Office of the State Auditor

Audit Report

Department of the Treasury
Division of the Ratepayer Advocate

July 4, 1994 to January 31, 1996
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The Honorable Christine Todd Whitman  
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  

We have completed an audit of the Department of the Treasury, Division of the Ratepayer Advocate for the period July 4, 1994 to January 31, 1996.  

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. However, we did note areas where improvement is needed. We found instances of inaccurate overhead and interdepartmental account charges, which resulted in the division being overcharged for employee benefit costs and undercharged for rent and indirect costs. The net effect was that the utility assessment supported accounts were overcharged approximately $140,000 during fiscal year 1995. Details of this and other findings and recommendations are included in our 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.  

Richard L. Fair  
State Auditor  
October 24, 1996
Department of the Treasury  
Division of the Ratepayer Advocate

Scope

We have completed an audit of the Department of the Treasury, Division of the Ratepayer Advocate for the period July 4, 1994 to January 31, 1996. Our audit included financial activities accounted for in the state's General Fund.

Total expenditures of the agency during the 19 month audit period were $5.2 million. The prime responsibilities of the Division of the Ratepayer Advocate are: (1) to negotiate proposed rate changes with the utilities, appear before the Board of Public Utilities (BPU) on behalf of ratepayers, and appeal any determination, finding or order of the BPU determined by the director of the division to be adverse to the ratepayer; (2) to assist, advise and cooperate with the BPU in the exchange of information and ideas in the formulation of long-term energy policy and goals which impact all New Jersey ratepayers; and (3) to sit on the Advisory Council on Energy Planning and Conservation and on the Energy Master Plan Committee. Revenues of the agency totaled $8 million during our audit period and the major component of revenue was assessments to utility companies.

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.

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 and observa-
tion 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 control structure.

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. Sample populations were stratified and large dollar transactions were examined. Other transactions were also selected judgmentally.

**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 system. In making this determination, we noted certain internal control weaknesses and matters of compliance with regulations meriting management’s attention.

Details of our findings and recommendations follow.
Overhead and Interdepartmental Charges

Finding

In accordance with its enabling legislation the Division of the Ratepayer Advocate (RPA) is funded totally through assessments of utility companies. All expenses of the RPA are charged to its appropriation accounts. This includes costs which are initially disbursed through the state's interdepartmental accounts, such as rent and employee fringe benefits.

Our review of the reimbursements to these accounts found that the agency was not properly monitoring their accounts.

The RPA was overcharged $290,000 for employee fringe benefit costs during fiscal year 1995. They were first charged based on their estimated annual salaries and then again based on the actual salary costs paid.

In addition, during fiscal year 1995, $289,200 was paid to the central rent account as reimbursement for leased space. These payments, however, did not represent the total lease cost for the fiscal year. Billings were not received for the rental of the Clinton Street offices for the last three months of the fiscal year. In addition, costs of the Cityside Archive space were not billed. We estimate the unbilled and unpaid rental costs to be $100,000.

We further noted that the RPA reimbursed the Department of the Treasury for direct fiscal and human resources support in lieu of establishing its own staff. However, it did not reimburse state accounts for departmental and state indirect costs. We estimate the reimbursement should have been approximately $50,000 annually.

Recommendation

We recommend that:

C the division improve the monitoring of their accounts,

C the division request that the overpayment for fringe benefits be refunded,

C RPA reimburse the central rent account for the balance of their lease costs, and

C the division reimburse the state for appropriate indirect costs.
Fixed Assets

Finding

The division does not maintain a fixed asset inventory system that complies with Treasury Circular Letter 91-32. Additionally, Treasury Circular Letter 94-05 requires the agency to perform annual physical inventory counts of fixed assets and inform Treasury of any major additions and deletions in order to attest to their perpetual fixed asset records. Physical inventory counts have not been performed and major asset additions have not been posted to Treasury’s system.

Recommendation

We recommend that the division maintain a fixed asset inventory system in compliance with Treasury Circular Letter 91-32 and that they comply with the requirements of Treasury Circular Letter 94-05 in attesting to the accuracy of the New Jersey Fixed Asset System maintained by Treasury’s Office of Management and Budget.
DEPARTMENTAL RESPONSE

October 16, 1996

Richard L. Fair
State Auditor
Office of Legislative Services 125 South Warren St.
CN 067
Trenton, NJ 08625


Dear Mr. Fair:

On behalf of the Division of The Ratepayer Advocate, please accept these comments to the findings and recommendations included in the Audit Report prepared by your office, transmitted to Ratepayer Advocate Blossom A. Peretz on October 8, 1996, for inclusion with your submission to the Governor and Legislature October 23, 1996, as required by law.

As you may know, this is the first audit of the Division of The Ratepayer Advocate, established by Governor Whitman's Executive Order 001-1994 (N.J.S.A. 13:ID-1) effective July 5, 1994 as an independent agency, of but not in the Department of Treasury. Consequently, the period of the audit coincides with the existence of the Division.

Thank you for this opportunity to supplement the record and for the assistance of your staff in helping the Division improve its fiscal management techniques and procedures.

In response to the Audit's Findings and Recommendations, as to the following matters, the Division of the Ratepayer Advocate notes the following changes and observations.

OVERHEAD AND DEPARTMENTAL CHARGES

1. As recommended, the Ratepayer Advocate has improved the monitoring by the Chief Accountant of its central rent and employees, fringe benefit accounts by the careful review of
periodic interdepartmental reports to ensure that charges and payments are accurately recorded.

2. As recommended, the Ratepayer Advocate requested the refund of its' overpayment of $290,617.00 for FY '95 employee fringe benefits from the Office of Management and Budget (OMB). The adjustment was made by OMB through the Fiscal Year '96 Uncommitted Account.

3. As recommended, the Ratepayer Advocate, on May 8, 1996 reimbursed the Central Rent Account $87,521.43 for the balance due for the last three months of fiscal year 1995.

4. As to the recommendation that the Ratepayer Advocate should reimburse the State accounts for departmental and state indirect costs, we note that according to the Director, Fiscal and Resources Section of the Division of Administration, Department of the Treasury, there is no state circular requiring the payment of reimbursement of costs of "state accounts for departmental and state indirect costs" (p.4, Audit Report).

**FIXED ASSETS**

As recommended, as of June 12, 1996, the Ratepayer Advocate established a fixed asset inventory system in compliance with Treasury Circular Letter 91-32.

As to the annual physical inventory accounts of fixed assets the Division has been in communication with the Office of Management and Budget and is in the process of complying with Treasury Circular 94-05.

Please do not hesitate to contact me or Chief Accountant Donald Copeland if you should require any further clarification of the Division's responses to the Audit Report. Thank you for your consideration.

Very truly yours,

Leora Mosston, Esq.
Chief of Staff

LM:vt

c: Blossom A. Peretz, Esq., Ratepayer Advocate
Donald Copeland, Chief Accountant