

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
CONNECTICUT RESOURCES RECOVERY AUTHORITY  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

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

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January 19, 2006

**AUDITORS' REPORT**  
**CONNECTICUT RESOURCES RECOVERY AUTHORITY**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

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 of the General Statutes, for the fiscal years ended June 30, 2003 and 2004.

**SCOPE OF AUDIT:**

This audit was primarily limited to performing tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority has complied with its regulations concerning the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

We also considered the Authority's internal control over its financial operations and its compliance with requirements that could have a material or significant effect on the Authority's financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority's financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objects. Our consideration of internal control included the five areas identified above.

Our audit included a review of a representative sample of the Authority's activities during the audited period in the five areas noted above and a review of other such areas as we considered necessary. The financial statement audits of the Authority, for the fiscal years ended June 30, 2003 and 2004, were conducted by the Authority's independent public accountants.

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 to be returned through reduced tip fees or rebates. The Board of Directors of the Authority may also 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:**

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 consists 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 shall be appointed by the Governor with the advice and consent of the General Assembly to represent each facility.

Section 1, subsection (c), of Public Act 03-5, June Special Session (effective August 20, 2003), changed the composition of the Authority's Board of Directors indicating that on and after June 1, 2002, the Board shall consist of eleven directors as follows: Three appointed by the Governor, one of whom shall be an official of a municipality having a population of fifty thousand or less and one of whom shall have extensive, high-level experience in the energy field; two appointed by the president pro tempore of the Senate, one of whom shall be an official of a municipality having a population of more than fifty thousand and one of whom shall have extensive high-level experience in public or corporate finance or business or industry; two appointed by the Speaker of the House of Representatives, one of whom shall be an official of a municipality having a population of more than fifty thousand and one of whom shall have extensive high-level experience in public or corporate

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finance or business or industry; two appointed by the minority leader of the Senate, one of whom shall be an official of a municipality having a population of fifty thousand or less and one of whom shall have extensive high-level experience in public or corporate finance or business or industry; two appointed by the minority leader of the House of Representatives, one of whom shall be an official of a municipality having a population of fifty thousand or less and one of whom shall have extensive, high-level experience in the environmental field.

No director may be a member of the General Assembly nor shall more than two directors appointed by the Governor be a member of the same political party.

As of June 30, 2004, the directors of the Authority were as follows:

Appointed by the Governor:

Michael A. Pace, Chair  
Benson R. Cohn  
Vacancy

Appointed by Legislative Leaders:

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

In accordance with Subsection (g) of Section 22a-263, if the legislative body of a municipality that is the site of a facility passes a resolution requesting the Governor to appoint a resident of such municipality to be an ad hoc member, the Governor shall make such appointment upon the next vacancy for the ad hoc members representing such facility. The Governor shall appoint with the advice and consent of the General Assembly ad hoc members to represent each facility operated by the Authority provided at least one-half of such members shall be chief elected officials of municipalities, or their designees. Each facility shall be represented by two such members. The four projects are Mid-Connecticut, Bridgeport, Southeast and Wallingford.

As of June 30, 2004, there were only two Governor-appointed ad hoc members and six vacancies:

Timothy G. Griswold	Mid-Connecticut Project
Sherwood Lovejoy	Bridgeport Project

As of June 30, 2003, the directors of the Authority were as follows:

Appointed by the Governor:

Michael A. Pace, Chair  
R. Christopher Blake

Benson R. Cohn

Ex-Officio Members:

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

Appointed by Legislative Leaders:

Stephen T. Cassano  
Mark Cooper

James Francis  
Alex P. Knopp  
Mark A. Lauretti  
Theodore H. Martland  
Raymond J. O'Brien  
Andrew M. Sullivan Jr.

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As of June 30, 2003, there were only three Governor-appointed ad hoc members and five vacancies:

Timothy G. Griswold	Mid-Connecticut Project
Arthur L. Lathrop	Southeast Project
Sherwood Lovejoy	Bridgeport Project

Ad hoc members are empowered to vote solely on matters pertaining to the projects they represent.

Thomas Kirk was appointed as President on November 21, 2002, and continues in his capacity to date. He replaced Robert E. Wright who served as President until his resignation on April 19, 2002.

### **Significant Events:**

In connection with the restructuring of the State's electric industry, the Connecticut Light and Power Company (CL&P) assigned certain of its obligations under 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 \$220,000,000 from the Authority and the Authority received \$59,972,000 from CL&P during fiscal year 2001.

Enron filed for bankruptcy on December 2, 2001, and had not made its monthly capacity, electricity, or other payments due since that time. The net effect on the Mid-Connecticut Project was the loss of significant monthly operating revenues. In an effort to generate adequate revenues to pay debt service on its bonds, the Authority increased the Mid-Connecticut tipping fees, pursued remedies in bankruptcy court and civil court in cooperation with the State's Attorney General, entered into a four-year electricity sales agreement with a contractor for increased electric rates on the output that would have been sold to Enron, and became 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. As of June 30, 2004, the Authority had approximately \$182 million Mid-Connecticut bonds outstanding of which the State's Special Capital Reserve Fund secured approximately \$168.8 million.

In an effort to help ease the Mid-Connecticut Project's financial situation, the General Assembly passed Public Act 02-46 during April 2002 which authorized a loan by the State to the Authority of 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 the towns which use the Mid-Connecticut facility. The following table identifies the State loan liability by fiscal year:

	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>
Total State Loans Authorized by Fiscal Year	\$ 20,000,000	\$ 20,000,000	\$ 2,000,000
State Loans Received by Fiscal Year	8,658,530	10,841,646	2,000,000
State Loan Repayments	2,189,174	752,339	-
Total Unpaid Principal Balance	\$ 18,558,663	\$ 12,089,307	\$ 2,000,000

During August 2003, the General Assembly passed Public Act 03-5, which authorized a loan by the State to the Authority for \$22,000,000 of the \$115,000,000 through June 30, 2004. The \$22,000,000 authorized included a previous authorization of \$2,000,000 from fiscal year 2003. During March 2004, the State further approved a \$20,000,000 loan to the Authority for fiscal year 2005. Through June 30, 2005, the Authority had received approximately \$21,500,000 in State loans in support of the Mid-Connecticut Project debt service.

In connection with the Enron bankruptcy, the Authority filed proofs of claim against Enron Power Marketing, Inc. and Enron Corporation, seeking to recover the losses sustained in the 2001 bankruptcy. On July 22, 2004, upon the recommendation of the Attorney General, the Authority's Board of Directors passed a resolution authorizing the settlement of the Enron litigation. The Authority's Board of Directors further authorized the initiation of a bidding process to sell the Enron settlement claim in the capital markets. On August 20, 2004, the Authority's Board of Directors passed a resolution approving the sale of the Enron claim to a major financial institution which resulted in a premium of 34.4 percent over the projected bankruptcy courts' planned distribution. On February 1, 2005, the Attorney General and the Authority announced the receipt of an \$111,200,000 bankruptcy settlement stemming from the Authority's failed deal with Enron Corporation.

### **Significant Legislation:**

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

As part of Public Act 03-05 (June Special Session), the Authority's enabling legislation was amended retroactively to change the composition of the Board and made corresponding changes to the quorum requirements. Further, the amendment repealed and replaced Sections 22a-261 and 22a-268d of the General Statutes, revised the structure of the loan by the State requiring collateral, and required an analysis of staffing levels, performance and qualifications of staff and members of the Board as part of the financial mitigation plan. It also required quarterly reports detailing the status of

the financial mitigation plan to be sent to the State Treasurer, the Secretary of the Office of Policy and Management and the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue and bonding. In addition, the Authority is required to enter into discussions with municipalities that have entered into solid waste disposal services contracts with the Mid-Connecticut Project to determine said municipalities interest in extending such contracts beyond June 20, 2012.

Public Act 03-133 shifted responsibility for the annual compliance audits of each quasi-public agency from the agency's board of directors to the State Auditors of Public Accounts. The Act also limits to six consecutive fiscal years, beginning with fiscal year 2004, the period that a quasi-public

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agency can contract with the same person, firm, or corporation for its financial audits. The Act specifically requires that the Authority's board of directors establish a study committee at least three years before the maturity date of the last outstanding bond for a waste management project. The committee has five representatives of the Authority and up to five jointly designated by the municipalities that have the contract with the Authority for solid waste disposal services. At least two years before the last maturity date, the committee must present its options for disposal services after the contract expires.

### **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, as amended by Public Act 03-133, requires that quasi-public agencies have a compliance audit performed annually. Along with their audit report on the Authority's financial statements, the IPAs issued separate management letters to the CRRRA Board of Directors on August 18, 2003 and August 20, 2004. They identified matters which appeared to require the strengthening of internal controls or presented opportunities for improved operating efficiency.

For the review of fiscal year 2003, the IPA had six recommendations. They are summarized as follows:

- The Authority should consider obtaining a new, comprehensive fixed asset accounting system capable of tracking all fixed assets and providing management with accurate reports and measurements of fixed asset values. The IPA apparently has considered this matter resolved in their follow-up to prior year recommendations within the 2004 management letter to the Authority.
- The Authority should provide detailed instructions to their operating vendors regarding the methodologies used for valuation, the purchase and utilization of inventory, and physical counting of inventory at year end. In addition, the Authority should participate in the year end physical count, reconcile the amounts provided by the operators to recorded amounts; and give authorization to responsible parties prior to changes in valuation methodologies. The IPA apparently has considered this matter resolved based upon assertions made by the Authority's management.
- The Authority should undertake a comprehensive review of debt covenants, including development of a checklist, to determine the extent of the Authority's compliance and identify any possible violations. Further, key financial covenants should be identified and monitored quarterly to provide early identification of potential noncompliance and that all major financial decisions be made having determined the debt covenant impact. The Authority has implemented a process for bond covenant compliance utilizing a checklist. This matter is considered resolved.
- Authority management should formalize the process to monitor collections for all the projects and communicate with the operator to ensure that all efforts are made to bill and

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collect on a timely basis, to ensure that remittances are made to the Authority according to contract requirements. This matter is considered resolved.

- The Authority should implement a policy and procedure for dealing with any discrepancies between their minimum commitment and the actual amounts dumped at the Mid-Connecticut Project. This matter is considered resolved.
- The Authority should implement procedures to ensure adherence to Authority policies as prescribed by management. This matter is considered resolved.

For the review of fiscal year 2004, the IPA had four recommendations. They are summarized as follows:

- The Authority should implement policies and procedures to ensure that adequate unrestricted net assets are available prior to designation and review the existing designations, modifying as necessary, so that the designations do not exceed total unrestricted net assets available. The Authority has instituted annual reviews and evaluations of all reserve funds in order to ensure that designations of unrestricted net assets are correct. This matter is considered to be resolved.
- The Authority should implement policies and procedures to mitigate the risk of fraud due to the lack of segregation of duties over cash. All weight tickets should be pre-numbered and accounted for on a daily basis. As a result of our review, we have recommended that the Authority establish a segregation of duties over cash. (See Recommendations 4 and 6.)
- The Authority should implement policies and procedures to mitigate the risk of fraud due to the lack of segregation of duties over permits. All permits should be pre-numbered and accounted for on a daily basis. As a result of our review, we have recommended that the Authority establish a segregation of duties over permits. (See Recommendation 4.)
- The Authority should implement policies and procedures to mitigate the risk of fraud due to the lack of segregation of duties over weight tickets. Voided tickets should be examined and explained. As a result of our review, we have recommended that the Authority establish a segregation of duties over weight tickets and improve accountability of voided tickets with explanations for those missing. (See Recommendations 4 and 6.)

## **RÉSUMÉ OF OPERATIONS:**

The Authority is comprised of four comprehensive solid waste disposal systems and a General Fund. 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

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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.

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.

Operating and maintenance agreements were entered into with the Northeast Generation Services Company to operate the peaking jets turbines and with Covanta Mid-Conn, Inc. to operate the steam turbines.

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>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
MSW tonnage processed	809,215	820,692	791,487
Member and other service charges	\$55,255,000	\$52,442,000	\$45,954,000
Energy generation	\$24,052,000	\$21,532,000	\$21,670,000
Member town tipping fee per ton	\$63.75	\$57.00	\$51.00

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. The second IPF is located at 211 Murphy Road, Hartford. This facility processes glass, plastic and metal containers. Both facilities are operated by FCR Redemption, Inc. 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 and other system users. 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>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
MSW tonnage processed	733,771	742,602	723,207
Member service charges	\$41,654,000	41,357,000	41,608,000
Member town tipping fee per ton	\$71.00	\$69.00	\$67.00

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. The 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 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>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
MSW tonnage processed	142,083	149,337	144,747
Member service charges	\$8,455,000	\$8,523,000	\$8,528,000
Energy generation	\$12,946,000	\$13,107,000	\$13,062,000
Member town tipping fee per ton	\$55.00	\$55.00	\$55.00

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 in Preston and a landfill in Montville which has been closed. 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 7-273pp of the General Statutes. 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>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
MSW tonnage processed	259,822	258,677	244,775
Member service charges	\$11,889,000	\$11,185,000	\$11,334,000

Member town tipping fee per ton	\$60.00	\$57.00	\$57.00
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### 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 the Northeast Generation Services Company to operate the jet turbines and with Covanta Mid-Conn, Inc. to operate the steam turbines.

### 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, 2004, 2003, and 2002.

	<u>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
Operating revenues:			
Service charges:			
Members	\$ 88,541,000	\$ 82,915,000	\$ 76,634,000
Others	27,384,000	27,927,000	27,389,000
Energy generation	36,998,000	34,639,000	43,246,000
Ash disposal and other income	<u>12,495,000</u>	<u>10,339,000</u>	<u>10,244,000</u>
Total operating revenues	<u>165,418,000</u>	<u>155,820,000</u>	<u>157,513,000</u>
Operating Expenses:			
Solid waste operations	126,016,000	127,873,000	130,051,000
Depreciation/amortization	17,887,000	18,188,000	16,975,000
Maintenance and utilities	1,697,000	1,076,000	3,565,000
Landfill closure/postclosure	1,889,000	4,118,000	847,000
Project administration	<u>5,880,000</u>	<u>5,205,000</u>	<u>6,619,000</u>
Total operating expenses	<u>153,369,000</u>	<u>156,460,000</u>	<u>158,057,000</u>
Operating (loss) income	12,049,000	(640,000)	(544,000)
Non-operating (expenses) and income	<u>(10,705,000)</u>	<u>(10,686,000)</u>	<u>(10,589,000)</u>
Net Income	<u>\$ 1,344,000</u>	<u>\$ (11,326,000)</u>	<u>\$ (11,133,000)</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

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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, 2004, 2003 and 2002, were \$1,889,000, \$4,118,000 and \$847,000, respectively. The increase in closure and postclosure costs from fiscal year 2002 to 2003 was primarily due to the increase in the amount of acreage requiring final closure at the Hartford Landfill and the additional cost of groundwater monitoring on the purchase of additional property at the Wallingford landfill. The decrease from fiscal year 2003 to 2004 was apparently due to lower closure and postclosure costs for the Hartford and Wallingford landfills.

The notes to these financial statements show that the remaining costs to be recognized by the Authority totaled \$1,299,000 as of June 30, 2004. These costs are allocable to each landfill as follows:

<u>Landfill</u>	<b>June 30, 2004</b> <b>Remaining</b> <b>Costs to be</b> <b>Recognized</b>	<b>Capacity</b> <b>Used</b>		<b>Estimated Years of</b> <b>Remaining Life</b>	
		<u>Ash</u>	<u>Other</u>	<u>Ash</u>	<u>Other</u>
Hartford	\$1,173,000	60%	97%	4.0	2.0
Waterbury	<u>126,000</u>	--	89%	--	2.0
	<b><u>\$1,299,000</u></b>				

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## 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. The DEP Plan should be used to guide the entire State's management of solid waste. Section 22a-263a of the General Statutes dictates that the annual plan of operations pursuant to Section 22a-264 of the General Statutes should be made available to the public through the Internet.

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 been able to produce 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. We were informed that the operating budgets of 2004, 2005 and 2006 will be submitted to DEP as annual plans of operation as well since the DEP will not promulgate a new State Solid Waste Management Plan in accordance with Section 22a-228 of the General Statutes until early/mid 2006. Despite this effort, it was noted that the operating 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, it does not appear that the intent of the Statute is being met.

*Effect:* The failure of CRRA to produce the plans of operations inhibits the inclusion of any necessary recommendations 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 continues to wait 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 and make available such plans on the Internet in

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accordance with Section 22a-263a of the General Statutes. (See Recommendation 1.)

*Agency Response:* “The Authority will, in conjunction with the DEP, produce the annual plans of operation in the format agreed upon by both parties for determination of consistency with the Solid Waste Management Plan. Subsequent to fiscal year 2004 and as agreed to by the DEP, the Authority has submitted its annual budgets to satisfy the Authority’s statutory obligation regarding the submittal of its annual plan of operations.”

*Auditors’ Concluding Comment:*

We believe that submitting budgets by themselves does not constitute compliance with the statutory requirements. CRRRA should expand its efforts to comply to the greatest extent possible with all requirements instead of entering into verbal agreements with DEP to produce anything less than what is required. In addition, any agreement that is made between the parties should be evidenced in writing.

### **Compliance with Annual Report Requirements:**

*Criteria:* Section 1-123 of the General Statutes indicates that the board of directors of each quasi-public agency shall annually submit a report to the Governor and the Auditors of Public Accounts and two copies of such report to the Legislative Program Review and Investigations Committee. Among other information, the report is to include the agency’s affirmative action policy statement, a description of the composition of the agency’s work force by race, sex, and occupation and a description of the agency’s affirmative action efforts.

*Condition:* We noted that the annual reports for the 2003 and 2004 fiscal years appeared to lack required information pertaining to the description of the composition of the Authority’s workforce by race, sex, and occupation and a description of the Authority’s affirmative action efforts.

*Effect:* The absence of required information results in statutory non-compliance.

*Cause:* The Authority included in its annual report all required components except for their workforce composition data and affirmative action efforts.

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*Recommendation:* The Authority should ensure that all required information is included in the annual report for purposes of complying with Section 1-123 of the General Statutes. (See Recommendation 2.)

*Agency Response:* “Subsequent to fiscal year 2004, the Authority will be in compliance with Section 1-123 of the General Statutes.”

### **Hiring Procedures:**

*Criteria:* Section 22a-268a of the General Statutes states that the Authority shall adopt written procedures, in accordance with Section 1-121 of the General Statutes, for hiring, dismissing, promoting and compensating employees of the Authority, including an affirmative action policy and a requirement of board approval before a position may be created or a vacancy filled.

Sound business practice dictates that hiring procedures should make direct reference to addressing the entity’s Affirmative Action Plan.

*Condition:* In our review, we noted that the hiring procedures approved by the board of the Authority on March 24, 2005, did not incorporate reference to the Authority’s Affirmative Action Plan.

*Effect:* The absence of such reference in the Authority’s policy may contribute to non-compliance with the Section 22a-268a and the Affirmative Action Plan.

*Cause:* The Authority missed including a reference to its Affirmative Action Plan in its hiring procedures.

*Recommendation:* The Authority should consider including, in its hiring policy, a reference to its Affirmative Action Plan, in order to ensure compliance with Section 22a-268a of the General Statutes. (See Recommendation 3.)

*Agency Response:* “The Authority is in the process of modifying its hiring procedures to include reference to our Affirmative Action Plan.”

### **Segregation of Duties Over Revenue:**

*Criteria:* Proper internal control dictates that the billing, receipt, recording, depositing, and reconciliation duties should be segregated to provide for better control over cash.

*Condition:* As noted in previous audits by the Authority’s IPA and our Office, two employees at the Authority are responsible for handling the

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billing of vendors, as well as, the collection, deposit, recording, and reconciliation of receipts.

*Effect:* The risk of undetected loss or impropriety is increased when a lack of segregation of duties exists in a cash environment.

*Cause:* While Authority management had acknowledged the need for segregating duties in this area and had indicated that they planned to hire additional staff to address the internal control deficiencies, implementation has not occurred thus far to remedy the situation.

*Recommendation:* The Authority needs to separate staff duties involving billing and collection to maintain proper internal control over revenue. (See Recommendation 4.)

*Agency Response:* “The Authority has begun the process of reviewing internal controls over revenue. This includes the consolidation of the Authority’s two different billing systems onto one system allowing cross training of the two Accounts Receivable Coordinators. In addition, only one Accounts Receivable Coordinator now handles the deposits thereby enhancing internal controls. Furthermore, the Authority has implemented procedures for accepting daily receipts, commenced invoicing for permit fees and established a miscellaneous billing process. Management is sensitive to this area and continues to review internal controls. In addition, management will request that the financial auditors again pay particular attention to this area during their fiscal year 2006 audit.”

### **Accountability and Selling of Emission Reduction Credits (ERCs):**

*Criteria:* Proper accounting practice dictates that marketable assets should be promptly recorded at market value upon receipt.

Sound internal control practices dictate that in a competitive environment, marketable assets should be sold via a formal request for bid requiring written sealed bid responses in order to provide for

adequate evidence of the internal controls in place and obtain the best price possible.

*Condition:* In our review of selected transactions, we noted that the Authority’s Accounting unit is not notified of the receipt of emission reduction credits for proper recording of the asset value.

We were also informed that the market pricing of emission reduction credits was established via phone and e-mail inquiries to brokers and prospective buyers from a contact list provided by the DEP. We noted that the pricing was based on that analysis and then offered to

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those same prospective buyers. The availability of such credits was not subject to a competitive process.

*Effect:* The Authority's assets are understated on the financial statements by the market value of the emission reduction credits authorized by the DEP but not recorded. Since there can be delays of up to several months from emission reduction credit issuance by DEP to sale, the value of such credits on hand could be substantial. As of July 2005, 371 tons of emission reduction credits were available to the Authority to be sold. The Authority estimated its value to be between \$400,000 and \$560,000. This assumes a value of \$1,000 to \$1,500 per ton of the newest ERCs and \$750 to \$1,000 per ton of the oldest.

The process by which emission reduction credits are sold did not include a provision for formally requesting sealed bids from prospective buyers. This may contribute to impairing the Authority's ability to obtain the best price. Such a formal process would also help eliminate opportunities for favoritism.

*Cause:* It appears that the condition exists due to a lack of administrative oversight.

*Recommendation:* The Authority should establish procedures to record the estimated market value of emission reduction credits in the financial statements and, in order to enhance the Authority's ability to obtain the best price, consideration should also be given to establishing a sealed bid process in the selling of its emission reduction credits. (See Recommendation 5.)

*Agency Response:* "The Authority in conjunction with its external financial auditors believes it is being prudent by not recording a value of the emission reduction credits in the financial statements. If the Authority were to record the emission credits upon receipt, then a valuation allowance would also have to be recorded to reduce the original recorded value to net realizable value on a quarterly basis. The valuation allowance would be required in order to consider factors such as the expiration dates of the credits, the possibility that the DEP would cancel the program related to the credits, and to give recognition to the overall volatility of the market. While sound internal controls are important, the costs of the controls should not outweigh their benefits. Therefore, given the fact that the proceeds from the sale of emission credits are not material to the Authority's financial statements, and given the administrative effort that would be required to record and track the credits, the Authority is better served by simply keeping a record of the number of credits available for sale and that no amounts be recorded on the books. Revenue related to the sale of the credits would be recognized when realized.

Accounting currently invoices for the sale of such credits and therefore the revenues are realized when sold. The accounting

department will be receiving quarterly reports on the number of credits the Authority has to sell. The credits are currently sold using a market driven method. However, the Authority will investigate whether or not a sealed bid process is feasible with this commodity.”

**Controls Over the Assessment of Fines:**

*Criteria:* The Authority employs enforcement officers who have the responsibility to issue citations to trash haulers that do not adhere to established regulations for the content of the loads delivered to Authority facilities. These violations can result in warnings, fines and/or suspensions for the haulers. Authority procedures provide for increased penalties for repeat violators.

The Authority has instituted the use of pre-numbered ticket forms to record violations. A database is used to track hauler violations.

*Condition:* We noted that there does not appear to be a reconciliation of violation tickets assigned to enforcement officers with those entered onto the database. There is no explanation provided for those violation tickets which did not get entered onto the violation database.

We also noted that there does not appear to be consistency in implementing procedures over the issuance of warnings and fines to haulers. We noted a number of instances in which warnings were always issued to haulers at the Mid-Connecticut facilities whereas fines were issued at the Wallingford facility for the same type of load violation. The practice does not appear to be equitable among the projects. Additionally, we noted in two cases that the Authority had

lost the opportunity to fine a couple of haulers for violations due to a lack of oversight and a lack of documentation obtained by the enforcement officer.

*Effect:* There is reduced assurance that all violation tickets issued to enforcement officers are completed, properly recorded as well as 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 and warnings 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 tickets should be improved to include a periodic reconciliation of all violation tickets issued to enforcement officers to those entered onto the hauler violation database to ensure that all such forms are properly accounted for.

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The Authority should also consider monitoring more closely the assessment of warnings and fines to haulers to ensure compliance with established procedures. (See Recommendation 6.)

*Agency Response:* “The Authority has retained a computer programming consultant to create a report to further automate the reconciliation process. The Authority will also begin to enter all tickets into the database including voided tickets, which historically were not entered. Upon completion of these two items the Authority will commence periodic reconciliations.

The Authority, along with adding new enforcement staff, has focused on improving the process as it relates to the issuance of violations. In July 2004, the Authority standardized the procedures, where possible, amongst the various projects. The Authority must also incorporate requests of the regional boards into the procedures, which will result in variations between the project procedures.”

### **Compliance with State Set-Aside Requirements:**

*Criteria:* Section 4a-60g, subsection (b), of the General Statutes indicates that State agencies and political subdivisions of the State shall set aside in each fiscal year, for awards to small contractors, contracts or portions of contracts at least 25 percent of the total value of all contracts let in each fiscal year. Contracts or portions thereof having a value of not less than 25 percent of the total value of all contracts or portions thereof to be set aside shall be reserved for awards to minority business enterprises.

In accordance with Section 4a-60g, subsection (n), of the General Statutes, each State agency and each political subdivision of the State setting aside contracts or portions of contracts shall prepare a quarterly status report on the implementation and results of its small business and minority business enterprise set-aside program goals. Each report shall be submitted to the Commissioner of Administrative Services and the Commission on Human Rights and Opportunities.

*Condition:* The Authority did not appear to meet its set-aside goals for small and minority business enterprises during fiscal years 2003 and 2004. A representative of the Department of Administrative Services (DAS) indicated that they were unaware that the Authority was not meeting its set-aside goals.

We were additionally informed by Authority staff that set-aside quarterly reports were not sent to the Department of Administrative Services and the Commission on Human Rights and Opportunities during the audited period.

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<i>Effect:</i>	It does not appear that the Authority is meeting the requirements of the Statute.
<i>Cause:</i>	The Authority was unaware of the quarterly filing requirements.
<i>Recommendation:</i>	The Authority should meet the set-aside goals it establishes in accordance with Section 4a-60g, subsection (b), and comply with the set-aside provisions of Section 4a-60g, subsection (n), of the General Statutes. (See Recommendation 7.)
<i>Agency Response:</i>	“Subsequent to fiscal year 2004, the Authority has been in full filing compliance with this Statute.”

### **Compliance with Procurement Procedures:**

*Criteria:* Sound business practice provides that documentation should be on hand as evidence that certain procurement policies are being adhered to. CRRA’s Procurement policy, effective November 2002, dictates that for purchases of over \$1,000, written quotations should be obtained from at least three suppliers.

Sound business practice dictates that, when possible, purchasing should be made directly with the contractor providing the goods/services in order to obtain optimal competitive pricing.

The Authority’s purchase order form acts as the commitment document for purchases of goods and services under \$10,000.

*Condition:* We noted two instances of noncompliance with the procurement policy regarding bidding. In one case, written bid quotations were not retained by the Authority and in the other, bidding was not pursued in purchasing services. We found two instances in which certain vendors were used to procure services on behalf of the Authority. We additionally noted two instances in which purchases were made without a commitment document in place.

*Effect:* Without sufficient evidence of bidding, there is a higher risk that noncompliance with established policies may occur and not be detected. There is also a risk that the use of third parties to procure goods and services on behalf of the Authority may contribute to higher than normal costs. The lack of a commitment document may contribute to unauthorized purchases or fail to assure that funding is available.

*Cause:* There appears to be a lack of administrative oversight.

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*Recommendation:* The Authority should evidence compliance with its procurement policy by obtaining and retaining bid documentation for all applicable purchases over \$1,000; consider eliminating use of third parties and contracting directly with the vendor ultimately supplying the goods and services; and ensure a commitment document is in place prior to ordering goods and services. (See Recommendation 8.)

*Agency Response:* “With the implementation of the Authority’s new purchasing system all bid documents and/or support will be maintained electronically eliminating instances of lost bid documents as was the case with one of the audit samples. For some services, such as litter control, the Authority chose one vendor through an informal bidding process and selected a company that employs handicap individuals to perform litter control for the various projects. Today, the Authority employs this company through an approved Department of Administrative Services contractor which complies with the Authority’s Procurement Policies and Procedures.”

#### **Accountability of Inventories and Other Assets:**

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

In order for the Authority’s facility operators to measure and account for inventory properly, the Authority needs to provide guidance regarding its proper valuation and inventory taking methods.

Documentation of the purchasing of spare parts by the operating vendor should be retained and provided to the Authority to verify proper valuation of assets.

*Condition:* The Authority has not yet provided detailed instructions to its operating vendors regarding the methodologies used for maintaining and valuating the spare parts inventories.

The Authority has not yet been able to properly value the spare parts inventory at one of the operating vendors due to a lack of supporting documentation.

The Authority has not conducted observations or performed test counts on spare parts inventories totaling approximately \$1 million in the custody of two of its operating vendors.

*Effect:* The absence of proper inventory management increases the risk of undetected losses and prevents proper valuation for financial statement purposes.

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*Cause:* There was a lack of administrative oversight prior to this audit period and a lack of current response from the facility operator which has hampered the Authority's ability to effectively value its spare parts inventory.

*Recommendation:* The Authority should continue to improve accountability over its assets. (See Recommendation 9.)

*Agency Response:* "The Authority has drafted a spare parts inventory procedure, which will be distributed to its vendors in fiscal year 2006. The Authority has also implemented internal procedural changes in regards to conducting observations, performing test counts, conducting bi-annual inventories, and confirming the spare parts inventory value.

During fiscal year 2005 the Authority performed test counts and reviewed the procedures / processes at one of its vendors. The information collected during this participation is currently under review by the Authority. Upon completion of this review the Authority will modify the spare parts inventory procedure, if necessary, prior to its distribution."

### **Compliance with Report Requirement:**

*Criteria:* Section 4-33a of the General Statutes indicates that quasi-public agencies shall promptly notify the Auditors of Public Accounts and the State Comptroller of any unauthorized, illegal, irregular or unsafe handling or expenditure of funds or breakdowns in the safekeeping of any other resources.

*Condition:* We noted that the Authority was not aware of such statutory responsibility and did not have a process in place to ensure compliance.

Upon our review of the Board and committee minutes of the Authority, we noted a certain event which appeared to require reporting in accordance with the General Statutes.

We noted in board minutes from December 2003 that a settlement was negotiated with the Internal Revenue Service to pay a penalty of \$150,000 due to violations regarding bonding yields. Such expenditure appears to be irregular in nature.

*Effect:* The failure to report such instances in a timely manner in accordance with the Statute may hamper review and assessment by the State Comptroller and the Auditors of Public Accounts.

*Cause:* It appears that the condition exists due to a lack of administrative

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oversight.

*Recommendation:* The Authority should establish a control to ensure that all reportable conditions are reported in accordance with Section 4-33a of the General Statutes. (See Recommendation 10.)

*Agency Response:* “The event cited by the Auditors involves a dispute between the Authority and a third party, which dispute was addressed by a settlement. Such disputes clearly do not trigger the Statute’s notice requirements, and the Auditors and the Comptroller are not the appropriate venues for resolution of such disputes. For example, with respect to the IRS matter noted by the Auditors, that matter involved a tax dispute between the Authority and a Federal agency which the Authority resolved through settlement without conceding any wrongdoing. This dispute clearly does not fall within the purview of General Statutes Section 4-33a.”

*Auditors’ Concluding  
Comment:*

We disagree with the Authority’s response since the payment made to the IRS to settle a dispute is an irregular expenditure of funds regardless of any concession of wrongdoing and thus, necessitates notification to our Office and the State Comptroller in accordance with Section 4-33a of the General Statutes.

## RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2001 and 2002, contained eight recommendations. The status of those recommendations is presented below:

*Prior Audit Recommendations:*

- 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. The recommendation is being repeated. (See Recommendation 1.)
- Internal controls over violation reports should be improved to ensure proper accountability and to ensure that a periodic reconciliation is performed for violation reports issued/voided, as well as for reports issued with fines to entries posted to the accounts receivable system. The Authority should monitor the assessment of fines to haulers to ensure compliance with established procedures. This recommendation was revised to reflect current conditions. (See Recommendation 6.)
- The Authority should comply with the set-aside provisions of Section 4a-60g, subsections (m) and (n), of the General Statutes. This recommendation was revised to reflect current conditions. (See Recommendation 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. This recommendation was resolved.
- The CRRA should ensure its compliance with Section 22a-263 of the General Statutes. This issue has been resolved.
- The CRRA should increase its efforts to document compliance with its affirmative action and hiring procedures. This issue has been resolved.
- 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. This recommendation was revised to reflect current conditions. (See Recommendation 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. This recommendation was revised to reflect current conditions. (See Recommendation 9.)

*Current Audit Recommendations:*

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- 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 and make available such plans on the Internet in accordance with Section 22a-263a of the General Statutes.**

Comment:

While we noted that CRRA allegedly had a verbal agreement with the DEP regarding submitting operating budgets as a substitute for the annual plans of operation, it did not appear the intent of Section 22a-264 of the General Statutes was being met.

- 2. The Authority should ensure that all required information is included in the annual report for purposes of complying with Section 1-123 of the General Statutes.**

Comment:

The annual reports issued under Section 1-123 of the General Statutes for fiscal years 2003 and 2004 did not contain required information pertaining to the composition of the agency's workforce by race, sex, and occupation and a description of the agency's affirmative action efforts.

- 3. The Authority should consider including, in its hiring policy, a reference to its Affirmative Action Plan, in order to ensure compliance with Section 22a-268a of the General Statutes.**

Comment:

It was noted that the Authority's board-approved hiring policy did not contain any reference to its Affirmative Action Plan.

- 4. The Authority needs to separate staff duties involving billing and collection to maintain proper internal control over revenue.**

Comment:

As noted by the Authority's outside auditors in a previous engagement, we continued to note that there is no segregation of duties over billing and collections. Two people are responsible for billing and collecting for the four CRRA projects.

- 5. The Authority should establish procedures to record the estimated market value of emission reduction credits in the financial statements and, in order to enhance the Authority's ability to obtain the best price, consideration should also be given to establishing a sealed bid process in the selling of its emission reduction credits.**

Comment:

We noted that the Authority does not record the value of the emission reduction credits it receives from the Department of Environmental Protection. We additionally noted that there is no sealed bid process in place when such credits are sold to other entities.

- 6. Internal controls over violation tickets should be improved to include a periodic reconciliation of all violation tickets issued to enforcement officers to those entered onto**

**the hauler violation database to ensure that all such forms are properly accounted for. The Authority should also consider monitoring more closely the assessment of fines to haulers to ensure compliance with established procedures.**

Comment:

We noted that although there is an accounting for tickets issued to violators on the Authority's database, there is no reconciliation of those tickets initially issued to enforcement officers to the tickets issued to violators and entered to the Authority's database. No explanation is provided for missing tickets. We additionally noted that there appears to be inconsistency in the application of sanctions for hauler violations among the Mid-Connecticut and Wallingford projects.

- 7. The Authority should meet the set-aside goals it establishes in accordance with Section 4a-60g, subsection (b), and comply with the set-aside provisions of Section 4a-60g, subsection (n), of the General Statutes.**

Comment:

We noted that set-aside goals established by the Authority and quarterly set-aside reporting requirements were not met during fiscal years 2003 and 2004.

- 8. The Authority should evidence compliance with its procurement policy by obtaining and retaining bid documentation for all applicable purchases over \$1,000; consider eliminating use of third parties and contracting directly with the vendor ultimately supplying the goods and services; and ensure a commitment document is in place prior to ordering goods and services.**

Comment:

In our review, we noted two instances during the audit period in which bids were either not obtained or retained in the procurement of goods and services. We additionally noted two instances in which third parties were utilized to procure goods and services on behalf of the Authority instead of contracting directly with the ultimate vendor. We also noted a couple of instances where no commitment was in place prior to the purchase.

- 9. The Authority should continue to improve accountability over its assets.**

Comment:

The Authority has not yet provided detailed instructions to its operating vendors regarding the methodologies used for valuation, the purchase and utilization of inventory, and physical counting of the spare parts inventories.

The Authority has not yet been able to properly value the spare parts inventory at one of the operating vendors due to a lack of supporting documentation.

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The Authority does not conduct observations or perform test counts on spare parts inventories totaling approximately \$1 million in the custody of two of its operating vendors.

**10. The Authority should establish a control to ensure that all reportable conditions are reported in accordance with Section 4-33a of the General Statutes.**

Comment:

We noted one instance of events which appeared to require reporting under Section 4-33a of the General Statutes.

### **INDEPENDENT AUDITORS' CERTIFICATION**

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the CRRA's activities for the fiscal years ended June 30, 2003 and 2004. This audit was primarily limited to performing tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial resources, and to understanding and evaluating the effectiveness of the Authority's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grants applicable to the Authority are complied with. The financial statement audit of the CRRA, for the fiscal years indicated above, was conducted by the Authority's independent public accountants.

## ***Auditors of Public Accounts***

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We conducted our audit in accordance with the requirements of Section 2-90 and Section 1-122 of the General Statutes. In doing so, we planned and performed the audit to obtain reasonable assurance about whether the CRRA complied in all material respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Compliance:**

Compliance with the requirements of laws, regulations, contracts and grants applicable to the CRRA is the responsibility of the Authority's management.

As part of obtaining reasonable assurance about whether the CRRA complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Authority's financial operations for the fiscal years ended June 30, 2003 and 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our examination included reviewing all or a representative sample of the Authority's activities in those areas and performing such other procedures as we considered necessary in the circumstances. The results of our tests disclosed the following instances of non-compliance, which are further described in the accompanying "Condition of Records" and "Recommendations" sections of this report:

- Lack of required workforce and affirmative action information in the Authority's annual report for purposes of complying with Section 1-123 of the General Statutes
- Lack of evidence on hand of complying with the Authority's procurement policy regarding bidding and a lack of ensuring that a commitment document is in place prior to ordering goods and services

### **Internal Control:**

The management of the Authority is responsible for establishing and maintaining effective internal control over its financial operations and compliance with the requirements of laws, regulations, contracts and grants applicable to the Authority. In planning and performing our audit, we considered the Authority's internal control over its financial operations and its compliance with requirements that could have a material or significant effect on the Authority's financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority's financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of

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internal control included, but was not limited to, the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our consideration of the internal control over the Authority's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants that would be material in relation to the Authority's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Authority being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving internal control over the CRRA's financial operations and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited. Users of this report should be aware that our audit does not provide a legal

determination of the CRRA's compliance with the provisions of the laws, regulations, contracts and grants included within the scope of this audit.

**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.

Dennis Collins  
Associate Auditor

Approved:

Robert G. Jaekle  
Auditor of Public Accounts

Kevin P. Johnston  
Auditor of Public Accounts