedures concerning affirmative action, personnel practices, the use of surplus funds and the distribution of loans, grants and other financial assistance, as required by Sections 1-121 and 1-122 of the General Statutes.

- 2. The Connecticut Port Authority should take corrective action as necessary to address the effects of misclassification of a temporary employee as a consultant.**

Comment:

The Connecticut Port Authority misclassified a temporary employee as a consultant. CPA did not withhold or pay income taxes, Social Security, Medicare, and unemployment taxes.

- 3. The Connecticut Port Authority should comply with the reporting requirements of Section 1-123 of the General Statutes.**

Comment:

The Connecticut Port Authority did not submit the reports required by Section 1-123.

ACKNOWLEDGEMENT

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

James Carroll
Tatsiana Sidarau

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut Port Authority during the course of this examination.



Tatsiana Sidarau
Staff Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor