# STATE OF CONNECTICUT

**AUDITORS' REPORT**
**DEPARTMENT OF PUBLIC UTILITY CONTROL**
**AND**
**OFFICE OF CONSUMER COUNSEL**
**FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001**

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

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January 22, 2003

**AUDITORS' REPORT**
**DEPARTMENT OF PUBLIC UTILITY CONTROL**
**AND**
**OFFICE OF CONSUMER COUNSEL**
**FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001**

We have examined the financial records of the Department of Public Utility Control and the Office of Consumer Counsel for the fiscal years ended June 30, 2000 and 2001. This report on our examination consists of the Comments, Recommendations and Certification that follow.

The financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all State agencies including the Department of Public Utility Control and the Office of Consumer Counsel. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating both agencies' internal control structure policies and procedures established to ensure such compliance.

## DEPARTMENT OF PUBLIC UTILITY CONTROL
## COMMENTS

**FOREWORD:**

The Department of Public Utility Control (DPUC) operates primarily under Title 16, Chapters 277, 281 through 284, and 289 of the General Statutes, and is under the direction of the chairperson of the Public Utilities Control Authority as provided for in Section 16-1b of the General Statutes. The chief administrative officer of the Department is the executive director, who is appointed by the chairperson, in accordance with Section 16-2, subsection (f), of the General Statutes

The Department has primary regulatory responsibility for investor-owned electric, gas, water, telecommunications and cable television companies in Connecticut. Decision-making responsibility resides with the Public Utilities Control Authority.

Costs and industry assessments, which can be expended only by appropriations of the General Assembly, are accounted for by the DPUC in a special revenue fund called the Consumer Counsel and Public Utility Control Fund, according to Section 16-48a of the General Statutes.

Significant legislation affecting the Department during the audited period included the following:

- Public Act 99-105, codified under Section 16-49, expands the range of companies subject to assessment including telecommunications companies. Assessments are based on total, rather than taxable gross revenues. Applicable companies must report annually their intrastate gross revenues to DPUC for the preceding calendar year. Civil penalties can be assessed to companies for failure to report. Also, late assessment penalties are assessed interest at the rate of 1¼ per month or a minimum penalty of $50. Effective date: July 1, 1999.
- Public Act 99-31, codified under Sections 16-280a through 16-280e, expands the scope of the DPUC's jurisdiction over the safety of gas pipelines and increases the maximum daily civil penalties for violations from $10,000 to $25,000 and extends the penalty provision to violations of state law. Effective date: October 1, 1999.
- Public Act 00-91, codified under Section 16-258a, establishes bonding and other requirements of non-utility gas suppliers. Requirements include registering with the DPUC and the payment of an annual registration fee. It requires DPUC approval to transfer a registration and allows DPUC to impose additional fees and civil penalties for violations. Effective date: October 1, 2000.

**PUBLIC UTILITIES CONTROL AUTHORITY:**

The Authority is comprised of five members appointed by the Governor with the advice and consent of the General Assembly. As of June 30, 2001, the members were as follows:

| | Term Expires June 30, |
|---|---|
| Donald W. Downes, Chairperson | 2005 |
| Glen N. Arthur, Vice-chairperson | 2003 |
| Linda J. Kelly Arnold | 2003 |
| John W. Betkoski, III | 2005 |
| Jack R. Goldberg | 2003 |

Donald W. Downes continued to serve as Chairperson of the Authority during the audited period.

**RÉSUMÉ OF OPERATIONS-DEPARTMENT OF PUBLIC UTILITY CONTROL (DPUC):**

A comparative summary of receipts credited to the Consumer Counsel and Public Utility Control Fund for the fiscal years ended June 30, 2000 and 2001 is as follows:

| | Fiscal Year Ended June 30, | |
|---|---|---|
| | **2000** | **2001** |
| Public service company assessments | $17,691,123 | $17,113,542 |
| Other receipts | 321,691 | 353,172 |
| **Total Receipts** | **$18,012,814** | **$17,466,714** |

Receipts consisted primarily of assessments received from public service companies for the costs of operating the DPUC and the Office of Consumer Counsel (OCC). Other receipts included fines and costs, refunds of prior year expenditures, and miscellaneous fees.

Assessment revenues decreased by $1,313,217 (seven percent) and $577,581 (three percent) during the 1999-2000 and 2000-2001 fiscal years, respectively, as compared with the 1998-1999 fiscal year assessment revenues that totaled $19,004,340. The large decreases were a result of both reductions in the Agency's budgets and the under-spending of assessments billed and collected during fiscal year 1999-2000. Assessment billings in fiscal year 1998-1999 were increased to fund the anticipated expenditures relating to new electric deregulation laws. Actual expenditures were lower than anticipated and resulted in excess revenues in fiscal year 1998-1999. The excess revenue at year-end was then credited to each company's assessment for fiscal year 1999-2000, which resulted in a drop in actual revenues collected in that year. Additional budget cuts in fiscal year 2000-2001 decreased the assessment billings and actual revenues collected for that year.

In addition to the receipts deposited to the Consumer Counsel and Public Utility Control Fund, the DPUC also deposited receipts to the General Fund. General Fund receipts totaled $326,759 and $332,424 in the 1999-2000 and 2000-2001 fiscal years, respectively. The majority of General Fund receipts consisted of Federal receivables collected for two Federal Grant programs entitled "Gas Pipeline Safety" and "Call Before You Dig". Other General Fund receipts included fines and costs, and sales and use tax collections.

A summary of DPUC expenditures from the Consumer Counsel and Public Utility Control Fund for the audited period is presented below:

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | **1999** | **2000** | **2001** |
| Personal services | $8,036,348 | $9,274,402 | $9,803,859 |
| Contractual services | 1,626,073 | 1,835,138 | 1,853,939 |
| Commodities | 106,186 | 118,918 | 88,787 |
| Sundry charges | 3,053,878 | 3,980,903 | 3,855,564 |
| Equipment | 397,229 | 183,251 | 78,365 |
| **Total Expenditures** | **$13,219,714** | **$15,392,612** | **$15,680,514** |

Personal service costs and related employees' fringe benefits accounted for the largest increase in expenditures during the audited period. Expenditures for personal services increased by $1,238,064 (15 percent) and $529,457 (six percent) in the fiscal years 1999-2000 and 2000-2001, respectively. The increases can be attributed to: annual salary increases, an extra payroll in fiscal year 1999-2000, employee promotions and wage adjustments in each year and the addition of several employees to the Agency.

Sundry charges increased $927,025 and decreased by $125,340 during the 1999-2000 and 2000-2001 fiscal years, respectively. The primary reason for the 1999-2000 fiscal year increase was ~~due to~~ additional fringe benefit costs based on higher rates and the extra payroll during that year. The decrease in the 2000-2001 fiscal year resulted from a reduction of $212,104 for indirect overhead expenditures relating to the Federal Gas Pipeline Program.

General Fund expenditures during the audited period totaled $254,464 and $237,844 for the fiscal years 1999-2000 and 2000-2001, respectively. The expenditures were primarily for personal services, related employee fringe benefits and indirect overhead paid from a Federal contribution account that accounts for both the "Gas Pipeline Safety" program and the “Call Before You Dig” program.

**PROGRAM EVALUATION**:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to conduct a program evaluation as part of our audits of public and quasi-public agencies. Section 16-247p of the General Statutes, required the DPUC to adopt regulations to “establish quality-of-service standards that shall apply to all telephone companies and certified telecommunication providers and to all telecommunications services. .... The department shall include ... methodologies for monitoring compliance with and enforcement of such standards.” Our program evaluation reviewed the Agency’s compliance with establishing such regulations and the steps it has taken to monitor and enforce compliance with the regulations.

Quality-of-Service and performance regulations were established, adopted and became effective on November 8, 2000. The new regulations require that each telecommunications provider meet monthly minimum quality-of-service standards and performance percentages relating to various service areas. The standards include responding to service trouble reports, percentage of missed appointments related to customer service maintenance repairs and installations, and the percentage of installation and out-of-service call completions. Each telecommunications company and provider is required to file semi-annual reports with the DPUC that include monthly performance numbers on both a company-wide and wire center or regional level. Explanations for below minimum standard performance levels and steps to bring performance to an acceptable level must be included in the report. In addition to actual performance data, a summary report of the company’s overall past performance, segmented by technical services and plans for future improvements in service quality are to be included.

If performance levels fall below minimum standards for three consecutive months, the company must file an exception report within 30 days of the end of the period in question. The exception report must include the reasons for the below minimum standards and a proposed solution and timetable for the proposed improvements. In the case of extraordinary circumstances or emergency situations that are beyond the provider's control, if determined by the DPUC, the provider shall not be held accountable for the failure to achieve the minimum standards. Companies can request a waiver from the DPUC for an extension of time to file a report.

The DPUC may initiate a proceeding to investigate a provider that repeatedly fails to meet the minimal service standards or fails to comply with the service quality reporting requirements and could ultimately impose a fine for non-compliance.

Our review found that new regulations were established to address the issues concerning quality-of-service and performance standards. However, the DPUC's lack of action in monitoring the telecommunication providers' compliance with these regulations has resulted in the following finding.

*Criteria:* Regulations established by the DPUC, in accordance with Section 16-247p of the General Statutes, require that all telephone companies and certified telecommunication providers meet monthly quality-of-service standards and file semi-annual reports. The reports are to be monitored by the DPUC to ensure that minimum standards and performance requirements are met. If a company repeatedly fails to meet minimal service standards or fails to comply with service quality reporting requirements, the Department can initiate proceedings to investigate and may impose a fine on the company for non-compliance.

*Condition:* The companies' first semi-annual report was due in January 2001 for the period October 2000 through December 2000. As of June 2002, only eight companies out of 285 had submitted reports that were due by January 30, 2001. In addition, only nine companies filed reports due by July 30, 2001 and only ten companies filed reports due by January 30, 2002. Although waivers for an extension of time to file were given to companies requesting such, the companies were not monitored to ensure that the reports were filed at a later date. There has been minimal action taken by the DPUC to ensure that all applicable companies file the required reports. Although the DPUC established the regulations required by the Public Act, it has not adequately monitored or taken effective steps to enforce the Regulations or the standards.

*Effect:* Without adequate and effective monitoring for compliance, the DPUC cannot ensure that minimum quality-of-service and performance standards are being met or that continuous failures to meet such standards are being effectively addressed by each telecommunication provider. A continued lack of compliance could result in customers being adversely affected.

*Cause:* The Regulations were not approved until November 2000 and the first report was due January 2001. Many companies stated that they could not provide the required information in time to meet the reporting date. Companies who requested waivers for an extension of time to file were given them. Causes for subsequent semi-annual reports not being filed and the lack of monitoring were not determined.

*Recommendation:* The Department of Public Utility Control should improve its monitoring and enforcement of telecommunication quality-of-service regulations. (See Recommendation 1.)

*Agency Response:* "The Telcom Unit is in the process of establishing a Telcom Reporting Requirements' database that will list all certified companies and incumbent local exchange carriers (ILEC) authorized to offer telecommunications service in Connecticut. The database will also include the various filings required by state statute or regulation and Department Decisions that must be complied with by these providers. We are expecting the database to be up and running by December 1st. Telcom staff will be responsible to review the filed materials to ensure compliance with the appropriate directive and indicate in the database if the company(ies) has complied. The database will provide the staff with the ability to make queries to determine which company(ies) are not in compliance with all directives.

For those companies that are not in compliance, staff will draft letters informing them that they are in noncompliance and allow them a sufficient period of time to correct the deficiency(ies). In the event a company fails to comply, staff will initiate a reopening of the docket that the company was awarded its Certificate of Public Convenience and Necessity (CPCN) for the purpose of investigating the company's noncompliance and if necessary, fine the company, revoke its CPCN or both. In those cases where the ILEC has failed to comply, staff will initiate a proceeding to investigate that carrier's noncompliance and whether it should be fined."

## CONDITION OF RECORDS

Our audit of the Department of Public Utility Control's records disclosed the following areas that require improvement.

**Assessment Billings:**

*Criteria:* Section 16-49 of the General Statutes, establishes guidelines for assessing certain regulated companies for the expenses of the DPUC and the Office of Consumer Counsel. The DPUC prepares, collects, records and deposits quarterly assessment billings from applicable public service companies for its operating expenses. The State Accounting Manual states that internal controls over receipts should include accountability reports that compare amounts billed to actual amounts collected and deposited.

Good internal controls should include well-documented, organized and complete records and procedures. Records should include clearly identified and documented adjustments and credit balances. Policies and procedures should be in place to handle outstanding overpayments and credits.

*Condition:* The DPUC prepared year-end accountability reports that reconciled actual receipts collected to quarterly billed assessment totals; however, supporting documentation for adjusting entries was inadequate. Adjustments could not be easily verified and upon further review, several adjustments were found to be incorrect.

There are no written policies or procedures for returning overpayments or credits to companies that are no longer subject to the assessment process, or for applying overpayments to currently assessed companies. Supporting documentation for credits and overpayments was not well organized. The original date of the credit, date it was used or returned, and the current balance was not always readily available. The Agency's annual GAAP form for reporting 'Other Liabilities' did not include miscellaneous overpayments and credits totaling $24,301, as of June 30, 2001.

During the audited period, ledger sheets used to record payments were handwritten with changes, cross-outs and adjustments inadequately documented. Each company's payment was posted to a quarterly billing summary report that was used as an accounts receivable record. Tracing posted payments back to the original supporting detail, (e.g.; cash log and deposit slips) to ensure that the proper company was credited, was especially difficult in cases when a parent company paid for more than one subsidiary company's assessment bill.

*Effect:* Total assurance that all assessment bills have been properly collected, recorded and deposited cannot be fully attained unless records are adequately documented and reconciled.

*Cause:* The causes were not determined.

*Recommendation:* Procedures and supporting documentation involving the assessment billing and reconciliation process should be improved. (See Recommendation 2.)

*Agency Response:* "Adjustments to accountability reports, ledgers, and journals will be documented regarding the reason, amount, date, and other pertinent information. The adjustments will be linked to the appropriate company or companies especially if a parent company processes payment.

The comptroller's monthly statements will be reviewed to assure that any applicable adjustments are reflected correctly and if required appropriate changes will be made to Department of Public Utility Control records or communicated to the Comptroller's office for corrective action. Any required action will be monitored by the Fiscal/Administrative Supervisor to assure its completion. Additionally, the agency has further automated its accounts receivable records since June 30, 2001 to reduce the need for handwritten documents.

Any outstanding miscellaneous overpayments and credits existing at the end of the fiscal year (June 30) will be reflected as "Other Liabilities" on the GAAP form.

A task force will be assembled in September 2002 to address development of written policies or procedures for returning overpayments or credits to companies that are no longer subject to the assessment process, or for applying overpayments to currently assessed companies. Supporting documentation for credits and overpayments will be placed in the Accounts Receivable Quarterly file."

**Property Control:**

*Criteria:* The State of Connecticut's Property Control Manual establishes the criteria for maintaining an inventory system for physical property and software and includes record and reporting requirements. Each item on the permanent property record should include the date acquired, purchase order number, expenditure coding, and condition. The cost of component parts or enhancements (e.g.; computer interface cards, memory boards, etc.) that are added to the description of an item should increase its recorded value.

*Condition:* The property control records did not contain all the required information. Acquisition dates, expenditure codings and the item's condition were not included, commitment numbers instead of purchase order numbers were periodically used, and information was not always put in the correct report field.

There were inconsistencies in the handling of component parts and enhancements. Some upgrades to computer hardware were added to the individual computer's description and the cost of the computer was increased. In other cases, descriptions were added but no additional cost was included on the property control record. Several equipment items had been moved, but the location had not been changed on the permanent property control record.

Software inventory totaling $122,969 and $150,279 was incorrectly included on the Annual Fixed Assets Report under "Exceptional Items" for the fiscal years ended June 30, 2000 and 2001, respectively. Three items totaling $5,858 were removed from the inventory record and reported as disposed of as of June 30, 2001, however these items are still at the Agency.

*Effect:* Incomplete or inaccurate inventory records could lead to the misuse of assets or the loss of assets going undetected. Reported fixed asset totals are overstated.

*Cause:* The causes were not determined.

*Recommendation:* The Department of Public Utility Control should comply with the requirements established in the State of Connecticut's Property Control Manual. (See Recommendation 3.)

*Agency Response:* "The property control records will be corrected to contain all the required information. Acquisition dates, expenditure codings, the item's condition and purchase order or direct purchase order numbers will be listed.

If component parts are added to the inventory, the costs and other aforementioned information will also be included. The Fiscal/Administrative Supervisor will more carefully review inventory reporting by data processing and other staff to assure items are correctly reported particularly in regard to location. Items will not be removed from the inventory records until properly disposed of pursuant to the State of Connecticut Property Control Manual criteria.

Software inventory will be no longer be reported on the Annual Fixed Assets Report under "Exceptional Items"."

**OFFICE OF CONSUMER COUNSEL**
**COMMENTS**

**FOREWORD:**

The Office of Consumer Counsel operates under Section 16-2a of the General Statutes and is within the Department of Public Utility Control for administrative purposes only. The Office acts as the advocate for consumer interests in matters relating to public service companies. An agency assigned to a department for "administrative purposes only" exercises its statutory authority independent of such department and without approval or control of the department under Section 4-38f of the General Statutes.

The Office is under the direction of a Consumer Counsel appointed by the Governor with the advice and consent of either House of the General Assembly. Guy R. Mazza served as Consumer Counsel until September 13, 2001. Mary J. Healey was appointed as Consumer Counsel effective September 14, 2001 and continues to serve in that capacity.

**RÉSUMÉ OF OPERATIONS - OFFICE OF CONSUMER COUNSEL (OCC):**

A summary of OCC expenditures from the Consumer Counsel and Public Utility Control Fund for the audited period is presented below:

| | **Fiscal Year Ended June 30,** | | |
|---|---|---|---|
| | **1999** | **2000** | **2001** |
| Personal services | $1,140,607 | $1,056,995 | $1,174,161 |
| Contractual services | 309,553 | 353,785 | 342,162 |
| Commodities | 10,847 | 36,863 | 17,499 |
| Sundry charges | 661,275 | 433,257 | 542,167 |
| Equipment | 19,397 | 16,030 | 12,925 |
| **Total Expenditures** | **$2,141,679** | **$1,896,930** | **$2,088,914** |

OCC expenditures from the Consumer Counsel and Public Utility Control Fund appropriations totaled $2,141,679 in the 1998-1999 fiscal year, for comparative purposes. Total expenditures decreased $244,749 (11 percent) and then increased $191,984 (ten percent) in the fiscal years 1999-2000 and 2000-2001, respectively.

Personal services decreased $83,612 (seven percent) and then increased $117,166 (11 percent) in the fiscal years 1999-2000 and 2000-2001, respectively. The decrease was due primarily from retroactive collective bargaining payments being paid in fiscal year 1998-1999. The increase in the 2000-2001 was based on the increase in staff during the year and employee's annual collective bargaining increases.

Sundry charges decreased $228,017 (34 percent) and increased $108,910 (25 percent) in the fiscal years 1999-2000 and 2000-2001, respectively. The large decrease was a reduction in miscellaneous costs. OCC paid over $236,000 in negotiated one-time costs in fiscal year 1998-1999 for stipulated agreement awards to two former employees for lost wages and an agreement to relinquish future claims. Also, the State Comptroller credited the Agency's indirect overhead costs with a one-time adjustment of $79,807 in the 1999-2000 fiscal year. The increase in the fiscal year 2000-2001 was a result of increased fringe benefit costs and normal indirect overhead costs.

## CONDITION OF RECORDS

Our audit of the Office of Consumer Counsel's records disclosed the following areas requiring improvement or comment, as discussed below:

**Memorandum of Understanding:**

*Background:* The OCC entered into a Memorandum of Understanding (MOU) with the Department of Administrative Services (DAS) to perform administrative work in June 1997. Prior to that time, OCC prepared and maintained its own records regarding budgets, procurement and payment of goods and services, and property control. The original MOU provided the above services and also included the preparation of Affirmative Action plans and use of human resource services at no cost to the OCC. In fiscal year 1998-1999, DAS requested that the original MOU be divided into three separate memorandums with a cost assigned to each. The new memorandums separated services relating to Affirmative Action issues; human resources; and budget/fiscal/inventory control and reporting services. The three memorandums' annual costs total $75,203 plus any agreed upon specific or incidental costs.

*Criteria:* The Office of Consumer Counsel (OCC) is within the Department of Public Utility Control (DPUC) for administrative purposes only, which is in accordance with Section 16-2a of the General Statutes. Section 4-38f of the General Statutes states that the department (DPUC) shall provide recordkeeping, reporting, and related administrative and clerical functions to the agency (OCC) to the extent deemed necessary.

*Condition:* The OCC has continued to use the services of DAS to perform most of its procurement and payments, budgeting and reporting, property control and human resource functions. The MOU's that were signed in June 1999 remain in effect. OCC paid DAS $75,203 for services in both the 1999-2000 and 2000-2001 fiscal years.

Our testing of the services that DAS provided to OCC documented instances of noncompliance with established State requirements in the areas of property and software controls. In addition, there were minor errors noted in the purchasing and payment process that resulted in a small overpayment, a credit that was not taken, some miscoding of expenditures and several errors in reported receipt dates. Problems were also noted concerning the lack of timely reconciliation of expenditures, and errors on the annual fixed assets reports and GAAP forms. There appears to be some disagreement between OCC's management and DAS concerning which specific functions DAS is actually responsible for under the MOU's.

The DPUC continues to process OCC's payroll as it has in the past and provides OCC with other types of information and support.

*Effect:* OCC incurred $75,203 in costs for administrative services that may have been more properly addressed and provided for by the DPUC at no direct cost to OCC. Instances of noncompliance with State policies and procedures occurred in the area of inventory, procurement, and payment processing during the period that was out of the immediate control of OCC.

*Cause:* The OCC did not believe that it would be cost effective to hire the personnel necessary to properly manage its human resources and fiscal responsibilities. OCC felt that the DPUC did not have sufficient personnel to provide OCC with adequate support for these functions.

*Recommendation:* The Office of Consumer Counsel should not contract with the Department of Administrative Services for services that should be requested from the Department of Public Utility Control. (See Recommendation 4.)

*Agency Response:* "The Office of Consumer Counsel (OCC) has reviewed and will continue to review the means by which administrative support is provided. A number of criteria were considered before formally entering into agreements with DAS and DPUC.

... Critical to the determination of how support services are to be provided are the availability of help and the commitment to meeting OCC's priorities and needs. There had been times, where it appeared OCC's work had or would have lower priority than the DPUC's. Also important is the degree of comfort in view of the fact that OCC's administrative activities support program initiatives with which the DPUC may disagree. Programmatically, OCC is a state prosecutor office mandated to advocate the interests of Connecticut's utility consumers. DPUC determinations may differ and OCC court appeals and/or legislative initiatives may accentuate differences affecting administrative relationships. Cost was also a consideration. In OCC's previous discussions with DPUC, there was an indication that there was not sufficient staff to meet additional needs and that compensation for additional staff might be necessary. Before entering into the MOUs, OCC evaluated and considered seeking additional staff to improve administrative support. Based on staff size and program responsibilities at that time, OCC deferred its decision to add administrative staff. The conclusion OCC reached when the MOUs were entered into was, the statutorily created distinction of responsibilities justified the combination: continuing with DPUC support of a number of functions, responding to the DAS offer and continuing to perform a number of administrative functions.

OCC has believed administrative functions should be performed properly and efficiently. Intended is quality. There was and continues to be concerns about ensuring the quality of OCC's program work and administration. Consultation with DAS in the past, during the audit and following release of audit findings leads OCC to the impression that DAS is concerned about improvement and willing to work to address audit and OCC concerns. OCC is committed to improvement as well.

The MOUs have been informally reconsidered by OCC in previous years. Options will be re-evaluated again. This is occurring because periodic reevaluation should occur, and also due to a number of concerns, some expressed in the findings. This will continue and is expected to involve further discussions with DAS and DPUC."

**Property Control and Software Inventory:**

*Criteria:* The State of Connecticut's Property Control Manual establishes the criteria for maintaining an inventory system for physical property and software. It sets record and reporting requirements. The criteria include: properly tagging, recording, and accounting for equipment in a timely manner and maintaining a complete and updated software library/inventory.

*Condition:* Information on OCC's permanent inventory record was not complete or up-to-date. Several new items were either not tagged or had not been recorded on the permanent inventory records. Two items had been disposed of but had not been removed from the inventory list. A leased copier valued at $127,090, which required insurance per the lease agreement, was erroneously removed from the Annual Fixed Inventory Report for June 30, 2001. Current up-to-date software inventory listings and a complete software library were not maintained per the State's requirements. Internal controls over property control procedures were weak.

*Effect:* A lack of updated or incomplete inventory and software records could lead to the misuse of assets and the loss of assets going undetected.

*Cause:* In accordance with the Memorandum of Understanding, DAS is responsible for inventory control and reporting. OCC believed that DAS purchasing staff would communicate new purchases or disposed of property to the appropriate DAS inventory staff. However, DAS's inventory staff was not informed and would tag new items or make changes to the inventory records only when OCC staff called them or when a physical inventory was prepared at fiscal year-end. There appeared to be confusion as to who was responsible for maintaining OCC's software records. Other causes were not determined.

*Recommendation:* Equipment and software inventory procedures should be strengthened to provide complete information and compliance with laws and regulations. (See Recommendation 5.)

*Agency Response:* "The recommendation that equipment and software procedures should be strengthened is important to OCC, in part, due to significant efforts dedicated to resolving concerns in the past. To be clear, OCC intends improvement with respect to equipment and software inventory."

## RECOMMENDATIONS

*Status of Prior Audit Recommendations:*

- The Department of Public Utility Control should prepare a complete reconciliation of the annual assessment billings to the receipts that are collected and reported. Although improvements were made, there were some continued deficiencies. This recommendation is being modified and repeated in this report as Recommendation 2.

- The Office of Consumer Counsel should not contract with the Department of Administrative Services for administrative services that should be requested from the Department of Public Utility Control. The OCC continued to pay DAS $75,203 a year for services provided under three separate memorandum of understandings during the audited period. This recommendation has not been implemented and will be repeated in this report as Recommendation 3.

- The Office of Consumer Counsel should ensure that compensatory time is completely documented. Improvements were made in the documentation of compensatory time and the recommendation is not being repeated.

*Current Audit Recommendations:*

**<u>Department of Public Utility Control</u>**:

1. **The Department of Public Utility Control should improve its monitoring and enforcement of telecommunication quality-of-service regulations.**

   Comment:

   There has been minimal action on the part of the DPUC to ensure that semi-annual reports required from telephone and telecommunication providers are filed. As of June 2002, only ten companies out of 285 filed reports that were due on January 30, 2002.

2. **Procedures and supporting documentation involving the assessment billing and reconciliation process should be improved.**

   Comment:

   Supporting documentation for adjusting entries made on receipt reconciliation reports was inadequate. Several adjusting entries were incorrect. There were no written policies or procedures for returning or applying miscellaneous overpayments and credits.

**3. The Department of Public Utility Control should comply with the requirements established in the State of Connecticut's Property Control Manual.**

Comment:

The property control records did not include acquisition dates, expenditure coding and condition status for each item listed. There were inconsistencies in the way the addition of component parts were treated on the property control records. Software inventory totals were incorrectly reported on the Annual Fixed Asset Reports.

**Office of Consumer Counsel:**

**4. The Office of Consumer Counsel should not contract with the Department of Administrative Services for services that should be requested from the Department of Public Utility Control.**

Comment:

The OCC continued three memorandums of understanding with the Department of Administrative Services to obtain services involving Affirmative Action issues, human resources and budget/fiscal/inventory control and reporting services. OCC pays $75,203 for the services. OCC is under the Department of Public Utility Control for administrative purposes, and could ask the DPUC to provide these administrative services.

**5. Equipment and software inventory procedures should be strengthened to provide complete information and compliance with laws and regulations.**

Comment:

Inventory and software records were incomplete. Several new items were not properly tagged. Internal controls over inventory and software procedures and reporting were weak.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Public Utility Control and the Office of Consumer Counsel for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of each Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of each Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to each Agency are complied with, (2) the financial transactions of each Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of each Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Public Utility Control and the Office of Consumer Counsel for the fiscal years ended June 30, 2000 and 2001, are included as part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Public Utility Control and the Office of Consumer Counsel complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of test to be performed during the conduct of the audit.

**Compliance:**

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Public Utility Control and the Office of Consumer Counsel is the responsibility of the Department of Public Utility Control's management and the Office of Consumer Counsel's management.

As part of obtaining reasonable assurance about whether each Agency 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 each Agency's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under auditing standards generally accepted in the United States of America.

We did, however, note certain immaterial or less than significant instances of noncompliance that we have disclosed in the "Condition of Records", and "Recommendations" sections of this report.

**Internal Control over Financial Operations, Safeguarding of Assets and Compliance**:

The management of the Department of Public Utility Control and the Office of Consumer Counsel are responsible for establishing and maintaining effective internal control over their financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to each of their Agencies. In planning and performing our audit, we considered each Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on each Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Public Utility Control and Office of Consumer Counsel's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over each Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions:

- DPUC's need for improving procedures and supporting documentation associated with its assessment billing and reconciliation process.
- The need for improvements over property control and software inventory issues for both the DPUC and OCC.
- The OCC's contracting with DAS for administrative services.

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 or the requirements to safeguard assets that would be material in relation to each Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to each Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over each Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that the reportable conditions described above are not material or significant weaknesses.

We also noted other matters that are described in the accompanying "Program Evaluation", "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.

**CONCLUSION**

We wish to express our appreciation for the cooperation and courtesy extended to our representatives by the Department of Public Utility Control and the Office of Consumer Counsel during this examination.

Virginia A. Spencer
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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