

STATE OF CONNECTICUT

**AUDITORS' REPORT
CONNECTICUT RESOURCES RECOVERY AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

AUDITORS OF PUBLIC ACCOUNTS
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December 29, 2006

AUDITORS' REPORT
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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, Section 1-122 and Section 22a-263 of the General Statutes, for the fiscal year ended June 30, 2005.

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 audit of the Authority, for the fiscal year ended June 30, 2005, was 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:

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's membership shall be reduced from thirteen members to 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 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, 2005, the directors of the Authority were as follows:

Appointed by the Governor:

Michael A. Pace, Chair
Benson R. Cohn
Edna M. Karanian

Appointed by Legislative Leaders:

Stephen T. Cassano
Mark Cooper
James Francis
Michael J. Jarjura
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, 2005, there were only three Governor-appointed ad hoc members and five vacancies:

Timothy G. Griswold	Mid-Connecticut Project
Elizabeth Horton-Sheff	Mid-Connecticut 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 served in that capacity throughout the audited period.

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

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transaction, Enron received approximately \$220,000,000 from the Authority and the Authority received approximately \$60,000,000 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 Mid-Connecticut 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.

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 January 20, 2005, the United States Bankruptcy court approved the Enron settlement agreement. On February 1, 2005, the Attorney General and the Authority announced the receipt of \$111,686,881 from the major financial institution that bought the Authority's Enron bankruptcy settlement claim. These monies were applied to fully defease the outstanding Mid-Connecticut Project Bonds 1997 Series A and 2001 Series A and partially defease its outstanding Mid-Connecticut Project Bonds 1996 Series A. In addition, the Authority established an irrevocable escrow account on March 24, 2005, in the amount of \$19,394,506 with the remaining proceeds from the sale of the Enron claims, which will fully provide for future State loans repayments.

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.

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. As of June 30, 2005, the Authority had drawn down \$21,500,175 of the authorized State loans and had a principal balance of \$18,558,663 outstanding. The Authority makes monthly loan repayments comprising both principal and interest payments. The monthly interest rate on the State loans equals the monthly State Treasurer's Short Term Investment Fund rate plus 25 basis points, and is capped at six percent. A summary of the State loan activity follows:

Fiscal Year

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

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, the non-defeased 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, 2005, the Authority had approximately \$88 million Mid-Connecticut bonds outstanding of which the State's Special Capital Reserve Fund secured approximately \$69.4 million.

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.

Along with their audit report on the Authority's financial statements, the IPAs issued a separate management letter to the CRRA Board of Directors on September 14, 2005. They identified matters which appeared to require the strengthening of internal controls or presented opportunities for improved operating efficiency. They are summarized as follows:

- The Authority should require the Mid-Connecticut Project operating vendor to develop inventory instructions to distribute to employees who will be involved in the count, and review with them the importance of referring to, and following, the instructions during the annual physical inventory counts. These procedures should include the use of pre-numbered count sheets, require that inventory items are neatly organized, and provide for supervision of the inventory process.
- Authority management should consider having the Mid-Connecticut Project operating vendor implement a cycle counting program to improve its inventory processes.

RÉSUMÉ OF OPERATIONS:

The Authority's financial operations are 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 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 are 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.

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 from the Connecticut Light and Power Company (CL&P). 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.

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>Fiscal Year</u>		
	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>
MSW tonnage processed	797,644	809,215	820,692
Member and other service charges	\$60,392,000	\$55,255,000	\$52,442,000
Energy generation	\$20,496,000	\$24,052,000	\$21,532,000
Member town tipping fee per ton	\$70.00	\$63.75	\$57.00

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 and 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 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>Fiscal Year</u>		
	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>
MSW tonnage processed	717,704	733,771	742,602
Member service charges	\$42,742,000	\$41,654,000	41,357,000
Member town tipping fee per ton	\$72.50	\$71.00	\$69.00

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 Bridgeport. 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>Fiscal Year</u>		
	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>
MSW tonnage processed	149,279	142,083	149,337
Member service charges	\$8,613,000	\$8,455,000	\$8,523,000
Energy generation	\$13,302,000	\$12,946,000	\$13,107,000
Member town tipping fee per ton	\$56.00	\$55.00	\$55.00

The Wallingford Project 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>2004-2005</u>	<u>Fiscal Year</u> <u>2003-2004</u>	<u>2002-2003</u>
MSW tonnage processed	258,468	259,822	258,677
Member service charges	\$11,809,000	\$11,889,000	\$11,185,000
Member town tipping fee per ton	\$60.00	\$60.00	\$57.00

Summary of Revenues, Expenses and Net Income:

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	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>
Operating revenues:			
Service charges:			
Members	\$ 91,894,000	\$ 88,541,000	\$ 82,915,000
Others	30,223,000	27,384,000	27,927,000
Energy generation	33,798,000	36,998,000	34,639,000
Ash disposal and other income	<u>13,026,000</u>	<u>12,495,000</u>	<u>10,339,000</u>
Total operating revenues	<u>168,941,000</u>	<u>165,418,000</u>	<u>155,820,000</u>
Operating Expenses:			
Solid waste operations	128,394,000	126,016,000	127,873,000
Depreciation/amortization	17,864,000	17,887,000	18,188,000
Maintenance and utilities	2,037,000	1,697,000	1,076,000
Landfill closure/postclosure	180,000	1,889,000	4,118,000
Project administration	<u>6,832,000</u>	<u>5,880,000</u>	<u>5,205,000</u>
Total operating expenses	<u>155,307,000</u>	<u>153,369,000</u>	<u>156,460,000</u>
Operating (loss) income	13,634,000	12,049,000	(640,000)
Non-operating (expenses) and income	<u>75,927,000</u>	<u>(10,705,000)</u>	<u>(10,686,000)</u>
Income before Special Items	89,561,000	1,344,000	(11,326,000)
Special Items:			
Gain on sale of Enron Claim	28,502,000	-	-
Early Retirement/Defeasance of Debt	<u>(6,128,000)</u>	<u>-</u>	<u>-</u>
Net Income (Loss)	<u>\$111,935,000</u>	<u>\$ 1,344,000</u>	<u>\$(11,326,000)</u>

Statement 18 of the Governmental Accounting Standards Board:

Governmental Accounting Standards Board (GASB) Statement 18 requires owners and operators of Municipal Solid Waste Landfills to accrue total closure and postclosure costs over the life of the landfill. These owners and operators must be legally liable for these 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:

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

Estimated accrued closure and postclosure costs, for the fiscal years ended June 30, 2005, 2004 and 2003, were \$180,000, \$1,889,000, and \$4,118,000, respectively. The decrease from fiscal years 2003 to 2004 and 2004 to 2005 was apparently due to lower closure and postclosure costs for the

Hartford and Wallingford landfills in 2004 and no significant increase in projected costs for all five landfills during 2005.

Within the Authority's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005, the notes to the financial statements show that the remaining costs to be recognized by the Authority totaled \$1,018,000. These costs are allocable to each landfill as follows:

<u>Landfill</u>	June 30, 2005 Remaining Costs to be Recognized	Capacity Used		Estimated Years of Remaining Life	
		<u>Ash</u>	<u>Other</u>	<u>Ash</u>	<u>Other</u>
Hartford	\$892,000	69%	98%	3.0	1.0
Waterbury	<u>126,000</u>	--	89%	--	3.0
	<u>\$1,018,000</u>				

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 did not produce the required plan for the audited period. We were informed by CRRA staff that a verbal agreement was reached 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 were also 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 some point in 2006. 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: CRRA is continuing 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 such plans available on the Internet in accordance with Section 22a-263a of the General Statutes. (See Recommendation 1.)

Agency Response: “The Authority has supported the CTDEP in its redrafting of the State Solid Waste Management Plan. At the outset of redrafting the Plan, DEP established an external stakeholder group, which consisted of representatives of various private sector, quasi-public sector, and public sector organizations; municipalities; waste management companies; manufacturing companies; etc. The external stakeholder group has provided comment and input to DEP during the rewrite of the Plan. A preliminary draft of the Plan was made available in December 2005; the Authority and other stakeholders provided additional written comments. Based on these comments a proposed Solid Waste Management Plan was issued by CTDEP in July 2006. DEP will hold public hearings in August 2006 to solicit comments from the public. Upon adoption of a final Plan, which DEP has stated will be on or about September 30, 2006, the Authority will then be able to develop its Annual Plan of Operations in a manner that is consistent with the State Solid Waste Management Plan. The Authority cannot develop an Annual Plan of Operations consistent with the current (1991) Plan because it is out-of-date.”

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 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: Authority management has acknowledged the need for segregating duties in this area and had indicated that they plan to assign the task of reviewing such to the outside auditors hired to audit their financial statements. However, the Authority has indicated that they will not implement any controls until this has taken place.

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Recommendation: The Authority needs to separate staff duties involving billing and collection to maintain proper internal control over revenue. (See Recommendation 2.)

Agency Response: “The Authority has requested its financial auditors to review the segregation of duties as part of the fiscal year 2006 audit. In the meantime, the Authority has already assigned the cash receipts responsibility to one person in the billing department. The Authority is currently performing an internal evaluation to determine if the separation of duties can be achieved with the existing staffing levels. The Authority would implement changes based upon the evaluation results and any recommendations from the financial auditors and if it is in the best interest of the Authority.”

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 still has not been a reconciliation performed of violation tickets assigned to enforcement officers with those entered onto the database. While we were informed a consultant was hired to modify the existing database to provide for an exception report for missing tickets, the database modification was not performed until the end of June 2006. Thus, no reconciliation will be available for review until sometime after July 2006.

Effect: There is reduced assurance that all violation tickets issued to enforcement officers are completed and properly recorded, as well as corresponding fines are being assessed and collected.

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

Recommendation: The Authority should continue its planned implementation of 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. (See Recommendation 3.)

Agency Response: “The IT Consultant hired by the Authority completed the

modifications to the database at the end of June 2006 which will enable the Authority to perform a reconciliation. On a going forward basis starting in fiscal year 2007, the Authority will reconcile the tickets as the “empty/used” ticket books are turned in.”

Accountability of Inventory 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. The values of these spare parts inventories appear to be material to the Authority’s balance sheet.

Condition: While the Authority has shown progress in addressing accountability over its spare parts inventories, they still continue to have difficulty with one of its’ operating vendors in properly conducting a physical inventory. We were informed that test counts at the MidConn Project still show a significant number of discrepancies. At the end of June 2006, the Authority issued its own procedures to the three operating vendors with guidance in conducting physical inventory testing for its spare parts.

Effect: While the effect continues to diminish with the implementation of controls, the Authority still is unable to place reliance on the MidConn spare parts inventory value.

Cause: There appears to be a lack of an effective response from the current 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 4.)

Agency Response: “Where necessary, the Authority has provided written procedures to its contractors in regards to proper valuation and taking a physical count of the inventory. The Authority sampled the results of the physical inventories conducted by its contractors. In one instance the contractor was required to perform a second physical inventory. In the end the Authority was satisfied with the results of the physical inventories taken for fiscal year 2006. The Authority’s financial

statements were adjusted accordingly. The Authority will continue to manage its contractors to ensure the Authority's spare parts inventories are properly accounted for."

Adherence to Adopted Ethics and Procurement Policies:

Criteria: The Authority's procurement policy indicates that if the value of any services to be provided costs more than \$5,000 and less than or equal to \$25,000 per fiscal year, at least three potential suppliers, shall be solicited for bids.

The Authority maintains an ethics policy which requires an open and public process including prior public offer and subsequent public disclosure of contracts between the Authority and its employees.

Condition: We noted that a contract was approved for a part-time Authority employee to provide website design services for \$12,330 covering the period of March through September of 2004. We were informed by Authority staff that no solicitation of bids was made since the Authority felt that the price was reasonable.

Effect: It appears an internal ethics and procurement violation has occurred in this case. If an open competitive solicitation had occurred, it is possible that a more competitive price could have been obtained.

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

Recommendation: The Authority should ensure adherence to its procurement and ethics policies in the future by soliciting bids where required. (See Recommendation 5.)

Agency Response: "The Authority agrees that compliance is desirable (the Authority's own Ethics Policy applies the State's requirements of "an open and public process" and "subsequent public disclosure" to contracts between CRRA and State Employees), and will take steps to ensure observance of the requirement in the future.

According to CRRA's IT Manager, when CRRA required web design assistance in 2003/2004, he reviewed the prices available from DOIT-approved web design consultants. All prices available were significantly higher than those of the potential CRRA employee/contractor for comparable services. The Authority's current E-Procurement system requires written documentation indicating compliance with the CRRA Procurement Policy to be attached to all purchase orders."

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2003 and 2004, contained ten 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 and make available such plans on the Internet in accordance with Section 22a-263a of the General Statutes. The recommendation is being repeated. (See Recommendation 1.)
- 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. This issue has been resolved.
- 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. This issue has been resolved.
- The Authority needs to separate staff duties involving billing and collection to maintain proper internal control over revenue. The recommendation is being repeated. (See Recommendation 2.)
- 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. This issue has been resolved.
- 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. The recommendation is being revised to reflect current conditions. (See Recommendation 3.)
- 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. This issue has been resolved.
- 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. This issue has been resolved.

- The Authority should continue to improve accountability over its assets. The recommendation is being revised to reflect current conditions. (See Recommendation 4.)
- The Authority should establish a control to ensure that all reportable conditions are reported in accordance with Section 4-33a of the General Statutes. This issue has been resolved.

Current Audit Recommendations:

- 1. The Authority, in conjunction with the DEP, should produce the required annual plans of operation for inclusion in the Statewide Solid Waste Management Plan in accordance with Section 22a-264 of the General Statutes and make such plans available on the Internet in accordance with Section 22a-263a of the General Statutes.**

Comment:

While we noted that CRRA claimed to have 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. The DEP has still not finalized its Statewide Solid Waste Management Plan.

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

Comment:

We continued to note that there is no segregation of duties over billing and collections.

- 3. The Authority should continue its planned implementation of 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.**

Comment:

We noted that although there is an accounting for tickets issued to violators on the Authority's database, there is still 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.

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

Comment:

Although gains have been made toward getting the operating vendor at the Mid-Connecticut Project to successfully perform a physical inventory over the spare parts inventory, the Authority has not yet been able to place reliance on the valuation of its spare parts inventory due to discrepancies in counts noted.

5. The Authority should ensure adherence to its procurement and ethics policies in the future by soliciting bids where required.

Comment:

We noted that an Authority employee was contracted by the Authority to perform web design services. There was no solicitation for bids in accordance with the Authority's procurement and ethics policy.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the Connecticut Resources Recovery Authority's activities for the fiscal year ended June 30, 2005. 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 year indicated above, was conducted by the Authority's independent public accountants.

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 year ended June 30, 2005, 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 instance of non-compliance, which is further described in the accompanying "Condition of Records" and "Recommendations" sections of this report:

- A part-time employee of the Authority was provided a contract without competition to perform web design services. This appears to be a violation of the Authority's procurement and ethics policies.

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 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