

# STATE OF CONNECTICUT

## AUDIT REPORT

**CONNECTICUT RESOURCES RECOVERY AUTHORITY  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 1998, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS**

**KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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October 2, 2001

**AUDITORS' REPORT  
CONNECTICUT RESOURCES RECOVERY AUTHORITY  
FOR THE FISCAL YEARS ENDED JUNE 30, 1998, 1999 AND 2000**

We have made an examination of the books, records and accounts of the Connecticut Resources Recovery Authority (CRRA), as provided in Section 2-90, as amended, and Section 22a-263 of the General Statutes, for the fiscal years ended June 30, 1998, 1999 and 2000.

**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. Comments in the reports are presented under the heading "Other Examinations" in this report. Financial statements of the CRRA are included in its annual reports for 1998, 1999 and 2000.

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, Performance Evaluation 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. Any surplus revenues are to be redistributed to reduce the costs of Authority services to the users thereof.

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:**

The Board of Directors of the Authority consists of 13 directors, including the Secretary of the Office of Policy and Management, the Commissioner of Transportation and the Commissioner of 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 shall be appointed to the Board by the Governor with the advice and consent of the General Assembly when a proposed resources recovery facility is being actively considered. The ad hoc members shall be electors from a municipality or municipalities in the area to be served by the proposed facility and shall vote only on matters concerning such facility.

As of June 30, 2000, according to the records of CRRA, the directors of the Authority were as follows:

Ex-Officio:

James F. Abromaitis, Commissioner of Economic and Community Development  
Marc S. Ryan, Secretary, Office of Policy and Management  
James F. Sullivan, Commissioner of Transportation

Appointed by the Governor:

Peter N. Ellef, Chair  
John C. Chapin, Jr.  
Frank N. Nicastro  
Edward B. St. John  
Theodore T. Tansi

Appointed by Legislative Leaders:

Richard O. Belden  
Kathleen Collins  
Gary F. Flynn  
Michele Parotta  
Bernard Shilberg  
Louis Timolat

Ad Hoc Members:

Mid-Connecticut Project:

Alphonse S. Marotta

Peter B. Webster

Bridgeport Project:

Mark T. Anastasi

Frederick L. Lisman

Wallingford Project:

Anthony P. Rescigno

Louis L. Rubenstein

Southeast Project:

Thomas R. Rylander

Lenny T. Winkler

During the period covered by this review, Michael W. Koslowski, John Neary, Peter M. Nolin, Milton Y. Suzich and Bernard Sullivan also served as members of the Connecticut Resources Recovery Authority.

Further comments regarding the makeup of the Board can be found in the Condition of Records section of this report.

Robert E. Wright served as President through the audit period.

**Significant Legislation:**

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

Public Act 98-184, effective June 4, 1998, amended Section 22a-262 of the General Statutes by requiring that surplus revenues include net revenue from activities undertaken when assisting in the development of industries, technologies and commercial enterprises related to resource recovery or the disposal of solid waste. The Act also gave the Authority the power to act as an electric aggregator and to enter into contractual arrangements to obtain rights from an invention or product connected with the development or operation of any resource recovery system, facility or technology.

**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 1999 audit revealed that the Authority's 1998 annual report issued in compliance with Section 1-123 of the General Statutes failed to include required affirmative action components. This issue appears to have been adequately addressed in the 2000 fiscal year.

**RÉSUMÉ OF OPERATIONS:**

The Authority is comprised of four comprehensive solid waste disposal systems and an administrative pool. Each operating system 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 produced by the landfill. The Authority has awarded a contract for the development phase of the project to turn the landfill gases into an electricity generation facility.

The waste processing facility, owned by the Authority, converts municipal solid waste into "refuse derived fuel" (RDF) by sorting out ferrous metals 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, which consists of three boilers, is operated by the Resource Recovery Systems of Connecticut, Inc., a subsidiary of the former Ogden Projects, Inc. (currently 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 Resources Recovery Facility, the Essex transfer station and the paper-processing portion of the Regional Recycling Center.

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>1999-2000</u>	<u>1998-1999</u>	<u>1997-1998</u>
MSW tonnage processed	839,134	777,201	784,477
Member service charges	\$29,095,000	\$27,778,000	\$27,743,000
Energy generation	\$39,908,000	\$37,738,000	\$38,279,000
Member town tipping fee per ton	\$49.00	\$48.00	\$48.00

The rated capacity of this project was 780,000 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 specified 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>1999-2000</u>	<u>1998-1999</u>	<u>1997-1998</u>
MSW tonnage processed	711,536	758,346	753,197
Member service charges	\$25,471,000	\$28,249,000	\$27,307,000
Member town tipping fee per ton	\$70.00	\$89.50	\$85.00

The Authority owns and operates eight transfer stations that feed into the Bridgeport project; these stations are located in Darien, Fairfield, Greenwich, Milford, Norwalk, Shelton, Trumbull and

Westport. 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 trash-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 the former Ogden 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 Ogden 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 for electrical energy generated. The Authority pays the vendor a contractually determined service fee. This plant is designed to process 153,300 tons of municipal solid waste (MSW) per year utilizing the "mass burn" technology.

	<u>1999-2000</u>	<u>1998-1999</u>	<u>1997-1998</u>
MSW tonnage processed	142,620	142,335	143,084
Member service charges	\$8,178,000	\$8,350,000	\$8,115,000
Energy generation	\$12,862,000	\$10,596,000	\$7,468,000
Member town tipping fee per ton	\$57.00	\$60.00	\$62.00

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 251,485 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.

Selected revenue and tonnage amounts, as shown below, have been obtained from the audited financial statements. Electric revenue and certain service charges accrue to the plant operator, American Ref-Fuel of Southeastern Connecticut.

	<u>1999-2000</u>	<u>1998-1999</u>	<u>1997-1998</u>
MSW tonnage processed	242,790	247,556	251,200
Member service charges	\$10,243,000	\$11,529,000	\$12,412,000
Member town tipping fee per ton	\$59.00	\$62.00	\$79.00

**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, 1998, 1999 and 2000.

	<u>1999-2000</u>	<u>1998-1999</u>	<u>1997-1998</u>
Operating revenues:			
Service charges:			
Members	\$ 72,987,000	\$ 75,906,000	\$ 75,307,000
Others	29,304,000	12,930,000	15,004,000
Energy generation	52,770,000	48,334,000	45,747,000
Ash disposal and other income	<u>11,080,000</u>	<u>11,234,000</u>	<u>11,801,000</u>
Total operating revenues	<u>166,141,000</u>	<u>148,404,000</u>	<u>147,859,000</u>
Operating Expenses:			
Solid waste operations	113,516,000	95,081,000	96,334,000
Depreciation/amortization	16,136,000	15,730,000	17,078,000
Maintenance and utilities	2,340,000	7,067,000	7,167,000
Landfill closure/postclosure	6,189,000	1,424,000	(1,188,000)
Project administration	<u>6,548,000</u>	<u>5,493,000</u>	<u>5,015,000</u>
Total operating expenses	<u>144,729,000</u>	<u>124,795,000</u>	<u>124,406,000</u>
Operating income	21,412,000	23,609,000	23,453,000
Net non-operating expenses	<u>(12,784,000)</u>	<u>(12,300,000)</u>	<u>(14,073,000)</u>
<b>Net Income</b>	<b><u>\$ 8,628,000</u></b>	<b><u>\$ 11,309,000</u></b>	<b><u>\$ 9,380,000</u></b>

**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 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, 1998, 1999 and 2000, were \$(1,188,000), \$1,424,000 and \$6,189,000, respectively. The notes to these financial statements show that the remaining costs to be recognized by the Authority totaled \$1,667,000 as of June 30, 2000. These costs are allocable to each landfill as follows:

<u>Landfill</u>	<b>June 30, 2000</b> <u>Remaining</u> <u>Costs to be</u> <u>Recognized</u>	<u>Capacity</u> <u>Used</u>		<u>Estimated Years of</u> <u>Remaining Life</u>	
		<u>Ash</u>	<u>Other</u>	<u>Ash</u>	<u>Other</u>
Hartford	\$1,381,000	81%	97%	3.0	1.0
Waterbury	<u>286,000</u>	--	68%	--	15.0
	<b><u>\$1,667,000</u></b>				

The increases in closure and postclosure cost was primarily due to increased environmental monitoring of the Shelton landfill.

**PERFORMANCE EVALUATION:**

In accordance with Section 2-90 of the General Statutes, the Auditors of Public Accounts are authorized to conduct a performance evaluation of public and quasi-public agencies. In this audit, the objective of our performance evaluation was to determine whether CRRA was adhering to the provisions of Section 22a-264 of the General Statutes by producing the required annual plans of operations, and to ascertain whether CRRA appeared successful in carrying out these plans.

In a declaration of State policies, Section 22a-259, subpart (8), of the General Statutes states that CRRA shall be responsible for implementing solid waste disposal and resource recovery systems and solid waste management services, where such services are considered necessary and desirable, in accordance with the Statewide Solid Waste Management Plan (hereafter, "the Plan")

and in accordance with applicable statutes and regulations. Said Plan is provided for in Section 22a-228, subsection (b), of the General Statutes. Regulations provide for biennial updating of the Plan.

Section 22a-264 of the General Statutes further states that the activities of the Authority in providing solid waste management services, in implementing resource recovery systems, and in managing solid waste facilities, should be in conformity with applicable statutes and regulations and with the Plan as promulgated by the Department of Environmental Protection (DEP). Said Section also provides that CRRA shall have power to assist in the preparation or amendment of the Plan, and the DEP is authorized to use the capabilities of CRRA for the carrying out of such planning functions. CRRA is empowered to revise the portion of the Plan defined as the “solid waste management system” in order to carry out its legislative purposes. In order to effect the revisions, CRRA is mandated to prepare an annual plan of operations, which shall be approved by the DEP Commissioner as being consistent with the Plan and promulgated upon a two-thirds vote of CRRA’s Board.

We noted that plans of operations were not available for the years under review. In addition, the DEP had not formally issued any revisions to the Statewide Solid Waste Management Plan since 1991. At the time of our review (March 2001), a proposed draft dated December 1999 was still awaiting the approval of the DEP Commissioner.

The absence of both the CRRA annual plans of operations and regular revisions by DEP to the Statewide Solid Waste Management Plan, in addition to constituting a lack of adherence with the Statutes, prevents a measure of CRRA’s accomplishment against predetermined plans. In addition, the intended guidance to municipal and regional resource recovery facilities may not be promulgated as intended. Such a situation could lead to conditions of non-compliance.

In conclusion, we present the following recommendation to the Authority:

*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 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 report for the last few years. However, the Authority did have input into the Statewide Solid Waste Management Plan through the public input process. The DEP has not issued the December 1999 Plan as of March 2001.

- 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:* We were unable to determine why CRRA had not produced the required annual plans of operations. We were informed by DEP staff that the draft of the December 1999 Plan was awaiting the signature of the Commissioner.
- Recommendation:* The Authority, in conjunction with the Department of Environmental Protection, should produce the required annual reports for inclusion in the Statewide Solid Waste Management Plan. (See Recommendation 1.)
- Agency Response:* “CRRA has participated in the DEP hearings and provided input to the proposed Statewide Solid Waste Management Plan. CRRA is awaiting approval of the Plan by the DEP. Once the Plan is approved, CRRA will then address the outlined goals of the Plan. In the interim, CRRA continues to meet its legislative mandate by providing solid waste disposal services throughout the state utilizing its own plan of operations, as reflected in its budgets.”

## CONDITION OF RECORDS

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

### **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.
- Condition:* The Authority has instituted the use of pre-numbered forms to record violations. However, the document numbers are not entered into the database that is used to track the issuance of the violation notices. The violations that result in fines are not reconciled to entries in the Authority's accounts receivable system.
- Effect:* There is reduced assurance that all violation reports completed by enforcement officers are properly recorded and corresponding fines collected. This also reduces the ability of Authority staff to easily monitor repeat violators.
- Cause:* A lack of administrative control contributed to this condition.
- Recommendation:* Internal controls over the violation reports should be improved to ensure that all such forms are properly entered into the Authority's database. (See Recommendation 2.)
- Agency Response:* "The current database is used to track violations and will be expanded so that all the document numbers except voided tickets are entered and accounted for. The primary purpose and use of the current system is to track and suspend repeat violators from using CRRA facilities. In the future, all forms noting a violation or a fine will be entered into the database and accounted for to assure completeness."

### **Notice of Adoption/Changes in Authority Procedures:**

- Criteria:* Section 1-121 of the General Statutes requires that quasi-public agencies provide at least thirty days' notice of changes in procedures by publication in the Connecticut Law Journal. Section 22a-268a of the General Statutes reaffirms this requirement by specifying that the

Authority adopt certain written procedures in accordance with the provisions of Section 1-121.

*Condition:* During the audited period, the Authority adopted various procedural changes pertaining to the operations of CRRA's projects. These procedures were not noticed as required by Section 1-121 of the General Statutes.

*Effect:* The intended opportunity for public comment was not made available.

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

*Recommendation:* 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. (See Recommendation 3.)

*Agency Response:* Limited revisions were made to internal personnel policy and operating procedures. The changes were made to adopt current legal requirements and meet operating commitments. A legal evaluation will be made to ascertain which procedures require notice to assure compliance with Conn. Gen. Stat. §1-121 and §22a-268a.

#### **Appointment of Authority Board Members and Chairman:**

*Criteria:* Section 4-9d, subsection (a), of the General Statutes states that an official of the executive branch who is required to serve on a board may designate a person to serve in his place, provided that the official may only designate another official of his agency.

Section 22a-261, subsection (b), of the General Statutes states that the powers of the Authority shall be vested in and exercised by a Board of thirteen directors. Subsection (c) indicates that the Chairman of the Board shall be appointed by the Governor, with the advice and consent of both houses of the General Assembly.

Section 22a-261, subsection (b), of the General Statutes provides that those directors appointed by the Governor should serve four-year terms, with two of the original appointments lasting only for two years. In this manner, the terms of two members will expire every two years.

*Condition:* We noted that the Commissioner of the Department of Economic and Community Development (DECD) had designated a delegate to represent him at Authority Board meetings. This delegate then

assumed the role of Chair. However, the delegate was not an employee of DECD. In accordance with Section 2-90 of the General Statutes, we reported the apparent violation of Section 4-9d to the Governor and other State officials in a letter dated July 19, 2001.

All four of the directors appointed by the Governor were appointed to the same four-year term, ending December 31, 2000.

*Effect:* The composition of the Board and the terms of its members may not be in conformance with relevant laws.

*Cause:* Representatives of the Authority and the Governor's Office appeared to be unaware of the statutory provisions.

*Recommendation:* The Authority, in conjunction with the Governor's Office, should remain mindful of the relevant statutes affecting the appointment of Board members. (See Recommendation 4.)

*Agency Response:* "To address your comment, pursuant to Section 22a-261 of the Connecticut General Statutes, the minority leader of the Connecticut Senate appointed the delegate to the CRRA board with the delegate's term to commence immediately and be coterminous with the minority leader as the appointing authority. Further, pursuant to Sections 4-19 and 22a-261, the Governor reappointed the delegate as chairperson of the CRRA to serve until the sixth Wednesday of the next session of the General Assembly, and until a successor is appointed and has qualified, whichever is longer."

#### **Minutes of Authority Committees:**

*Criteria:* Section 1-200 of the General Statutes includes committees of the Authority in the definition of "public agencies". Section 1-225, subsection (a) of the General Statutes requires that the votes of each member of any such public agency shall be reduced to writing and made available for public inspection and shall be recorded in the minutes of the session. Such minutes should be available for public inspection within seven days of the meeting.

*Condition:* We were informed that minutes for two of the three committees established by the Authority's Board (Finance and Strategic Planning) were not recorded during the audit period. We also noted that meeting minutes for the Personnel Committee were not available prior to January 2000.

- Effect:* The lack of minutes of committee meetings appears to violate Freedom of Information statutes.
- Cause:* It appears that a lack of administrative oversight contributed to the condition.
- Recommendation:* The Authority should ensure that minutes are maintained for all committees established by the Board. (See Recommendation 5.)
- Agency Response:* “The CRRRA Board of Directors has policy making authority. Board committees review matters and provide information to the Board of Directors for their consideration. Minutes are provided for all the Board of Directors meetings. In response to your recommendation, CRRRA will keep minutes for all Board established committees.”

**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 1<sup>st</sup>.
- 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 all submitted four months beyond the statutory due date. Reports that were filed do not indicate that 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 6.)
- Agency Response:* “CRRRA is committed to and strives in its contractor selection and hiring practices to meet and exceed the state set-aside goals. The report filing oversight has not diminished that effort. Controls and a

delineation of responsibilities are being put into place to assure compliance with the set-aside reporting requirements.”

**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:* The Authority was unable to provide evidence that this requirement was being adhered to.
- Cause:* We were informed that Authority staff had regarded the requirement as outdated, but had not yet obtained a statutory revision to eliminate it.
- 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 7.)
- Agency Response:* “CRRA considers the documentation compliance with terms of Conn. Gen. Stat. § 22a-265a as a Authority start-up requirement that is no longer applicable. The data is available to prepare such reports. The report preparation would increase CRRA’s administrative overhead expenses in return for minimal perceived value. CRRA’s business plan, as denoted in the annual budget, calls for the most efficient business operating approach to provide low tip fees for the communities it serves. In order to address your recommendation an effort will be undertaken to seek a legislative remedy to eliminate this burdensome reporting provision.”

**Severance Payments to Employees:**

- Criteria:* Section 22a-268a of the General Statutes requires that CRRA establish policies regarding the dismissal of employees. Said Section also requires that the CRRA Board of Directors approve non-budgeted expenditures in excess of \$5,000.

- Condition:* During the audited period, severance payments were made to approximately 20 employees without the existence of a specific policy pertaining to the matter. While most of the payments were calculated using an established formula, a few employees received benefits in excess of those received by the majority of the group. The majority of these severance arrangements were in excess of \$5,000, with one exceeding \$50,000. These specific payments were not approved by the Board.
- Cause:* The Authority had not seen the need for Board approval of severance arrangements because the amounts paid were considered to be included in the Authority's budgeted salaries.
- Effect:* The lack of a formal policy for the payment of such benefits could lead to apparent inconsistencies or the appearance of favoritism or discrimination. However, the budgeting of a salary assumes that the Authority will receive a direct benefit from the salary. Expending salaries for severance agreements results in an outlay without the anticipated benefit.
- Recommendation:* 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. (See Recommendation 8.)
- Agency Response:* "A severance payment objective was outlined and implemented regarding the dismissal of employees. As a result of a dismissal of employees, legal action was brought about by certain of the individuals and payments were made to settle and avoid litigation expenses. Due to the inability to control the litigation process, a plan policy is not being pursued at this time."

**Monitoring of Contractors for Conformance with Terms of Agreements:**

- Criteria:* Sound business practice dictates that contract terms should be upheld, on the premise that they exist to protect the parties involved in the procuring of goods and services.
- Condition:* CRRA contracts with the Metropolitan District Commission (MDC) for the operation of the Mid-CT waste to energy plant. Instead of a fixed-price contract, the terms provide for CRRA to reimburse MDC for actual costs, to be supported by proper documentation. However, MDC has consistently failed to provide supporting documents for the

monthly billings. Budgeted costs of this contract exceed \$20,000,000 per year.

During the audited period, CRRA entered into two contracts valued at \$150,000 and \$500,000, respectively. Neither vendor provided the required periodic reports called for in the contracts. The larger contract contained audit provisions, but an audit was not obtained.

*Effect:* With regard to the payments to MDC, there is reduced assurance that the amounts incurred are for relevant costs. While CRRA is on record as routinely requesting the documentation, CRRA was unable to hold up payments to MDC because the work covered by the contract was critical to the operations of the facility.

With regard to the other contracts, the lack of required reporting reduces the assurance that the intended projects were carried out and that the funds were fully expended.

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

*Recommendation:* 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. (See Recommendation 9.)

*Agency Response:* “CRRA includes extensive contract provisions, such as audit, insurance, performance bonds and financial reporting requirements in its contracts with vendors to provide assurance that the contractors will perform their responsibilities. Certain of these provisions become moot because non-performance may be evident prior to any audit or review of financial reports. Where appropriate and considered beneficial to assure performance, CRRA seeks evidence of insurance, verifies physical performance of the vendor, reviews financial reports and audits billings to assure performance. In the case of the \$20,000,000 and other contracts referenced in your recommendation, CRRA has taken additional steps, including legal action to obtain improved contractor performance.”

## RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 1996 and 1997, contained four recommendations. The status of those recommendations is presented below:

*Prior Audit Recommendations:*

- The Authority should keep informed of legislative changes and act upon them in a timely manner. This issue has been resolved.
- The Authority's Personnel Policy Manual should be updated to include practices that are not formally documented. While the Authority has substantially complied with this recommendation, we noted the lack of a policy pertaining to severance payments. (See Recommendation 8.)
- The Authority should continue its effort to reevaluate the use of contractual employees in order to ensure compliance with statutory staffing limitations and Internal Revenue Service regulations. The Authority has adequately addressed this issue.
- Controls over the reporting of violations by trash haulers and the subsequent collection of fines should be improved. This recommendation has been modified to reflect current conditions. (See Recommendation 2.)

*Current Audit Recommendations:*

- 1. The Authority, in conjunction with the Department of Environmental Protection, should produce the required annual reports for inclusion in the Statewide Solid Waste Management Plan.**

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 the violation reports should be improved to ensure that all such forms are properly entered into the Authority's database.**

Comment:

While the Authority did institute pre-numbered forms for the documentation of hauler delivery violations, it did not go as far as setting up accountability for such forms on its database.

- 3. 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.**

Comment:

Procedural changes were made to various Authority operations without ensuring that public notice requirements were met.

- 4. The Authority, in conjunction with the Governor's Office, should remain mindful of the relevant statutes affecting the appointment of Board members.**

Comment:

The Commissioner of the DECD designated a non-DECD delegate to serve on the Authority's board. The current chairman (former ex-officio member) was found to be serving as chairman of the board despite not being one of its directors. The four appointees of the Governor are serving terms with the same date of expiration.

- 5. The Authority should ensure that minutes are maintained for all committees established by the Board.**

Comment:

Formal meeting minutes were not kept for two of the three committees established by the Authority's Board. Formal minutes for the Personnel Committee were only available for the period after January 2000.

- 6. 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.

- 7. 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 expressed that the requirement was not manageable.

- 8. 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.**

Comment:

We noted that formal policies did not exist for such payments. Evidence of Board approval was not available.

- 9. 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.**

Comment:

Despite contractual provisions, the Authority did not obtain supporting documents and audits for at least three contractors, one of which was receiving over \$20,000,000 per year.

**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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