

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT RESOURCES RECOVERY AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007*

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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August 28, 2009

**AUDITORS' REPORT
CONNECTICUT RESOURCES RECOVERY AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007.

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, 2007, 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 22a-261c of the General Statutes provides for a Board membership of eleven directors; three appointed by the Governor; two appointed by the president pro tempore of the Senate; two appointed by the Speaker of the House of Representatives; two appointed by the minority leader of the Senate; and two appointed by the minority leader of the House of Representatives. In addition, 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, 2007, the directors of the Authority were as follows:

Appointed by the Governor:

Michael A. Pace, Chair
Edna M. Karanian
Linda R. Savitsky

Appointed by Legislative Leaders:

Mark Cooper
James Francis
Michael J. Jarjura
Mark A. Lauretti
Theodore H. Martland
James Miron
Raymond J. O'Brien
Vacancy

Section 22a-261(g) of the General Statutes provides that if the legislative body of a municipality that is the site of an Authority 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 facilities to be represented are the Mid-Connecticut, Bridgeport, Southeast and Wallingford Projects.

As of June 30, 2007, there were four Governor-appointed ad hoc members and four vacancies:

Timothy G. Griswold	Mid-Connecticut Project
Elizabeth Horton-Sheff	Mid-Connecticut Project
Stephen J. Edwards	Bridgeport Project
Jason D. Perillo	Bridgeport Project

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

Thomas Kirk was appointed as President of the Authority on November 21, 2002, and served in that capacity throughout the audited period.

State of Connecticut Loans and Special Capital Reserve Fund:

As described in our 2005 report, the Authority suffered a significant financial hardship as a result of a failed agreement between the Authority's Mid-Connecticut Project and Enron. Subsequent to the bankruptcy of Enron, the General Assembly passed Public Act 02-46 in an effort to help ease the financial situation of the Authority's Mid-Connecticut Project. Public Act 02-46 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. In the following year 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 the 2005 fiscal year.

As of June 30, 2007, the Authority had drawn down \$21,500,175 of the authorized State loans and after repayments had a principal balance of \$13,320,000 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. The Authority has not made a drawdown on State loans since December 2004.

The Authority's debt for the Mid-Connecticut facility is secured by revenues from the participating member towns under service agreements that commit the towns to deliver a minimum

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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, 2007 the Authority had approximately \$28,610,000 in Mid-Connecticut bonds outstanding, of which \$15,290,000 was 1996 Series A Bonds, secured by the State's Special Capital Reserve Fund.

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 25, 2007. 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 ensure that adequate unrestricted net assets are available so that designations do not exceed unrestricted net assets available for the Bridgeport Project.
- The Authority has not yet reassigned all responsibilities to ensure an adequate segregation of duties at the Mid-Connecticut project.
- The Authority should perform an analysis of the estimates and measurements used in recording the closure and post closure liability on a more frequent basis, such as quarterly, and reflect any significant changes in the estimates in its interim financial statements. This will allow management to better evaluate the financial positions, results of operations, and cash flows of the Authority on an interim basis and assist management and the Board of Directors in their decision making process.

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 located in Hartford. There are four operating transfer stations located in Torrington, Essex, Watertown and Ellington, and landfills in Hartford and Ellington. The Mid-Connecticut Project was certified for commercial operation on October 25, 1988.

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.

In conjunction with the deregulation of the State's electric industry, the Authority acquired energy generating assets that include four peaking jet turbines, two steam turbines, and certain land and other assets from the Connecticut Light and Power Company. 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>2006-2007</u>	<u>2005-2006</u>
MSW tonnage processed	794,027	809,046
Member and other service charges	\$58,476,000	\$60,790,000
Energy generation	\$24,067,000	\$24,849,000
Member town tipping fee per ton	\$69.00	\$70.00

The permitted rated capacity of this project is 888,888 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 processes newsprint, corrugated cardboard and office paper. The second processes glass, plastic and metal containers. The Authority owns the container processing portion of the Regional Recycling Center (RRC), and leases the paper processing portion.

A new combined recycling facility, replaced the container only processing facility and opened in May 2007. This new facility was designed, built and operated by FCR. Under FCR's agreement with CRRA, FCR paid the entire cost of the project. The operator for the container processing portion of the RRC is FCR Redemption, Inc. and the operator for the paper processing facility is Murphy Road Recycling.

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.

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There are four transfer stations owned by the Authority. The Torrington transfer station opened in March 1988. The Essex transfer station opened in October 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.

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 Hartford landfill closed in 2008. The Authority owns the Ellington landfill, which was closed in 1998.

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.

<u>Fiscal Year</u>	<u>2006-2007</u>	<u>2005-2006</u>
MSW tonnage processed	733,669	728,553
Member and other service charges	\$47,439,000	\$45,960,000
Member town tipping fee per ton	\$78.00	\$74.00

The Authority also 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.

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 per year utilizing the "mass burn" technology.

<u>Fiscal Year</u>	<u>2006-2007</u>	<u>2005-2006</u>
MSW tonnage processed	142,178	139,570
Member and other service charges	\$8,915,000	\$8,931,000
Energy generation	\$13,790,000	\$13,096,000
Member town tipping fee per ton	\$58.00	\$57.00

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 of municipal solid waste 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.

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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>Fiscal Year</u>	<u>2006-2007</u>	<u>2005-2006</u>
MSW tonnage processed	265,184	255,697
Member and other service charges	\$11,224,000	\$11,491,000
Member town tipping fee per ton	\$60.00	\$60.00

Summary of Revenues, Expenses and Net Income:

Revenues, expenses and net income for the Authority for the audited period, as compared to the previous fiscal year, were as follows:

	<u>2006-2007</u>	<u>2005-2006</u>
Operating revenues:		
Service charges: Members	\$ 91,848,000	\$ 93,513,000
Service charges: Others	33,917,000	33,186,000
Energy generation	37,857,000	37,945,000
Ash disposal and other income	<u>16,892,000</u>	<u>15,449,000</u>
Total operating revenues	<u>180,514,000</u>	<u>180,093,000</u>
Operating Expenses:		
Solid waste operations	137,767,000	133,026,000
Depreciation/amortization	18,189,000	17,850,000
Maintenance and utilities	2,401,000	2,313,000
Landfill closure/postclosure	34,639,000	1,629,000
Project administration	<u>13,342,000</u>	<u>11,481,000</u>
Total operating expenses	<u>206,338,000</u>	<u>166,299,000</u>
Operating (loss) income	(25,824,000)	13,794,000
Non-operating (expenses) and income	<u>13,309,000</u>	<u>7,872,000</u>
Income before Special Items	(12,515,000)	21,666,000
Special Items:		
Defeasance of debt	<u>(1,148)</u>	<u>-</u>
Net Income (Loss)	<u>\$ (13,663,000)</u>	<u>\$21,666,000</u>

Net income declined in the 2006-2007 fiscal year as compared to the 2005-2006 fiscal year primarily as a result of a settlement agreement by which the Authority assumed the liability, contingent upon certain conditions, for all of the Hartford landfill closure and postclosure costs and increased administration costs at all five landfills. Other cost increases relate to the Ellington landfill settlement, increased contract operating charges at the Bridgeport project due to the depletion of the municipal share fund, which was used to offset processing costs, and increased legal costs at the Bridgeport and Mid-Connecticut projects due to on-going legal activity and an arbitration dispute with the Bridgeport project facility operator. These conditions resulted in operating expenses increasing during fiscal year 2007 by \$39.7 million or 26.7%.

Revenues of the Authority are primarily from the tipping fees of solid waste operations (Service charges from members, contract towns and spot waste tipping fees). They represented approximately 51 percent of total revenues. The sale of generated energy represented approximately 21 percent of revenues. Operating revenues increased slightly by \$0.4 million or 0.2% during fiscal year 2007 as compared to fiscal year 2006. This was primarily due to a write-off of over charges previously recorded as liabilities that have been written-off as other operating revenue during fiscal year 2007.

Operating expenses of the Authority are primarily from the operation of its four solid waste facilities. They represented almost 73 percent of total expenses. Total operating expenses of the Authority increased by approximately \$75 million or 45 percent in the audited period over the previous fiscal year. Increases of \$4.7 million in costs from an increased level of solid waste operations, \$33 million in landfill closure and postclosure costs, \$35.8 million in costs relating to the ruling in the New Hartford suit and \$1.9 million in project administration costs were the primary sources of the increase.

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:

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

Estimated accrued closure and postclosure costs, for the fiscal year ended June 30, 2007 and 2006, were \$34,639,000 and \$1,629,000, respectively. On February 2, 2007, the Authority and the City of Hartford executed a Settlement Agreement which resolved a long standing disagreement regarding responsibility for costs associated with closure and post-closure activities at the Hartford landfill.

Within the Authority's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007, the notes to the financial statements show that the remaining costs to be recognized by the Authority totaled \$2,710,000 as of June 30, 2007. These costs are allocable to each landfill as follows:

<u>Landfill</u>	<u>Remaining Costs to be Recognized</u>	<u>Capacity Used</u>		<u>Estimated Years of Remaining Life</u>	
		<u>Ash</u>	<u>Other</u>	<u>Ash</u>	<u>Other</u>
Hartford	\$2,570,000	86%	97%	2.0	2.0
Waterbury	140,000	--	70%	--	3.0
Total	<u>\$2,710,000</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 plans for the Fiscal Year Ended June 30, 2007. DEP issued the final amended State Solid Waste Management Plan on December 20, 2006.

Effect: The failure of CRRA to produce the plans of operations inhibits the inclusion of any necessary recommendations in the Statewide Plan for Fiscal Year Ended June 30, 2007.

Cause: The Authority worked to develop its Annual Plan of Operations in a manner that was consistent with the updated, December 20, 2006 State Solid Waste Management Plan.

It was noted by our auditors that CRRA claimed to have a verbal agreement with DEP regarding the submission of operating budgets as a substitute for the annual plans of operation; it did not appear that the intent of Section 22a-264 of the General Statutes was being met.

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 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, which DEP initiated late in calendar year 2004. 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 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 held public hearings in August 2006 to solicit comments from the public. DEP issued its amended Solid Waste Management Plan in December 2006. Prior to issuance of the new SWMP, the Authority could not develop an Annual Plan of Operations consistent with the then current (1991) Plan because it was substantially out-of-date.

In January 2008, the Board of Directors authorized Management to submit the Annual Plan of Operations for FY2008 and FY2009 to the DEP. By correspondence dated July 15, 2008, the Authority received a response from DEP. DEP advised CRRA that it cannot approve the Annual Plan of Operations as submitted without further clarification by the Authority of several matters discussed in the Annual Plan of Operations. The Authority will respond to these questions and requests for clarification by the end of October 2008. Upon receiving final DEP concurrence that the Plan is consistent with the SWMP, the Plan will then be brought before the Board of Directors for adoption.”

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: During the audited period the Authority has limited the depositing function to one accounts receivable coordinator however; this individual still maintained responsibility for handling the billing of two projects. On September 18, 2006, the IPA signed a Management Advisory Letter in Connection with 2006 Audit. Within this letter the following was stated, “In the current audit, we noted that management of the Authority has not yet reassigned all responsibilities, but intends to do so during fiscal year 2007 to ensure segregation of duties”. The Authority was also conducting its own evaluation to determine whether the separation of duties could be achieved with the existing

staffing levels. On August 27, 2007, the Authority received a letter and a report from Nancy Wyman, State Comptroller. In summary, based upon the Comptroller's Fiscal Policy Division, the Authority was to review the recommended changes based on the financial auditors review by April 2007 and any changes were to be completed by June 2007. Effective May 2008, employees' job descriptions were changed to meet what the Authority feels are the requirements and stated they will make any necessary changes in the future. The job descriptions were unavailable at this time for our review for several reasons.

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. They continue to work on implementing controls, although the timeliness is questionable based on the stated time line. However, we acknowledge the fact that the Authority was in a state of flux during this audit period.

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

Agency Response: "Management restructured the two positions to segregate duties over billing and collections and implemented the changes beginning May 2008. In September 2008, Management evaluated the positions and determined that the new restructured positions are viable. Management will continue to monitor and adjust functions as necessary."

Unrestricted Net Assets In Excess Of Availability:

Background: Unrestricted net assets represent management's intended use of resources based on actual plans approved by the Authority's Board of Directors. Designations reflect the Authority's self-imposed limitations on the use of otherwise available financial resources.

Criteria: Proper internal control dictates that designation of unrestricted net assets should not exceed the amount of unrestricted net assets available.

Condition: During the audited period it was noted that designations of unrestricted net assets still remain in excess of unrestricted net assets available for the Bridgeport Project in addition to the Mid Connecticut Project. This resulted in an unrestricted undesignated

deficit for those projects. Due to the imminent closing of Bridgeport it is critical that sufficient net assets be available to fund future costs.

Since designations of unrestricted net assets represent management's intended use of resources based on actual plans approved by the Authority's Board of Directors, it is these future costs for which the Board is likely to designate unrestricted net assets.

Effect: The failure to maintain adequate controls over the financial reporting process could lead to a material misstatement in the financial statements.

Cause: Unknown.

Recommendation: Strengthen internal controls and improve operating efficiency to ensure that adequate unrestricted net assets are available prior to designation and that existing designations are modified as necessary so that designations do not exceed unrestricted net assets available. (See Recommendation 3.)

Agency Response: "In October 2007, the Authority's Board of Directors approved the undesignation of the landfill postclosure and closure reserves, since the liabilities have been recorded on the Authority financial statements. The Authority has established individual Short-Term Investment Fund accounts to receive and hold the postclosure and closure funds. In November 2007, the Authority received the \$3 million grant-in-aid to reimburse costs associated with the closure of the Shelton landfill from the State Bonding Commission, which partly mitigate the Bridgeport Project negative undesignated net assets. In addition, Management has completed a cash flow analysis for the remaining term of the project. Based upon the results of the cash flow analysis, Management has increased the fiscal year 2009 budget in an effort to resolve the negative undesignated net asset by the end of the project."

Board Meetings Frequency:

Criteria: Section 22a-263 of the General Statutes states the directors of the Authority shall meet at least monthly at the call of the chairman and may meet more frequently if necessary and desirable. It shall maintain at all times minutes of its meetings including its considerations, deliberations, decisions and resolutions, which minutes shall be considered public records.

Condition: During the audited period we noted that there was no monthly meeting in August 2007 and 2006, as required by Section 22a-263 of the General Statutes.

In 2007, the directors of the Authority met on July 26, 2007 the next

meeting was on September 27, 2007. In 2006, the directors of the Authority met on July 27, 2006 the next meeting was on September 28, 2006. There were no minutes posted to the Internet for the month of August in either case as regulated by General Statutes Section 22a-263a.

It was further noted during our review of the meeting minutes that there appeared to be a long term vacancy for the director appointed by the Speaker of the House of Representatives specifically, one of whom shall have extensive high level experience in public or corporate finance or business or industry. This vacancy ranged from fiscal year 2007 to the current period. A similar vacancy observation was made for the ad hoc members.

- Effect:* Lack of compliance with State requirements.
- Cause:* It appears that this may have been an unintentional oversight.
- Recommendation:* The Authority should ensure its compliance with Section 22a-263 of the General Statutes which states the directors of the Authority shall meet at least monthly at the call of the chairman and may meet more frequently if necessary and desirable. (See Recommendation 4.)
- Agency Response:* “According to Authority General Counsel, the Board must meet at least every thirty days, but will not be in violation of the statute if it fails to meet due to lack of business.”

Compliance with Report Requirement:

- Criteria:* Section 4-33a of the General Statutes states all 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 quasi-public agency funds or breakdowns in the safekeeping of any quasi-public agency’s resources.
- Condition:* We noted in five of the seven incidents reported during our audited period that notification as it relates to CGS Section 4-33a varied from 107 to 352 days. The date of incidents ranged from September 2005 to September 2006, and was not reported to the Auditors of Public Accounts until January 2007. The total amount involved was \$6,095,373, which excludes \$30,793 in interest repayment for the time the funds were not invested and receiving interest earnings.
- (1) Specifically, \$3,909,092 was not transferred for system expenses as instructed to the bank/trustee by the Authority. Once corrected, the

Authority sought interest repayment from the bank/trustee in the amount of \$2,338 for the time that these funds were not invested.

The correction took place on January 20, 2006. (2) In a separate incident on January 26, 2006, \$1,000,000 was wire transferred to the correct project revenue account but when invested in STIF the \$1,000,000 was credited to the incorrect project account. The date of discovery was not disclosed but, the bank/trustee transferred \$28,454 in interest earnings to the appropriate project account when discovered. (3) In a third incident \$617,000 of unidentified capital assets were written off during an audit performed by the Authority from June to September 2005 and (4) an additional \$567,427 was written off for spare parts inventory value at June 30, 2006 year end. (5) The final incident totaled \$1,853 as a result of vandalism reported by an employee of the Authority on September 25, 2006.

Despite Connecticut Resources Recovery Authority approval of their own "Section 4-33a Reporting Procedure" in June 2006, the above mentioned five cases were not promptly reported to the Auditors of Public Accounts as required by Section 4-33a. The definition of "promptly" is not 100 to 350 days. Nor, did the Authority follow their own "Section 4-33a Reporting Procedure", which states "Management" shall meet on a monthly basis to review all activities that have been reported during the month and determine whether the activities are reportable or non-reportable conditions."

Effect: The Authority did not comply with Section 4-33a of the General Statutes.

Cause: Management initially discovered the incidents and resolved the various matters internally, and due to oversight, failed to report these matters as required to appropriate officials.

Recommendation: The Authority should comply with Section 4-33a of the General Statutes which requires prompt notification to the Auditors of Public Accounts and the State Comptroller when there is a breakdown in the safekeeping of any quasi-public agency resources. (See Recommendation 5.)

Agency Response: "The Authority has enacted a definitive procedure for notifying the appropriate State Agencies when a circumstance may arise. In preparing the notification it requires a reasonable assessment process as the underlying legislation is somewhat vague and judgment is required. Also, it is important to have a complete assessment provided, which can take some time to develop, in order to be a meaningful filing.

The Authority disagrees with the State Auditor's view on the

reporting aspect of the Statute, that a monthly basis may not be

“prompt”, and with the causal assessment of management oversight.

Furthermore, if the State Auditors wish to quote the numeric value of the filings it would be only fair to disclose the detail, so no wrong impressions are concluded by the figures alone. The numeric value(s) in and of themselves suggest a much more severe situation which does not exist...”

*Auditor Concluding
Comment:*

Based on the Agency’s initial response to our finding we updated the above finding to disclose the requested detail. The Agency was provided an opportunity to update their response but requested that the same response be incorporated into the finding.

Required Internet Information:

Criteria:

Section 22a-263a of the General Statutes states, in part, that the Connecticut Resources Recovery Authority shall make the following information available to the public through the Internet: “(3) each report required under section 4a-60g, setting forth small and minority-business set-aside program goals and addressing the authority's progress in meeting said goals, not later than seven days after each such report is required to be submitted to the Commission on Human Rights and Opportunities under said section 4a-60g”; “(5) each report that the authority is required to submit to the General Assembly pursuant to the general statutes, not later seven days after the report is submitted”; “(6) each audit of the authority conducted by the Auditors of Public Accounts, each compliance audit of the authority's activities conducted pursuant to section 1-122 and each audit conducted by an independent auditing firm, not later than seven days after each such audit is received by the board of directors of the authority.”

Condition:

As of May 19, 2008, the Set-Aside Report on Small and Minority Business for FY 07, 3rd Quarter Ending March 31, 2007 to current and the Supplemental Financial Mitigation Plan: Quarterly Update for the Period Ended September 30, 2006 to current were not made available to the public through the Internet. Additionally, the Auditors of Public Accounts’ audit report for the Fiscal Year Ended June 30, 2005 was not made available to the public through the Internet as of May 15, 2008. The issue date of this report was December 29, 2006.

<i>Effect:</i>	The Authority was not in compliance with the provisions of Section 22a-263a (3), (5) and (6) of the General Statutes.
<i>Cause:</i>	The Authority informed us that in some cases this was an administrative oversight due to new personnel.
<i>Recommendation:</i>	The Authority should make information available to the public through the Internet in accordance with Section 22a-263a. (See Recommendation 6.)
<i>Agency Response:</i>	“This was an administrative oversight due to a change in personnel and their responsibilities.”

Reporting And Examination For Term Of Loans:

<i>Criteria:</i>	<p>Section 22a-268d (b) of the General Statutes states that the Authority “shall submit, on a quarterly basis, reports detailing the status of the financial mitigation plan as described in subsection (a) of this section to the State Treasurer, the Secretary of the Office of Policy and Management and to the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue and bonding.”</p> <p>Under Section 4.1(d)(iii) of the Authority’s two Master Loan Agreements executed on October 29, 2003 and March 1, 2004 with the State of Connecticut, the Authority’s obligation to submit the quarterly updates terminates when the State Loans are fully paid.</p>
<i>Condition:</i>	<p>As of May 19, 2008, the Supplemental Financial Mitigation Plan: Quarterly Updates for the Period Ended September 30, 2006 to June 30, 2007 were not provided to our auditors nor posted to the Internet (CGS Section 22a-263). Additional review of the Internet on June 25 and July 15, 2008 provided the same results.</p> <p>On August 13, 2008, the Authority confirmed that the Supplemental Financial Mitigation Plan: Quarterly Updates for FYE June 30, 2007 were not completed and the outstanding principal amounts under the Loan Agreements were prepaid on February 15, 2008.</p> <p>It was further noted that on October 26, 2006, the Authority’s Board authorized the application of available Authority funds to repay the State Loans in full. However, due to other pending litigation at the time, this action was delayed.</p>

Auditors of Public Accounts

Effect: The Authority did not comply with Section 22a-268d (b) of the General Statutes.

Cause: Based on a letter dated August 15, 2007 from the Authority's attorneys, it was the Authority's understanding that the quarterly reports were no longer required. However, this letter did not address reporting requirements for the Supplemental Financial Mitigation Plan: Quarterly Updates for the Period Ended September 30, 2006 to June 30, 2007. Based on our review we believe that the above mentioned delay related to pending litigation and was a contributing factor to the noncompliance with Section 22a-268d (b) of the General Statutes.

Recommendation: The Authority should comply with Section 22a-268d (b) of the General Statutes and submit, on a quarterly basis, reports detailing the status of the financial mitigation plan to the State Treasurer, the Secretary of the Office of Policy and Management and to the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue and bonding. (See Recommendation 7.)

Agency Response: "The August 15, 2007 letter from the Authority's co-bond counsel indicates that while the State statute is silent on the matter of when the FMP updates terminates, "[i]f the Authority is no longer borrowing money from the State, it would seem that the State no longer would have a need for quarterly updates to the financial mitigation plan." The Authority's last borrowing from the State occurred on December 29, 2004. Therefore, FMP updates after that time were superfluous. Furthermore, the State has not requested any FMP updates."

*Auditor's Concluding
Comment:*

Although viewed by the Authority as "superfluous", the August 15, 2007 letter from the Authority's co-bond counsel states, "Given that the Master Loan Agreements specifically provide for the termination of the Authority's obligation to provide quarterly updates of its financial mitigation plan, we would recommend at the time all State loans are fully repaid, that the Authority write to the State Treasurer and the Secretary and indicate that in accordance with Section 4.1(d)(iii) of the Master Loan Agreements, the Authority will no longer be providing the quarterly updates to the financial mitigation plan". The Loan Agreements were not fully repaid until February 15, 2008. The Authority's actions has resulted in non-compliance of the General Statutes Section 22a-268d(b), Temporary Borrowing From The State and Section 22a-263, Information To Be Made Available To The Public Through The Internet.

Compliance with Procurement Procedures:

<i>Criteria:</i>	The Authority's procurement policies and procedures state that contracts for the procurement of supplies, materials, equipment, property or services shall be entered into pursuant to a competitive process.
<i>Condition:</i>	In a sample of eight contracts, one (13 percent) was found with a significant deficiency. In one instance a contract was not properly awarded, as bids were not obtained as required.
<i>Effect:</i>	The Authority did not comply with its own procurement policies and procedures.
<i>Cause:</i>	The Authority cited the number of employees is capped by the State and it does the best it can with the limited resources available.
<i>Recommendation:</i>	The Authority should comply with its own procurement policies and procedures. (Recommendation 8.)
<i>Agency Response:</i>	A response to the instance that a contract was not properly awarded was not provided.

RECOMMENDATIONS

Auditors of Public Accounts

Our prior report on the fiscal year ended June 30, 2006, contained three 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 revised to reflect current conditions. (See Recommendation 1.)
- The Authority needs to separate staff duties involving billing and collection to maintain proper internal control over revenue. The recommendation is being revised to reflect current conditions. (See Recommendation 2.)
- The Authority needs to strengthen internal controls and improve operating efficiency to ensure adequate unrestricted net assets are available. The recommendation is being revised to reflect current conditions. (See Recommendation 3.)

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

Comment:

While we noted that the Authority claimed to have a verbal agreement with the DEP regarding the submission of operating budgets as a substitute for the annual plans of operation, it did not appear that the intent of Section 22a-264 of the General Statutes was being met. The DEP issued its Statewide Solid Waste Management Plan December 20, 2006.

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

Comment:

We continued to note the need for segregation of duties over billing and collections.

- 3. Strengthen internal controls and improve operating efficiency to ensure that adequate unrestricted net assets are available prior to designation and that existing designations are modified as necessary so that designations do not exceed unrestricted net assets available.**

Comment:

We noted that designation of unrestricted net assets have been made in excess of unrestricted net assets available for the Bridgeport Project and the Mid Connecticut Project resulting in a deficit for both projects.

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

which states the directors of the Authority shall meet at least monthly at the call of the chairman and may meet more frequently if necessary and desirable.

Comment:

We noted that there was no monthly meeting and/or minutes posted to the Internet in August 2007 and 2006 as required. It was also noted that there has been a long term vacancy on the board of directors as well as the ad hoc members.

- 5. The Authority should comply with Section 4-33a of the General Statutes which requires prompt notification to the Auditors of Public Accounts and the State Comptroller when there is a breakdown in the safekeeping of any quasi-public agency resources.**

Comment:

The Authority did not promptly report discovered incidents to appropriate officials as required.

- 6. The Authority should make information available to the public through the Internet in accordance with Section 22a-263a.**

Comment:

We noted that several reports were not posted to the Internet as required. Specifically, the Authority was not in compliance with Section 22a-263a subdivisions (3), (5) and (6).

- 7. The Authority should comply with Section 22a-268d (b) of the General Statutes and submit, on a quarterly basis, reports detailing the status of the financial mitigation plan to the State Treasurer, the Secretary of the Office of Policy and Management and to the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue and bonding.**

Comment:

We noted that the State loan was intended to be prepaid on February 15, 2008, however, the Supplemental Financial Mitigation Plan Quarterly Updates for FYE June 30, 2007 were not submitted nor posted to the Internet, resulting in non compliance with Sections 22a-268d and 22a-263.

- 8. The Authority should comply with its own procurement policies and procedures.**

Comment:

We noted that in the instances tested there was a lack of documentation to demonstrate if contracts were properly issued and bids were obtained.

Auditors of Public Accounts

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of Connecticut Resources Recovery Authority's activities for the fiscal year ended June 30, 2007. This audit was primarily limited to performing tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, 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, grant agreements 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 grant agreements 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 grant agreements 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.

Internal Control over Financial Operations and Compliance:

In planning and performing our audit, we considered the CRRA internal control over its financial operations and its compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Authority's financial operations and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Authority's 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 was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations and compliance with requirements that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial operations and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions. A *significant deficiency* is a control

deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to properly initiate, authorize, record, process, or report financial data reliably consistent with management's direction, and/or comply with certain provisions of laws, regulations, contracts, and

grant agreements such that there is more than a remote likelihood that noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations and compliance with requirements:

- Recommendation 2 - Lack of segregation of duties over certain billing and collection functions.
- Recommendation 3 - Failure to maintain adequate controls over the financial reporting of unrestricted net assets.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Authority's financial operations will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over the Authority's financial operations and compliance with requirements was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether CRRA complied with laws, regulations, contracts and grant agreements, 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, 2007, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 no material or significant instances of noncompliance. However, we noted certain matters which we reported to Authority management in accompanying “Condition of Records” and “Recommendations” sections of this report.

The Authority’s response to the findings identified in our audit are described in the accompanying “Condition of Records” section of this report. We did not audit the Authority’s response and, accordingly, we express no opinion on it.

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 Authority’s compliance with the provisions of the laws, regulations, contracts and grant agreements 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.

Joan Kovel
Auditor II

Approved:

Robert G. Jaekle
Auditor of Public Accounts

Kevin P. Johnston
Auditor of Public Accounts