

**Finance Committee
July 20, 2006 Regular Meeting**

Draft Minutes

Members Present: Michael Pace, Board Chairman
James Francis, Committee Chairman
Raymond O'Brien, Committee Vice-Chairman
Edna Karanian

CRRRA Staff Present: Jim Bolduc, Chief Financial Officer
Robert Constable, Controller
Bettina Bronisz, Assistant Treasurer
Nhan Vo-Le, Director of Accounting
Donna Tracy, Executive Assistant

Chairman Francis called the meeting to order at 9:30 a.m. and noted that there was a quorum.

Chairman Francis requested that everyone stand for the Pledge of Allegiance whereupon the Pledge was recited.

1. Approval of Minutes of the June 15, 2006 Finance Committee Meeting

Chairman Francis requested a motion to accept the minutes of the June 15, 2006 Finance Committee meeting. The motion was made by Vice-Chairman O'Brien and seconded by Chairman Pace.

The motion previously made and seconded was approved unanimously.

2. Review and Recommend for Board Approval – 3 Year Outside Auditor RFQ

Chairman Francis requested a motion regarding the above-captioned matter. Vice-Chairman O'Brien made the following motion:

RESOLVED: That the President of the Authority be, and hereby is, authorized to enter into a contract with the auditing firm of _____ as substantially presented at this meeting. The contract will commence August 1, 2006 and expire March 31, 2009.

Chairman Pace seconded the motion

Mr. Bolduc informed the Committee that the Board actually engages the auditors, not management. Once the Finance Committee decides on an auditing firm, the name will be inserted and the resolution will be brought to the full Board.

Mr. Bolduc noted that the Finance Committee interviewed the three auditing firms on July 11th. Mr. Bolduc said that subsequent to the interviews, the Committee requested him to ask Carlin, Charron & Rosen if they would reduce their fees and Mr. Bolduc said that Carlin, Charron & Rosen agreed to reduce their fees by \$4,000.

Mr. Bolduc referred the committee to the Analysis of Independent Auditor Proposals Matrix, which is a comparison of all three firms. Mr. Bolduc indicated that the matrix shows financial qualifications and other factors to consider when selecting an auditing firm. Mr. Bolduc noted that CRRA has some very complicated accounting issues to deal with and said that the selected auditing firm should understand CRRA's business and business purpose.

Director Karanian asked Mr. Bolduc to reiterate his comments from the July 11th Finance Committee meeting regarding prior experiences of the auditing firms. Mr. Bolduc stated that all three firms were excellent accounting firms. Mr. Bolduc continued by stating that the difference is the firms' specialized experience, such as energy, insurance or construction. Mr. Bolduc stated that while price is certainly a factor, experience should also be considered.

Mr. Bolduc stated that when he started working with CRRA, Kostin, Ruffkess & Company was SWEROC's (Southwest Connecticut Regional Recycling Operating Committee) auditor. Mr. Bolduc explained that SWEROC is a separate entity and, therefore, had its own independent auditor. At that time, Mr. Bolduc moved the SWEROC accounts receivable and accounts payable under CRRA's services to ensure proper accounting. Mr. Bolduc said that during the course of the transfer CRRA staff discovered a SWEROC bank account with a \$150,000 balance, which was never mentioned in any audit reports from Kostin, Ruffkess & Company. Mr. Bolduc stated that Kostin, Ruffkess & Company should have accounted for this account. Ms. Vo-Le indicated that she also had had a problem with SWEROC's auditors and explained that there was a receivable on the books with no supporting documentation.

Mr. Bolduc stated that Seward was an excellent firm and their price was competitive, but said that Seward had very limited knowledge of the solid waste industry.

Mr. Bolduc noted that the price given by Carlin in the package was the net price including the \$4,000 reduction per year.

Director Karanian stated that after the interviews the Committee discussed at length how to get other auditing firms up to speed with CRRA's business and thereby invite more competitive bids. Director Karanian suggested that perhaps using other auditing firms on different issues throughout the term of this agreement would be beneficial. Mr. Bolduc stated that a Request for Proposals for a financial consulting firm would be issued soon and said that he would solicit some auditing firms in the hopes of widening the pool of audit firms.

Chairman Pace indicated that Seward had a history with CRRA and he did not want to "go back in time". Chairman Pace stated that he would not want to use an auditor who had previously done business with CRRA. Chairman Pace stated that it was a perception concern more than anything.

Vice-Chairman O'Brien requested that Carlin, Charron and Rosen be inserted into the resolution. The motion made by Vice-Chairman O'Brien reads:

RESOLVED: That the President of the Authority be, and hereby is, authorized to enter into a contract with the auditing firm of Carlin, Charron and Rosen, LLP as substantially presented at this meeting. The contract will commence August 1, 2006 and expire March 31, 2009.

Director Karanian seconded the motion.

Vice-Chairman O'Brien stated that Mr. Bolduc's reasons for recommending Carlin, Charron and Rosen were all valid. Vice-Chairman O'Brien indicated that there are several very complicated matters facing CRRA and Carlin has done a good job for CRRA in the past. Vice-Chairman O'Brien agreed that Carlin was the best choice.

Vice-Chairman O'Brien requested that either the resolution or the summary emphasize that this contract only goes through the end of March and that management will be obtaining a new consultant five months before the next audit is due. This will allow a new auditor three months to get used to CRRA and its business, and two months to complete the audit.

Chairman Francis added that the most important issue in choosing an auditor is how they would handle the many strategic issues facing CRRA. Chairman Francis noted that Carlin would not be eligible to bid next time. Chairman Francis recommended that management consider a three-year contract with three one-year renewals when this work is bid out next time. Mr. Bolduc agreed that a longer contract term would likely attract more bidders.

Director Karanian asked if Carlin would be ineligible for any work for CRRA after this contract expires. Mr. Bolduc replied that Carlin would be exempt from this one task, but CRRA could use them for other matters. Director Karanian added that management should start using other firms for various tasks to create a larger pool of candidates.

The motion previously made and seconded was approved unanimously.

3. Discussion of Department of Revenue Services Issues

Mr. Bolduc stated that there were two specific issues that would be discussed. Mr. Constable stated that the first item, which has been ongoing for the past two years, deals with fuel tax that CRRA pays at the Wallingford facility. Mr. Constable indicated that under the State statute CRRA is tax exempt and should not be paying taxes or assessments of any kind. Mr. Constable stated that CRRA's legal counsel concurs with CRRA's opinion that the organization is tax exempt. Mr. Constable then went to the Department of Revenue Services (DRS) and submitted a request for reimbursement for fuel taxes that had been paid for the Wallingford Project over the past three years. After approximately one year, DRS reimbursed the Wallingford Project for the taxes.

At this point, Mr. Constable asked DRS if CRRA could just not pay the tax at all, thus avoiding the administrative burden of requesting reimbursements. DRS said that they did not agree that CRRA was tax exempt, even though DRS is still reimbursing CRRA for taxes. Mr.

Constable indicated that he had requested a meeting with DRS to determine what their legal standing is.

Chairman Francis stated that the Town of West Hartford has the same situation where a request must be submitted in order to be reimbursed. Chairman Francis stated that CRRA is definitely eligible for the reimbursements, but said that he did not think DRS would change the procedure. Chairman Francis recommended that CRRA not spend a lot of time pursuing that option.

Regarding the second issue, Mr. Constable said that, approximately one year ago, the IRS did an audit on solid waste assessments, which is the dioxin tax that CRRA pays for each of the projects. The audit covered from June 2001 to March 2004 for three of the four projects. Mr. Constable said that, as result of the audit, the IRS is requesting a \$49,000 payment for the Wallingford Project and \$498,000 for the Mid-Connecticut Project for items that should have been taxed.

Mr. Constable gave a thorough explanation of how CRRA calculates taxable waste and exclusions and said that the IRS differs in what it considers “processed,” and therefore taxable. Mr. Constable informed the Committee that CRRA has requested a meeting to discuss the legal support for their determination. In the meantime, Mr. Constable said that CRRA has to pay the requested amounts or additional interest and penalties will be incurred. Mr. Constable said that there is a process available where CRRA can request a departmental ruling to see if a revision can be made and said that if the ruling were not changed, there would be an impact of over \$150,000 on an annual basis to the Mid-Connecticut Project.

Mr. Constable pointed out that CRRA is exempt from any state tax or assessment, and CRRA believes that the organization is exempt from paying this assessment. Mr. Constable said that CRRA may be able to submit a request for reimbursement for the assessment.

4. Discussion of MDC Spare Parts Inventory

Mr. Constable stated that the financial and state auditors have noted issues with MDC’s spare parts inventory over the past couple of years. Mr. Constable informed the Committee that CRRA made an intense effort with MDC to get an accurate physical count, but the first inventory audit was not successful. Mr. Constable noted that there was a 25%–30% error rate.

As a result of the poor performance, a meeting was held with MDC management and it was decided that the inventory would be taken again. Mr. Constable said that there was a 5%-10% error rate the second time inventory was taken and gave examples of the types of mistakes that were made. Based on the second inventory, Mr. Constable said that CRRA has a fairly accurate inventory that can be booked on the financial statements.

There was a lengthy discussion regarding the procedure and payment for taking the inventories and the Committee discussed different methods used for taking inventory. Mr. Bolduc stated that the first step that needs to be taken is gaining control of the inventory area and keeping it secure and clean. Mr. Constable gave an overview of other steps that will be taken to

make the process more accurate and efficient. Mr. Constable said that CRRA has requested that MDC develop some long-term solutions and short-term goals regarding this problem.

Chairman Pace asked what the condition of the facility is. Mr. Constable responded that it has been kept clean because MDC hires a contractor to clean at night. Chairman Pace asked if there have been any odor complaints associated with the heat. Mr. Constable said that there have not been any complaints to the best of his knowledge.

5. Informational

Mr. Bolduc referred the Committee to the attachment behind Tab 4 of the package regarding the bond defeasance. Ms. Bronisz explained that the dispute regarding the MDC escrow was decided in CRRA's favor and gave an overview of the funds, totaling approximately \$35 million, being used for the defeasance. Ms. Bronisz pointed out that the method being used for the defeasance will reduce the maximum amount needed in the Debt Service Reserve Fund and the \$19 million in excess funds from the reserve will also be used for the defeasance. Ms. Bronisz explained that the formula used for determining how much must be in the Debt Service Reserve Fund is the maximum amount of debt service for one year, so as the debt decreases, the amount required to be in the fund decreases proportionately. Ms. Bronisz stated that all documentation would be finalized on July 27th, which will result in approximately \$16 million in outstanding debt.

Mr. Bolduc gave the Committee some background on the dispute with MDC regarding the escrow and there was a brief discussion regarding the effect of the defeasance on the current year's budget.

Chairman Pace said that this is a major achievement and said that he would like to have the media present at the Board meeting so the general public is made aware of this accomplishment.

6. Executive Session

Chairman Francis requested a motion to enter Executive Session to discuss pending litigation. The motion was made by Chairman Pace and seconded by Vice-Chairman O'Brien. The motion previously made and seconded was approved unanimously. Chairman Francis requested that the following people remain for the Executive Session, in addition to the Committee members:

Tom Kirk
Jim Bolduc

The Executive Session commenced at 10:50 a.m. and concluded at 11:30 a.m.

The meeting reconvened at 11:30 a.m. and Chairman Francis noted that no votes were taken during Executive Session.

ADJOURNMENT

Chairman Francis requested a motion to adjourn the meeting. The motion made by Chairman Pace and seconded by Vice-Chairman O'Brien was passed unanimously.

The meeting was adjourned at 11:30 a.m.

Respectfully submitted,

Donna Tracy
Executive Assistant