

STATE OF CONNECTICUT

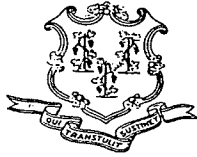
**AUDITORS' REPORT
CONNECTICUT RESOURCES
RECOVERY AUTHORITY
FOR THE FISCAL YEARS ENDED
JUNE 30, 2001 AND 2002**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE OF AUDIT.....	1
COMMENTS	1
FOREWORD	1
Board of Directors and Administrative Officials	2
Significant Events	3
Significant Legislation	4
Other Examinations	5
RÉSUMÉ OF OPERATIONS	5
Mid-Connecticut Project.....	5
Bridgeport Project.....	6
Wallingford Project.....	7
Southeast Project.....	8
Non-Project Ventures.....	9
Summary of Revenues, Expenses and Net Income.....	9
Statement 18 of the Governmental Accounting Standards Board	9
CONDITION OF RECORDS	11
Compliance with Statewide Solid Waste Management Plan.....	11
Controls Over the Assessment of Fines	12
Compliance with State Set-Aside Requirements	13
Monitoring of Expenses for Outside Consultants.....	14
Annual and Quarterly Reporting	15
Documentation of Hiring Process	15
Payment Processing	16
Accountability of Inventories and Other Assets	17
RECOMMENDATIONS	19
CONCLUSION	22

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

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April 15, 2004

**AUDITORS' REPORT
CONNECTICUT RESOURCES RECOVERY AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

We have made an examination of the books, records and accounts of the Connecticut Resources Recovery Authority (CRRA or the Authority), as provided in Section 2-90, as amended, and Section 22a-263 of the General Statutes, for the fiscal years ended June 30, 2001 and 2002.

SCOPE OF AUDIT:

We have relied on the financial and compliance audits (required under Section 1-122 of the General Statutes) conducted by the CRRA's independent public accountants covering the fiscal years indicated above. Such reliance was placed after having satisfied ourselves as to the firm's professional reputation, qualifications and independence, and verifying that generally accepted accounting principles and auditing standards were followed in the audits and in the preparation of the reports. Financial statements of the CRRA are included in its annual reports for 2001 and 2002.

In addition to reviewing the audits and related working papers prepared by the CRRA's independent public accountants, we reviewed State statutory requirements. We conducted our audit in accordance with generally accepted government auditing standards for financial related audits. This report on our examination consists of the following Comments, Condition of Records, and Recommendations which follow.

COMMENTS

FOREWORD:

The Connecticut Resources Recovery Authority operates primarily under the provisions of Sections 22a-257 through 22a-285k of the General Statutes. The Authority is a public instrumentality and political subdivision of the State, established and created as a public benefit

corporation under the provisions of the Solid Waste Management Services Act (Title 22a, Chapter 446e of the General Statutes).

The function of the Authority is to implement effective systems and facilities for solid waste management and large-scale resources recovery in order to achieve maximum environmental and economic benefits for the people and municipalities of the State of Connecticut. The Authority is to provide solid waste management services to municipalities, regions and persons within the State, by receiving solid wastes at its facilities on a contractual basis. Revenue produced from such services and recovered resources are to provide for the support of the Authority and its operations on a self-sustaining basis. Unrestricted net assets are available to finance future operations or available to be returned through reduced tip fees or rebates. The Board of Directors of the Authority may designate unrestricted net assets for special purposes.

Under the provisions of Section 22a-262 of the General Statutes, the Authority is authorized to utilize, through contractual arrangements, private industry to implement some or all of the solid waste management plan and such other activities it considers necessary.

Board of Directors and Administrative Officials:

During the majority of the audited period, the Board of Directors of the Authority consisted of 13 directors, including the Secretary of the Office of Policy and Management and the Commissioners of Transportation and Economic and Community Development as ex-officio voting members, four directors appointed by the Governor, two appointed by the President Pro Tempore of the Senate and one appointed by the Minority Leader of the Senate, two appointed by the Speaker of the House and one appointed by the Minority Leader of the House. Additionally, two ad hoc members were appointed to the Board by the Governor with the advice and consent of the General Assembly for each of the four operating resources recovery facilities. The ad hoc members were electors from a municipality or municipalities in the area served by the facility and were to vote only on matters concerning such facility.

In accordance with Section 1, subsection (b), of Public Act 02-46, the composition of the Authority's Board of Directors changed effective June 1, 2002. The Board consisted of 13 directors, including the Secretary of the Office of Policy and Management and the State Treasurer as ex-officio voting members, three directors appointed by the Governor, two appointed by the president pro tempore of the Senate, two appointed by the Speaker of the House, two appointed by the Minority Leader of the Senate and two appointed by the Minority Leader of the House. Additionally, two ad hoc members to represent each facility shall be appointed by the Governor with the advice and consent of the General Assembly.

As of June 30, 2002, the directors of the Authority were as follows:

Ex-Officio:

Marc S. Ryan, Secretary, Office of Policy and Management
Denise Nappier, State Treasurer

Appointed by the Governor:

Michael A. Pace, Chair
R. Christopher Blake
Benson R. Cohn

Appointed by Legislative Leaders:

Stephen T. Cassano
Mark Cooper
James Francis
Alex P. Knopp
Mark A. Lauretti
Theodore Martland
Raymond J. O'Brien
Andrew M. Sullivan, Jr.

As of June 30, 2002, no ad hoc members had been appointed by the Governor.

It should be noted that in accordance with subsections (b) and (c) of Section 1 of Public Act 03-5 June Special Session approved in August 2003, the composition of the Authority's Board of Directors was further revised retroactively effective May 1, 2002 and June 1, 2002. The Secretary of the Office of Policy and Management and the State Treasurer were eliminated as ex-officio members reducing the Board to eleven members.

Robert E. Wright served as President until his resignation in April 2002. Thomas Kirk was appointed as President on November 21, 2002.

Significant Events:

In connection with the restructuring of the State's electric industry in March 2001, the Connecticut Light and Power Company (CL&P) assigned its Mid-Connecticut energy agreement with the Authority to Enron Power Marketing, Inc. (Enron) on April 30, 2001. Enron was obligated to pay the Authority a monthly \$2.2 million "capacity charge" for the purchase of steam, the purchase of the first 250 gigawatt hours of electricity produced each fiscal year, and an additional monthly charge of \$175,000 for conversion of steam into electricity from its Mid-Connecticut facility. By agreement, these payments were to continue through fiscal year 2012. As part of this transaction, Enron received \$220 million from the Authority and the Authority received \$59.97 million from CL&P during fiscal year 2001.

Enron filed for bankruptcy on December 2, 2001, and has not made its monthly capacity, electricity, or other payments due since that time. Since it is considered unlikely that Enron will make its other required payments to the Authority, management has decided not to record the amounts due from Enron on the Authority's financial statements. The net effect on the Mid-Connecticut Project is the loss of significant monthly operating revenues. In an effort to generate adequate revenues to pay debt service on its bonds, the Authority has increased the Mid-Connecticut tipping fees, is pursuing remedies in bankruptcy court and civil court in cooperation with the State's Attorney General, has entered into a two-year electricity sales agreement with Select Energy for increased electric rates on the output that would have been sold to Enron, and has become a wholesale electric supplier in the State.

The Mid-Connecticut Project bonds are secured by revenues from the participating member towns under service agreements that commit the towns to deliver a minimum amount of waste to the facility each year. In addition, some of the Mid-Connecticut project bonds are further secured by municipal bond insurance and by the Special Capital Reserve Fund (SCRF) of the State of Connecticut whereby the State is obligated to maintain a minimum capital reserve for the bonds to the extent the Authority uses monies in the special capital reserve fund to pay debt service on the Authority's outstanding bonds. At fiscal year end, it was unclear whether there would be any need for the State to make payments at some point in the future to maintain the minimum capital reserve requirement due to the non-receipt of payment from Enron. As of June 30, 2003, the Authority had approximately \$197 million Mid-Connecticut bonds outstanding of which the State's Special Capital Reserve Fund secured approximately \$183.8 million.

The situation has negatively impacted the ratings of one of the Authority's three outstanding Mid-Connecticut bonds. During March 2002, Moody's Investors Service twice downgraded that portion of the Mid-Connecticut bonds that were not secured by a municipal bond insurance policy on SCRF from "A2" to "Baa3". In October 2002, Standard & Poor's downgraded the same bonds from "A" to "BBB". These downgrades reflected the loss of revenues associated with the Enron bankruptcy.

In an effort to help ease the Mid-Connecticut project's financial situation, the General Assembly passed Public Act 02-46 during April 2002 as discussed below.

Significant Legislation:

Below is a summary of legislation during the audited period that affected the Authority:

Public Act 02-46, approved April 30, 2002, significantly amended Section 22a-261 of the General Statutes by altering the composition of the Board of Directors of the Authority and included new appointment criteria, terms, attendance requirements, and quorum definition. The Act also created a steering committee of the Board of Directors for the primary purpose of establishing a financial restructuring plan for the Authority. The purpose of the restructuring plan was to determine the financial condition of the Authority and provide for the mitigation of the impact of the CRRA-Enron-Connecticut Light and Power Company transaction on municipalities which have entered into solid waste disposal services contracts with the Authority. The Authority delivered its required Steering Committee Report to the Legislature on December 31, 2002.

The State authorized a loan to the Authority for up to \$115,000,000 to support the repayment of the Authority's debt for the Mid-Connecticut facility and to minimize the amount of tipping fee increases chargeable to towns which use the facility.

During the June 2003 Special Session, the Authority's enabling legislation was amended retroactively to change the composition of the Board from 13 members to 11 and also made corresponding changes to the quorum requirements. Further, the amendment repealed and replaced Sections 22a-261 and 22a-268d of the General Statutes and revised the structure of the loan by the

State requiring collateral, an analysis of staffing levels, performance and qualifications of staff and the Board. It also requires quarterly mitigation reports and that the Authority discusses with member municipalities their interest in extending the contracts beyond June 20, 2012.

Other Examinations:

As noted previously in this report, the financial statements of the Authority have been subject to annual audits by independent public accountants (IPAs). We have excerpted data from these audited financial statements that we present in the project discussions in the following section of this report.

Section 1-122 of the General Statutes requires that quasi-public agencies have a compliance audit performed annually. The reports for the years under review indicated that the Authority had complied in all material respects with the applicable statutory provisions. However, the IPAs issued a separate management letter to the CRRRA Board of Directors on September 23, 2002, identifying matters which appeared to require the strengthening of internal controls or presented opportunities for improved operating efficiency. The IPAs suggested that the Authority improve control over inventory and record retention responsibilities; modify the fixed asset system to be more responsive to the user in tracking additions/deletions; and reorganize its Finance Department for greater effectiveness.

Since the issuance of the IPA management letter, the Authority has hired a permanent Chief Financial Officer and Budget Analyst for the Finance Division and has begun the implementation process of strengthening internal controls over the areas addressed.

RÉSUMÉ OF OPERATIONS:

The Authority is comprised of four comprehensive solid waste disposal systems, a Non-Project Ventures group of accounts and an administrative pool. Each of the operating systems has a unique legal, contractual, financial and operational structure described as follows:

Mid-Connecticut Project:

The main components of this project are located in Hartford and consist of a waste processing facility, power block facility and regional recycling center. There are four operating transfer stations located in Torrington, Essex, Watertown and Ellington. The closure of the Ellington landfill in October of 1998 left the Hartford landfill as the only operating landfill within the Project.

The Hartford landfill, owned by the City of Hartford, is leased to the Authority. The landfill contains a methane gas extraction and collection system, which had been installed to reduce the odors and emissions produced by the landfill.

The waste processing facility, owned by the Authority, converts municipal solid waste into "refuse derived fuel" (RDF) by removing ferrous metals; screening and removal of process residues consisting of glass, grit, and other inert materials; and then shredding the trash. The shredded mixture is then blown into boilers located in the power block facility. The Mid-Connecticut Project is the only facility in Connecticut to utilize the RDF technology. The waste processing facility and

the Hartford landfill are operated by the Metropolitan District Commission under contract with the Authority. The power block facility and energy generating facility was operated by Covanta Energy Corp., under contract with the Authority during the audited period.

The Authority owns the transfer stations. The Torrington transfer station opened in March 1988. The Essex transfer station opened in October 1988. The Mid-Connecticut Project was certified for commercial operation on October 25, 1988. The Ellington transfer station opened in August 1990 and the Watertown transfer station opened in December 1990.

The Authority leases the land for the Essex transfer station and the paper-processing portion of the Regional Recycling Center and owns the land for the Resources Recovery Facility.

Below are selected revenue amounts extracted from the audited financial statements along with processed municipal solid waste (MSW) tonnage and member town tipping fees.

	<u>2001-2002</u>	<u>2000-2001</u>	<u>1999-2000</u>
MSW tonnage processed	791,487	852,372	839,134
Member service charges	\$33,041,000	\$31,496,000	\$29,095,000
Energy generation	\$21,670,000	\$39,828,000	\$39,908,000
Member town tipping fee per ton	\$51.00	\$50.00	\$49.00

The permitted rated capacity of this project is 988,000 tons of MSW per year.

The Mid-Connecticut Project includes two intermediate processing facilities (IPF) located in Hartford. At these facilities, recyclable materials are delivered from member towns, separated and then sold to end markets. One facility, located at 123 Murphy Road, processes newsprint, corrugated cardboard and office paper. This facility is operated by Capitol Recycling of Connecticut, Inc., under contract with the Authority. The second IPF is located at 211 Murphy Road, Hartford. This facility processes glass, plastic and metal containers. The container IPF is operated by FCR Redemption, Inc. under a five-year contract that was initiated in 1997. A Visitor/Education Center, which is located near the Mid-Connecticut project, is used extensively by school groups.

Financial transactions of both recycling facilities are accounted for within the Mid-Connecticut Project fund. To date, the Authority has not charged member towns a tip fee for recyclables brought to the two facilities. The recycling operation is not financially self-sustaining, as operations are subsidized by service charges (MSW tipping fees) and energy generation revenue of the Mid-Connecticut Project. CRRA has responsibility for all debt issued in the development of the Mid-Connecticut system.

Bridgeport Project:

The Bridgeport trash-to-energy project utilizes "mass burn" technology. In contrast with the Mid-Connecticut project, there is no shredding of trash and there is minimal separation of ferrous metals. The "mass burn" technology is much simpler than the RDF technology described in the preceding section of this report.

The Project is owned by the Authority and operated by Bridgeport Resco Company, L.P., a subsidiary of Wheelabrator Environmental Systems, Inc. The Resources Recovery Facility is leased to the Bridgeport Resco Company, L.P. under a long-term arrangement. The Bridgeport Resco Company, L.P. has beneficial ownership of the facility through this arrangement. It is obligated to pay for the costs of the facility including debt service (other than the portion allocable to Authority purposes for which the Authority is responsible). The Authority derives its revenues from service fees charged to member municipalities. The Authority pays the Bridgeport Resco Company, L.P. a contractually determined disposal fee. The Bridgeport project is the only project in Connecticut that was financed as a leveraged lease. An equity investment was provided by Ford Motor Credit Corporation. First National Bank of Boston is the owner's Trustee.

The Authority has no rights to electricity sales revenue derived from this project; therefore, electric revenue is not shown in the financial and operating summary below. The project has an annual rated capacity of 821,250 tons of municipal solid waste (MSW).

	<u>2001-2002</u>	<u>2000-2001</u>	<u>1999-2000</u>
MSW tonnage processed	723,207	719,472	711,536
Member service charges	\$25,558,000	\$25,107,000	\$25,471,000
Member town tipping fee per ton	\$67.00	\$67.00	\$70.00

The Authority owns eight transfer stations that feed into the Bridgeport project; these stations are located in Darien, Fairfield, Greenwich, Milford, Norwalk, Shelton, Trumbull and Westport. The Bridgeport Resco Company, L.P. operates all eight transfer stations. There are other municipally owned stations that also feed into the Bridgeport project. Ash from the Bridgeport project was delivered to a landfill in Shelton, until February 1998. Currently, ash residue is disposed of at the Putnam landfill under contract with a private operator. Bulky waste is delivered to a landfill in Waterbury.

There are two advisory boards that provide oversight to the operations of the Bridgeport project. Southwest Regional Recycling Operating Committee (SWEROC) is a separate governmental entity as authorized under Section 22a-221a of the General Statutes; SWEROC provides oversight for the recycling operations of the Bridgeport project member towns. The Greater Bridgeport Solid Waste Advisory Board, also known as the "Interlocal", provides advice regarding the operations of the Bridgeport waste-to-energy plant. The "Interlocal" was created in accordance with the municipal service agreements.

Wallingford Project:

The project consists of a Resources Recovery Facility, owned by the Authority and operated by Covanta Projects of Wallingford, L.P., and a leased landfill in Wallingford. This project started commercial operation on May 26, 1989. The Resources Recovery Facility is leased to Covanta Projects of Wallingford under a long-term arrangement. The private vendor has beneficial ownership of the facility through this arrangement. The vendor is responsible for operating the facility and servicing the debt (other than the portion allocable to Authority purposes for which the Authority is responsible). The project's revenues are primarily service fees charged to users and fees

Auditors of Public Accounts

for electrical energy generated. The Authority pays the vendor a contractually determined service fee. The operating contract has provisions for revenue sharing with the vendor if prescribed operating parameters are achieved. This plant is designed to process 153,300 tons of municipal solid waste (MSW) per year utilizing the "mass burn" technology.

	<u>2001-2002</u>	<u>2000-2001</u>	<u>1999-2000</u>
MSW tonnage processed	144,747	138,526	142,620
Member service charges	\$8,318,000	\$7,637,000	\$8,178,000
Energy generation	\$13,062,000	\$12,813,000	\$12,862,000
Member town tipping fee per ton	\$55.00	\$56.00	\$57.00

The Wallingford Policy Board provides advice to the Authority with regard to the operation of the Wallingford project. The Board was created in accordance with the municipal service agreements.

Southeast Project:

The Southeast Project consists of a "mass burn" Resources Recovery Facility and landfill in the towns of Preston and Montville, respectively. The Resources Recovery Facility began operation in 1992 and is owned by the Authority and leased to American Ref-Fuel of Southeastern Connecticut. The private vendor has beneficial ownership of the facility through this arrangement. The vendor is responsible for operating the facility and servicing the debt (other than the portion allocable to Authority purposes, for which the Authority is responsible). The Authority derives revenues from service fees charged to participating municipalities and pays the vendor a service fee for the disposal service.

The permit capacity of this project is 251,850 tons per year. The tipping fee for this project is set by Southeastern Connecticut Regional Resources Recovery Authority (SCRRA), which operates in accordance with Sections 7-273aa to 7-273oo of the General Statutes. Ash residue from this plant was delivered to the Montville landfill that is owned by SCRRA until January 1999. Currently, ash residue is disposed of at the Putnam Landfill under contract with a private vendor.

Selected revenue and tonnage amounts, as shown below, have been obtained from the audited financial statements. Electric energy and nonmember town revenues accrue to the private vendor with certain contractually prescribed credits to the service fee for these revenue types.

	<u>2001-2002</u>	<u>2000-2001</u>	<u>1999-2000</u>
MSW tonnage processed	244,775	241,366	242,790
Member service charges	\$9,717,000	\$10,366,000	\$10,243,000
Member town tipping fee per ton	\$57.00	\$58.00	\$59.00

Non-Project Ventures:

In conjunction with the deregulation of the State's electric industry, the Authority acquired four Pratt and Whitney Twin-Pac peaking jet turbines, two steam turbines, and certain land and assets acquired from the Connecticut Light and Power Company (CL&P). These assets and the operations of the jet and the steam turbines were accounted for separately and were named the Non-Project Ventures group. During the fiscal year 2003, the Non-Project Ventures group was consolidated with the Mid-Connecticut Project. Operating and maintenance agreements were entered into with Northeast Generation Services Company to operate the jet turbines and with Covanta Mid-Conn, Inc. to operate the steam turbines.

Total revenue derived primarily from energy generation for Non-Project Ventures for fiscal years 2002 and 2001 was \$8,514,000 and \$2,874,000, respectively.

Summary of Revenues, Expenses and Net Income:

Based on CRRA's audited financial statements, the following is a summary of the revenues, expenses and income of the consolidated operations for the fiscal years ended June 30, 2000, 2001 and 2002.

	<u>2001-2002</u>	<u>2000-2001</u>	<u>1999-2000</u>
Operating revenues:			
Service charges:			
Members	\$ 76,634,000	\$ 74,606,000	\$ 72,987,000
Others	27,389,000	30,100,000	29,304,000
Energy generation	43,246,000	55,110,000	52,770,000
Ash disposal and other income	<u>10,244,000</u>	<u>11,702,000</u>	<u>11,080,000</u>
Total operating revenues	<u>157,513,000</u>	<u>171,518,000</u>	<u>166,141,000</u>
Operating Expenses:			
Solid waste operations	130,051,000	124,624,000	113,516,000
Depreciation/amortization	16,975,000	16,710,000	16,136,000
Maintenance and utilities	3,565,000	4,058,000	2,340,000
Landfill closure/postclosure	847,000	1,178,000	6,189,000
Project administration	<u>6,619,000</u>	<u>7,196,000</u>	<u>6,548,000</u>
Total operating expenses	<u>158,057,000</u>	<u>153,766,000</u>	<u>144,729,000</u>
Operating (loss) income	(544,000)	17,752,000	21,412,000
Non-operating (expenses) and income	<u>(10,589,000)</u>	<u>58,313,000</u>	<u>(12,784,000)</u>
Net Income	<u>\$ (11,133,000)</u>	<u>\$ 76,065,000</u>	<u>\$ 8,628,000</u>

Statement 18 of the Governmental Accounting Standards Board:

Governmental Accounting Standards Board (GASB) Statement 18 requires owners and operators of Municipal Solid Waste Landfills to accrue total closure and postclosure costs over the life of the landfill. These owners and operators must be legally liable for these closure and postclosure costs. This statement is effective for fiscal years beginning after June 15, 1993. It defines closure and

Auditors of Public Accounts

postclosure costs as those costs expected near or after the date each landfill stops accepting waste. These costs include, but are not limited to, the following: equipment to be installed, facilities to be constructed, final cover to be applied, monitoring to be performed and maintenance after closure of the landfill. Accruals for closure and postclosure costs are based on the following formula:

$$\frac{\text{Estimated Total Current Cost} \times \text{Cumulative Capacity Used}}{\text{Total Estimated Capacity}} - \text{Amount Previously Recognized} = \text{Accrual}$$

Estimated accrued closure and postclosure costs, for the fiscal years ended June 30, 2000, 2001 and 2002, were \$6,189,000, \$1,178,000 and \$847,000, respectively. The notes to these financial statements show that the remaining costs to be recognized by the Authority totaled \$1,697,000 as of June 30, 2002. These costs are allocable to each landfill as follows:

<u>Landfill</u>	June 30, 2002		Capacity		Estimated Years of	
	Remaining Costs to be Recognized	Used		Remaining Life		
		<u>Ash</u>	<u>Other</u>	<u>Ash</u>	<u>Other</u>	
Hartford	\$1,451,000	42%	95%	1.0	6.0	
Waterbury	<u>246,000</u>	--	68%	--	13.0	
	<u>\$1,697,000</u>					

The decrease in closure and postclosure costs was primarily due to the reduction of environmental monitoring of the Shelton landfill.

CONDITION OF RECORDS

Our examination of the records of the Connecticut Resources Recovery Authority disclosed certain areas requiring attention, which are detailed in this section of the report.

Compliance with Statewide Solid Waste Management Plan:

Criteria: Section 22a-264 of the General Statutes requires that CRRA produce an annual plan of operations to aid in the revision of the Statewide Solid Waste Management Plan produced by the Department of Environmental Protection (DEP), in accordance with Section 22a-228 of the General Statutes. That Plan should be used to guide the entire State's management of solid waste.

Written plans serve as a basis with which to measure achievement of certain objectives. Plans that are not set in writing prevent the independent evaluation of progress.

Condition: CRRA had not produced the required plans for the audited period. We were informed by CRRA staff that a verbal agreement was made with the DEP in November 2002, which allowed CRRA's annual operating budgets to be accepted as the annual plan of operations for fiscal years 2002 and 2003. However, it was noted that the budgets do not include a narrative summary of the plans for the upcoming years, solid waste management strategies under consideration by CRRA, or future waste flow estimates. Thus, the budgets do not appear to comply with the intent of the Statute. The DEP has yet to revise its Statewide Solid Waste Management Plan in accordance with Section 22a-228.

Effect: The failure of CRRA to produce the plans of operations makes it difficult to determine if the recommendations were included in the Statewide Plan. The failure of DEP to issue the Statewide Plan prevents dissemination to local resource recovery authorities, increasing the risk that the desired goals will not be attained.

Cause: It appears that CRRA was waiting for DEP to finalize its Statewide Solid Waste Management Plan prior to issuing its own annual plan of operations in accordance with the Statute.

Recommendation: The Authority, in conjunction with the DEP, should produce the required annual plans of operation for inclusion in the Statewide Solid Waste Management Plan in accordance with Section 22a-264 of the General Statutes. (See Recommendation 1.)

Agency Response: “In October 2002 CRRA met with Representatives of the Department of Environmental Protection (DEP) to discuss CRRA’s obligation pursuant to CGS 22a-264 to submit its annual plan of operations, and also to discuss the State Solid Waste Management Plan. The DEP agreed that CRRA’s annual operating budget for its four projects would serve to satisfy CRRA’s obligation for fiscal years 2002 and 2003.

Both parties also agreed that, moving forward, CRRA and DEP should more closely collaborate to revise the State Solid Waste Management Plan, as supported by CRRA’s annual plan of operations, to ensure that communities, public policy makers, and other stakeholders continue to be provided with sound, workable solid waste management alternatives.

CRRA will be meeting during the fall of 2003 with DEP staff to discuss the existing State Solid Waste Management Plan, and a timetable and process for revisions to the Plan.”

Controls Over the Assessment of Fines:

Criteria: The Authority employs enforcement agents who have the responsibility, among other things, to issue violation reports to trash haulers that do not adhere to established guidelines for the content of the loads delivered to Authority facilities. These violations can result in fines and/or suspensions for the haulers. Authority procedures provide for increasing penalties for repeat violators. The Wallingford project does not allow for any warnings to be issued, only fines. The Mid-Connecticut facility allows one warning before a fine is assessed.

Condition: The Authority has instituted the use of pre-numbered forms to record violations and have them entered into the database that is used to track the issuance of the violation notices. However, there does not appear to be any reconciliation of violation reports issued/voided to those entered onto the database; nor is there a reconciliation of reports issued which result in fines to entries in the Authority’s accounts receivable system.

We also noted that there does not appear to be any consistency in implementing procedures over the issuance of fines to haulers. We noted a number of instances in which violation reports were issued to haulers at the Wallingford and Mid-Connecticut facilities without fines being assessed.

Effect: There is reduced assurance that all violation reports completed by enforcement officers are properly recorded and that all corresponding fines are being assessed and collected. In addition to constituting a lack of adherence to accepted policies, the inconsistencies in the issuance of fines reduces the value of the assessments as a compliance tool.

Cause: A lack of administrative control contributed to this condition.

Recommendation: Internal controls over violation reports should be improved to ensure that all such forms are properly accounted for and that a periodic reconciliation is performed for violation reports issued/voided to those entered onto the hauler violation database, as well as for reports issued with fines to entries posted to the accounts receivable system.

The Authority should also consider monitoring more closely the assessment of fines to haulers to ensure compliance with established procedures. (See Recommendation 2.)

Agency Response: "The Authority will review and amend, as needed its control to improve compliance procedures."

Compliance with State Set-Aside Requirements:

Criteria: Section 4a-60g, subsections (m) and (n), of the General Statutes require each political subdivision of the State to prepare and submit annual set-aside goals and quarterly progress reports to the Department of Administrative Services and the Commission on Human Rights and Opportunities, as well as various legislative committees. Final reports for each fiscal year are due by August 1st.

Condition: Annual set-aside program goals were not prepared, and quarterly progress reports were not submitted for the first three quarters of each fiscal year under review. The fourth-quarter reports were submitted more than three months beyond the statutory due date. Reports that were filed do not indicate that the statutory goals were achieved.

Effect: The failure to submit set-aside goals prevents the opportunity to request exemptions to intended goals. The lack of timely submission of statutorily required reports increases the risk that compliance with set-aside goals will not be met.

Cause: It appears that a lack of administrative oversight is responsible for the condition.

Recommendation: The Authority should comply with the set-aside provisions of Section 4a-60g, subsections (m) and (n), of the General Statutes. (See Recommendation 3.)

Agency Response: “The Authority recognizes the importance of set-aside goals relative to Sections 4a-60g subsections (m) and (n) of the General Statutes. During FY02, CRRA met with the Department of Administrative Services (DAS) to set goals. The DAS approved CRRA’s goals in January 2003 to facilitate in the preparation.

Additionally, CRRA has been working to integrate within its purchasing system a method to automatically monitor small business vendors in order to produce the required quarterly reports. As part of its purchase order process and automation upgrades set-aside monitoring will be incorporated.”

Monitoring of Expenses for Outside Consultants:

Criteria: Section 22a-265a of the General Statutes requires that in any fiscal year in which the number of Authority employees authorized by the Board of Directors exceeds 45, expenditures for outside consultants during such fiscal year shall be reduced below expenditures for outside consultants of the previous fiscal year by an amount equal to expenditures for such additional employees in excess of 45.

Condition: Authority staff informed us that a process had not been implemented to monitor compliance with this requirement.

Effect: There is an increased risk that the Authority may not be complying with the requirement.

Cause: We were informed by Authority staff that sufficient time had not been allocated to address this issue.

Recommendation: The Authority should implement a process to document compliance with the terms of Section 22a-265a of the General Statutes, or obtain legislative revisions eliminating the requirement. (See Recommendation 4.)

Agency Response: “CRRA has sought legislation to provide flexibility in determining the Authority’s needs.”

Annual and Quarterly Reporting:

- Criteria:* Section 22a-263 of the General Statutes requires that CRRA report on its operations quarterly to the Governor and annually to the General Assembly. Among other criteria, the reports are to include a listing of the number and type of waste management service contracts entered into with local governmental units and persons, and the charges therefore; a listing of the contracts entered into for the services of the private industry in the operation of systems and facilities; a map showing the location of all facilities owned or leased by the CRRA; and a budget showing the administrative expenses of the CRRA. While there are no statutory due dates for these reports, such information should be timely in order to be of use to the elected officials.
- Condition:* During the audited period, quarterly reports were not submitted to the Governor. Annual reports to the General Assembly were submitted in April 2002 and May 2003 for fiscal years ended June 30, 2001 and 2002, respectively. Said reports lacked some of the required components. In addition, the value of the information appears to be decreased when it is transmitted 11 months after the end of the year.
- Effect:* The lack of timely and complete data to the Governor and the General Assembly may have an adverse effect on decisions made regarding the CRRA and the State.
- Cause:* It appears that a lack of administrative oversight may have contributed to the condition.
- Recommendation:* The CRRA should ensure its compliance with Section 22a-263 of the General Statutes. (See Recommendation 5.)
- Agency Response:* "The Authority concurs with the recommendation and has implemented a process for compliance. For example, the Authority submitted the Quarterly Report of Operations for the quarter ending December 31, 2003 to the Governor on February 3, 2004. This report, and all subsequent quarterly reports will be posted on CRRA's internet site."

Documentation of Hiring Process:

- Criteria:* CRRA's hiring procedures indicate that each respondent to a position advertisement shall obtain, complete and sign a CRRA application.

The Affirmative Action Policy adopted by CRRA states that the Authority will provide equal employment opportunity in all areas, including recruiting and hiring.

Condition: For three positions filled at the CRRA during the audited period, we noted that the applications of the other respondents were not available.

Effect: Evidence indicating the existence of other applicants for advertised positions was not available. This makes it difficult to assess the recruiting and hiring efforts with respect to the Affirmative Action Policy.

Cause: We were unable to determine the cause for this condition. However, we recognize that staff turnover may have contributed to record retention problems.

Recommendation: CRRA should increase efforts to document compliance with its affirmative action and hiring procedures. (See Recommendation 6.)

Agency Response: "The Authority will review its hiring procedures and modify its processes to improve documentations compliance."

Payment Processing:

Criteria: Proper internal control dictates that billings be confirmed to applicable policies, contracts, agreed-upon ancillary costs and dates of service prior to the authorization for payment.

The Authority's Tuition Reimbursement Policy indicates that in order to qualify for reimbursement, it must be approved by the employee's supervisor and the CRRA President; and must not exceed established cost limits.

Condition: We noted seven out of 60 vendor payment transactions sampled appeared to be overpaid. The vendor invoices, primarily for legal services, were not properly compared to contract rates and agreed-upon ancillary costs prior to authorization of payment. Approximately \$30,000 in overpayments were identified in our sample. In addition, the comparison of invoices to contracts was made difficult because contracts were not updated to reflect current staffing patterns of the law firms.

Two employees received tuition reimbursement benefits despite the fact that authorization from the President did not always appear to be obtained, and the annual amount of reimbursement to each appeared to exceed the policy limits.

Effect: Payments were made in excess of amounts that would otherwise be permitted by relevant contracts or policies. The accuracy of some invoices could not be readily determined.

Cause: The lack of adequate internal control appears to have contributed to the significant overpayments noted during the audited period. We were informed that the Authority's legal unit, which was concerned with more taxing issues during the audited period, chose to generally rely on the accuracy of vendor invoices for legal services.

It appears that administrative oversight was lacking in regard to the tuition reimbursement benefits.

Recommendation: The Authority should ensure that vendor invoices are reviewed for compliance with contract terms and relevant policies prior to authorization for payment. The Authority should also comply with its policy over tuition reimbursements. (See Recommendation 7.)

Agency Response: "The Authority has implemented changes in its review and approval of vendor invoices particularly as regards legal services. The Authority was able to recoup over \$27,000 in overpayments of legal services. The Authority is currently in the process of updating many of its policies and procedures including tuition reimbursement. Included in this update will be a review of control procedures and their adequacy."

Accountability of Inventories and Other Assets:

Criteria: Sound internal control standards dictate that, in order to maintain accountability, a periodic physical inventory should be conducted to determine if actual inventory on hand reflects inventory records.

Sound business practices dictate that purchase requests be reviewed and approved by the intended recipient so that the suitability of the purchase can be determined.

Records should be maintained to document the eventual distribution of all items of value that are placed in the custody of the Authority.

Condition: We were informed by CRRA staff that a physical inventory had not been conducted during the audited period. While staff indicated that one was being performed in June 2003, we were unable to determine the adequacy of such.

Furniture selected by an architect hired by CRRA was purchased for \$15,300 but ultimately rejected by the CRRA President. The items were placed in storage for over two years, and ultimately sold in 2002 for \$2,000.

CRRA purchased tickets in excess of \$4,300 to local entertainment events during the 2001 fiscal year. These tickets were intended to be used to improve employee morale. The value of these tickets varied, but their very nature and their aggregate cost should have prompted documentation of the manner in which they were distributed. No documentation was evident.

Effect: The risk of undetected loss exists in the absence of conducting periodic physical inventories. The failure to ensure that items purchased are suitable and properly accounted for increases the risk that items will not be utilized as intended.

Cause: It appears that a lack of administrative oversight may have contributed to the condition.

Recommendation: CRRA should ensure that the performance of its physical inventory is adequate to aid in the accountability over its assets. Administrative controls should be improved to provide assurance that items acquired by the Authority are used as intended. (See Recommendation 8.)

Agency Response: “The Authority concurs that periodic physical inventories be conducted to ensure sound fiscal accountability and have completed the process for Mid-Connecticut equipment and the spare parts inventory at the Mid-Connecticut project. The Bridgeport project physical inventory is scheduled for the upcoming year. Additionally, a procedure will be implemented to schedule audits on a periodic basis to maintain better controls and accountability.

Modified administration process and organizational changes have been made to provide a higher level of assurance for items acquired by the Authority are used as intended.”

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 1999 and 2000, contained nine recommendations. The status of those recommendations is presented below:

Prior Audit Recommendations:

- The Authority, in conjunction with the Department of Environmental Protection, should produce the required annual plans for inclusion in the Statewide Solid Waste Management Plan. While the Authority has met with the Department of Environmental Protection pertaining to this issue, an annual plan has not been submitted in accordance with the Statute. (See Recommendation 1.)
- Internal controls over the violation reports should be improved to ensure that all such forms are entered into the Authority's database. This recommendation was revised to reflect current conditions. (See Recommendation 2.)
- The Authority should take steps to ensure that the public notice requirements of Sections 1-121 and 22a-268a of the General Statutes are adhered to. This issue has been resolved.
- The Authority, in conjunction with the Governor's Office, should remain mindful of the relevant statutes affecting the appointment of Board members. This issue has been resolved.
- The Authority should ensure that minutes are maintained for all committees established by the Board. This issue has been resolved.
- The Authority should comply with the set-aside provisions of Section 4a-60g, subsections (m) and (n), of the General Statutes. This recommendation is being repeated. (See Recommendation 3.)
- The Authority should implement a process to document compliance with the terms of Section 22a-265a of the General Statutes, or obtain legislative revisions eliminating the requirement. This recommendation is being repeated. (See Recommendation 4.)
- The Authority should establish policies and guidelines relative to the payment of severance benefits, including a provision for approval by the Board of Directors for those payments exceeding \$5,000, as provided for in Section 22a-268a of the General Statutes. This issue has been resolved.
- The Authority should, to the extent possible, enforce contract provisions that provide for the submittal of documents supporting the amounts paid to or expended by the contractors. This issue has been resolved.

Current Audit Recommendations:

1. **The Authority, in conjunction with the DEP, should produce the required annual plans of operation for inclusion in the Statewide Solid Waste Management Plan in accordance with Section 22a-264 of the General Statutes.**

Comment:

We noted that annual plans of operations required by Section 22a-264 of the General Statutes were not being issued.

2. **Internal controls over violation reports should be improved to ensure that all such forms are properly accounted for and that a periodic reconciliation is performed for violation reports issued/voided to those entered onto the hauler violation database, as well as for reports issued with fines to entries posted to the accounts receivable system.**

The Authority should also consider monitoring more closely the assessment of fines to haulers to ensure compliance with established procedures.

Comment:

Authority staff indicated that no reconciliation is performed for accountability over violation reports or fine revenue. We were also informed that despite strict Authority policy on the hauler fine structure, more warnings than fines were issued to haulers.

3. **The Authority should comply with the set-aside provisions of Section 4a-60g, subsections (m) and (n), of the General Statutes.**

Comment:

The annual set-aside goal reports, as well as the quarterly progress reports for the first three quarters of each year under audit, were not prepared or submitted.

4. **The Authority should implement a process to document compliance with the terms of Section 22a-265a of the General Statutes, or obtain legislative revisions eliminating the requirement.**

Comment:

The Authority did not have a process in place to monitor expenditures for consultants as required. Authority staff indicated that a process has yet to be developed to track this requirement.

5. **The CRRA should ensure its compliance with Section 22a-263 of the General Statutes.**

Comment:

We were informed that the quarterly reports were not available. We also noted that the annual reports did not contain all information required by Statute.

6. **The CRRA should increase efforts to document compliance with its affirmative action and hiring procedures.**

Comment:

Applications from respondents for position vacancies were not available as required by Authority policy.

7. **The Authority should ensure that vendor invoices are reviewed for compliance with contract terms and relevant policies prior to authorization for payment. The Authority should also comply with its policy over tuition reimbursements.**

Comment:

We noted approximately \$30,000 in overpayments, primarily for legal services. Tuition reimbursements were not made in compliance with CRRA's policies.

8. **CRRA should ensure that the performance of its physical inventory is adequate to aid in the accountability over its assets. Administrative controls should be improved to provide assurance that items acquired by the Authority are used as intended.**

Comment:

We were informed that a physical inventory had not been conducted during the audited period, but that one was in process for the current year. We noted the purchase of furniture that went unused for over two years because it was not deemed suitable. There was a lack of documentation for event tickets received by CRRA.

CONCLUSION

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



Kenneth Post
Principal Auditor

Approved:



Robert G. Jaekle
Auditor of Public Accounts



Kevin P. Johnston
Auditor of Public Accounts

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