Department of the Treasury
Board of Public Utilities

July 1, 1999 to January 31, 2001

Richard L. Fair
State Auditor
The Honorable Donald T. DiFrancesco  
Acting Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Board of Public Utilities for the period July 1, 1999 to January 31, 2001.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
July 25, 2001
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Scope

We have completed an audit of the Department of the Treasury, Board of Public Utilities for the period July 1, 1999 to January 31, 2001. Our audit included financial activities accounted for in the state’s General Fund.

Total annual appropriated expenditures of the agency were $25 million. The prime responsibilities of the Board of Public Utilities (BPU) are to ensure the provision of adequate utility and regulated services at reasonable rates while effectively managing the transition from protected monopoly franchise markets for the betterment of ratepayers. Annual revenues of the agency totaled $25 million through assessments from the regulated utilities and cable television companies, and federal grants.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency’s programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant issues noted in our prior audit report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and
through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were judgmentally selected.

**Conclusions**

We found that the financial transactions included in our testing were related to the agency’s programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted internal control weaknesses requiring management’s attention. We also found that the agency has resolved the significant issues noted in our prior report except for the matters related to the timely request of federal cost reimbursements. This issue has been updated in our current report.
Over $1 million can be collected from the federal government.

Federal Cash Management

During our audit period, the Division of Energy Planning and Conservation incurred $1.3 million in federal program expenditures; yet only $105,000 was reimbursed from the federal government. Included in the $1.3 million are recoverable employee benefit costs of over $100,000 which should be charged to the division’s federal accounts. The grant agreements allow for reimbursement through a letter of credit. This method permits and requires the BPU to make its own drawdown of federal funds as cash disbursements are made. Proper cash management procedures serve to reduce the time between the disbursement and receipt (drawdown) of federal funds in order to make funds available for state use.

This condition was noted in our prior audit of the BPU which covered the period July 1, 1994 to January 31, 1996. The board’s response stated that the agency has already initiated steps to reduce the amount of time between periodic drawdowns of federal funds. It was also noted that during the prior audit period the BPU experienced many delays in coordinating with the federal agency as a result of regional reorganization and transfer of program responsibilities to other regions.

Recommendation

We recommend the board’s Office of Budget and Finance develop cash management procedures that reduce the time between the disbursement and receipt (drawdown) of federal funds. We further recommend that federally recoverable employee benefit costs be properly charged to the Division of Energy Planning and Conservation on the state’s accounting system.

Auditee’s Response

The BPU agrees with the State Auditor’s recommendation regarding more frequent drawdowns of federal grants funds for eligible costs incurred. It must be noted that BPU is still encountering delays in the coordination with the
federal cognizant agency as a result of changes in the electronic reporting requirements. However, additional cash management procedures will be implemented which will ensure that cash drawdowns are prepared and submitted in a timely manner to reduce the time between actual expenditures and receipt of federal funds. The BPU has recently coordinated with staff of the Office of Management and Budget (OMB) which corrects the financial system to properly reflect recoverable employee fringe benefit costs which are fully chargeable to the agency’s federal program.

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**Regulatory Costs**

Annually, the BPU determines the expected costs of regulating the utility and cable industries and assesses them their allocated share of these costs, which were $24 million in fiscal year 2000. However, not all costs are appropriated directly to the BPU. Cost items such as employee benefits, rent, and Treasury direct administrative cost are not charged to the BPU, but rather are appropriated and incurred in Treasury central accounts. The budgeted costs of these items are withheld from the BPU appropriations. There is no reconciliation of these expected costs to actual at fiscal year end and no adjustment to industry assessments is made.

Our review of the fiscal year 2000 budgeted central account costs found that the actual rent was approximately $366,000 below the estimated amount included in the assessments billed to the industries. In addition, $342,000 for Treasury direct administrative costs could not be adequately supported.

**Recommendation**

We recommend that assessments be reconciled with actual costs and adjustments be made to future assessments, when necessary.
Auditee’s Response

The BPU does not agree with the State Auditor’s comment that no reconciliation is made of expected costs to actual costs at fiscal year end to properly adjust industry assessments. The BPU does reconcile actual costs to annual appropriations from industry assessments on a monthly basis and at fiscal year end.

The audit finding and response, as well as the necessary corrective action to the annual budget process, should be directed to the Office of Management and Budget (OMB) since the issue is not the BPU’s lack of reconciling actual costs to appropriated funds but the OMB’s proper reconciliation of actual costs to estimated budgeted amounts which represent below the line appropriations to the Department of Treasury.

Internal Controls - Fines and Penalties

Adequate internal controls require a proper segregation of duties to minimize the risk of loss of assets or revenues through errors or irregularities that might occur and remain undetected. In addition, maintaining adequate accounting records can assist management in exercising proper control over agency resources and help detect errors and irregularities.

The State of New Jersey’s One-Call law requires prior notification by excavators to utility companies whenever digging is scheduled to occur near the utilities’ buried facilities. A statewide One-Call center handles these communications under the supervision of BPU. Upon notification, the utility companies are responsible for marking their buried facilities to allow for safe excavation. When these buried facilities are struck by the excavator, the BPU is responsible for tracking all such incidents, and investigating those cases resulting in damage. BPU has the discretion to seek relief for such damages.

The Board should improve internal controls governing the imposition, collection, and accounting of fines and penalties.
through the imposition of fines and penalties against excavators who fail to notify utilities and against utilities that fail to properly mark their facilities.

During fiscal year 2000, the BPU collected $384,000 in “One-Call” program fines. Our review of this program found accounting records are not maintained to summarize the fines assessed, collected, or outstanding. We also noted incompatible functions being performed by a single individual. The enforcement officer for One-Call is responsible for investigating potential violations, recommending the disposition of the incident, and making the offer of settlement to the violators. In addition, the receipt of the settlement payment is usually mailed to the enforcement officer.

Without adequate accounting records, there is an increased risk that revenue items collected will not be properly deposited and recorded on the state’s financial system. The lack of adequate segregation of duties further increases the risk of loss due to errors and irregularities.

**Recommendation**

We recommend that the Board reassign certain responsibilities in order to achieve the proper segregation of duties in the “One-Call” program.

Additionally, the Board should require the preparation, maintenance, and periodic review of financial records that will track fines and penalties through all stages for improved management control and accountability.

**Auditee’s Response**

The BPU agrees with the State Auditor’s recommendation regarding the need for improved record keeping and further segregation of duties with respect to the One-Call Program. As a first step toward improving efficiency in the collection of fines and penalties, all settlement payments for alleged One-Call violations will be mailed directly to the BPU’s Office of Budget and Finance in Trenton. In addition, the responsibility for investigating potential
violations, recommending the disposition of the incident, and making the routine offer of settlement will no longer be made by a single individual. In the future, all cases that are investigated for a potential violation of the One-Call law will be subject to an evaluation process by more than 1 staff person for consistency and continuity in findings of fact and assessment of the fines. Also the authority to engage in these activities will reside in multiple staff persons under the direction of the Assistant Director. We note that larger impact fines and One Call incidents of an Director/Assistant Director’s Office prior to settlement negotiations.

With regard to improving the One-Call record keeping process, the BPU’s Division of Service Evaluation is currently in the process of evaluating several options for upgrading the One-Call database used for recording incidents. The BPU believes that an improved database used for recording incidents. The BPU believes that an improved database that tracks each incident from the time the incident is reported to its final disposition will provide for better internal control and efficiency in maintaining up-to-date accounting records and tracking the disposition of the incidents. It will also provide for enhanced data management, report generation and trend analysis.