STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF PUBLIC UTILITY CONTROL
AND
OFFICE OF CONSUMER COUNSEL
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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September 4, 2013

AUDITORS' REPORT
DEPARTMENT OF PUBLIC UTILITY CONTROL
AND
OFFICE OF CONSUMER COUNSEL
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

We have examined the financial records of the Department of Public Utility Control (DPUC) and the Office of Consumer Counsel (OCC) for the fiscal years ended June 30, 2010 and 2011. 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 DPUC and OCC. 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 operates primarily under Title 16, of the General Statutes. The department is statutorily charged with regulating to varying degrees, the rates and services of Connecticut's investor-owned, electricity, natural gas, water and telecommunication companies and is the franchising authority for the state's cable television companies. In the industries that are still wholly regulated, the department must balance the public's right to safe, adequate, and reliable utility service at reasonable rates with the provider's right to a reasonable return on its investment. The department also keeps watch over competitive utility services to promote equity among the competitors while customers reap the price and quality benefits of competition and are protected from unfair business practices.

Costs and industry assessments, which can be expended only by appropriations of the General Assembly, are accounted for by DPUC in the Consumer Counsel and Public Utility Control Fund, a special revenue fund, according to Section 16-48a of the General Statutes. According to this section, amounts in this fund may be expended only pursuant to appropriation by the General Assembly, and any balance remaining in the fund at the end of any fiscal year shall be carried forward in the fund to the succeeding fiscal year.

Public Act 05-251, Section 60 subsection (c), effective July 1, 2005, allows the commissioner of the Department of Administrative Services (DAS), in consultation with the secretary of the Office of Policy and Management, to develop a plan whereby DAS would merge and consolidate personnel, payroll, affirmative action and business office functions of selected executive branch state agencies within DAS. DPUC was one of the agencies selected for consolidation of its personnel, payroll, and affirmative action functions into the DAS Small Agency Resource Team (SmART).

Agency Merger:

Under Public Act 11-80, effective July 1, 2011, the new Department of Energy and Environmental Protection (DEEP) was created by merging the Department of Environmental Protection (DEP) and DPUC. The act renamed DPUC to the Public Utilities Regulatory Authority (PURA) and reduces the number of commissioners from five to three and renames them as directors. The act eliminated the DPUC executive director and authorized the PURA chairperson, with approval from the DEEP commissioner, to assume the executive director’s powers and responsibilities.

The act also placed OCC within the new DEEP for administrative purposes only.

Since DPUC became PURA immediately following the audited period we use the names interchangeably throughout this report.

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, 2011, the members were as follows:

Kevin M. DelGobbo, Chairman
John W. Betkoski, III, Vice Chairman
Amalia Vazquez Bzdyra, Commissioner
Anthony J. Palermino, Commissioner
Anna Ficeto, Commissioner

William Palomba continued to serve as executive director of the department during the audited period.

RÉSUMÉ OF OPERATIONS-DEPARTMENT OF PUBLIC UTILITY CONTROL:

General Fund Receipts and Expenditures:

General Fund receipts totaled $62,506 and $34,551 for the fiscal years ended June 30, 2010, and 2011, respectively, and consisted primarily of fines collected for violations of the Call Before You Dig regulations. The number of cases from which fines were levied decreased steadily each fiscal year.

General Fund expenditures totaled $15,000 and $0 for the fiscal years ended June 30, 2010 and 2011, respectively. Expenditures decreased dramatically from $1,103,401 in the 2008-2009 fiscal year due to the completion of the Statewide Energy Efficiency campaign established in the fiscal year 2007-2008 in accordance with Public Act 07-242.

Consumer Counsel and Public Utility Control Fund:

A summary of receipts credited to the Consumer Counsel and Public Utility Control Fund for the fiscal years ended June 30, 2010 and 2011 is as follows:

	Fiscal Year Ended June 30,		
	2009	**2010**	**2011**
Public Service Company Assessments	$22,613,843	$21,042,922	$19,632,629
Other Receipts	231,781	68,704	590,638
Total Receipts	$22,845,624	$21,111,626	$20,223,267

Receipts consisted primarily of assessments received from public service companies for the costs of operating DPUC and OCC. Other receipts included fines and costs, fees for legal or clerical services, and refunds of expenditures. The large increase in other receipts for the 2010-2011 fiscal year was due to payment for staff time recoveries and a late payment for reimbursement of expenditures from the federal government. The reimbursement payment was for 2008-2009 fiscal year expenses that would have normally been recorded in the 2009-2010 fiscal year, therefore, creating less of a variance.

Assessments received from public service companies decreased $1,570,921 and $1,410,293, or seven percent, during the 2009-2010 and 2010-2011 fiscal years, respectively, as compared with the 2008-2009 fiscal year assessment revenues, which totaled $22,613,843. Fluctuations resulted from timing differences of amounts received for the year-end assessments and staff reductions due to attrition from the 2009 early retirement.

As of June 30, 2011, the available cash balance of the Consumer Counsel and Public Utility Control Fund was $3,505,958.

Comparative summaries of DPUC expenditures from the Consumer Counsel and Public Utility Control Fund for the audited period, as compared to the period ended June 30, 2009, are shown below:

	Fiscal Year Ended June 30,		
	2009	**2010**	**2011**
Personal Services & Fringe Benefits	$16,448,144	$15,994,873	$16,610,436
Other Expenses	1,673,951	1,565,022	1,650,545
Indirect Overhead	130,918	385,360	52,142
Equipment	0	60,475	22,841
Total Expenditures	**$18,253,013**	**$18,005,730**	**$18,335,964**

Total expenditures decreased by $247,283, or one percent, and increased by $330,234, or two percent, during fiscal years 2009-2010 and 2010-2011, respectively. Personal services and related fringe benefit costs accounted for the majority of expenditures during the audited period.

Decreases in personal services were the result of a reduction of eleven full-time positions from 125 in the 2008-2009 fiscal year to 114 in the 2009-2010 fiscal year due to retirements. The decrease in indirect overhead for the 2010-2011 fiscal year was the result of an appropriation adjustment in accordance with Public Act 10-179.

Federal and Other Restricted Accounts Fund:

Comparative summaries of DPUC's federal and other restricted receipts for the audited period, as compared to the period ended June 30, 2009, are shown below:

	Fiscal Year Ended June 30,		
	2009	**2010**	**2011**
Federal and Other Restricted Accounts:			
Investment Interest	$ 0	$ 0	$ 100
Federal Grants	404,482	1,028,484	1,916,419
Other-than-Federal	5,534,080	8,334,508	5,936,145
Total Receipts	**$5,938,562**	**$9,362,992**	**$7,852,664**

Federal grant receipts increased by $624,002 or 154 percent and $887,935 or 86 percent during fiscal years 2009-2010 and 2010-2011, respectively. Receipts consisted primarily of receivable collections for the American Recovery and Reinvestment Act (ARRA) program. The authority was awarded a total of $3,782,938 from the National Telecommunications and Information Administration (NTIA) to be used for the Broadband Mapping Program. With the increased contracting due to program needs, expenditures and subsequent federal drawdowns increased.

Other-than-federal receipts increased 51 percent and decreased 29 percent during fiscal years 2009-2010 and 2010-2011, respectively. Previously, only revenues from the Public, Educational and Governmental Programming and Educational Technology Investment Account (PEGPETIA) were recorded in this category. In fiscal year 2009-2010, the State Comptroller required the authority to record revenues from the Nuclear Safety Emergency Program as well, resulting in the increase. The decrease in the 2010-2011 fiscal year can be attributed to the $2,300,000 transfer in 2010 from the PEGPETIA account to the General Fund as part of the Governor's deficit mitigation plan in accordance with Public Act 10-3. After the transfer, PEGPETIA program activities decreased significantly.

Comparative summaries of DPUC's federal and other restricted expenditures for the audited period, as compared to the period ended June 30, 2009, are shown below:

	Fiscal Year Ended June 30,		
	2009	**2010**	**2011**
Federal and Other Restricted Accounts:			
Restricted Federal Accounts	$ 399,982	$ 370,968	$1,967,930
Other-than-Federal Accounts	1,285,927	3,569,566	3,327,004
Total Expenditures	**$1,685,909**	**$3,940,534**	**$5,294,934**

Federal and other grant expenditures increased by $2,254,625 or 134 percent and $1,354,400 or 34 percent during fiscal years 2009-2010 and 2010-2011, respectively. Expenditures consisted primarily of personal services and related fringe benefit costs for increased staffing levels.

In January and September 2010, the authority received a total of $3,782,938 from the federal government for the state's Broadband Mapping Program. As the program got underway, a consultant was contracted to serve as the project manager, which accounted for the increase in expenditures. Also, in 2009-2010, the authority booked revenues collected under the Nuclear Safety Emergency Program. Those revenues were then transferred in full to the Department of Emergency Management and Homeland Security.

As noted earlier, the PEGPETIA account balance decreased due to a $2,300,000 transfer to the General Fund authorized by Public Act 10-3; therefore, the amount of grant awards also decreased.

CONDITION OF RECORDS

Our audit of the records of the Department of Public Utility Control, now Public Utilities Regulatory Authority (PURA), revealed several areas requiring improvement or further comment as discussed below:

Payroll / Personnel Matters:

Criteria:

1. Compensatory time - Authority policies stipulate that all requests to earn compensatory time must be pre-approved by the employee's supervisor and then later attached to the corresponding biweekly timesheet.

The Engineering, Scientific and Technical (P-4) and Administrative and Residual (P-5) contracts state that exempt employees required to attend regular and recurrent evening meetings, called out regularly to perform work outside the regular scheduled workweek, or required to perform extended service shall be authorized to receive compensatory time. In no event shall such time be deemed to accrue in any manner.

Managerial employees may receive compensatory time only if the agency head has given written authorization in advance for the extra work and the extra work is significant in terms of total hours and duration. Compensatory time does not include the extra hour or so a manager might work in a day.

2. Medical certificates - State Personnel Regulation 5-247-11 (a) states that an acceptable medical certificate, which must be on the form prescribed by the commissioner of the Department of Administrative Services and signed by a licensed physician or other practitioner whose method of healing is recognized by the state, will be required of an employee by the appointing authority to substantiate a request for sick leave for any period of absence consisting of more than five consecutive working days.

The Family Medical Leave Act (FMLA) guidelines require that specific documentation be on file to substantiate leave taken for FMLA purposes.

Condition:

1. Compensatory time - Time earned was not preapproved for eight of the twenty instances reviewed and approvals were missing for an additional eight instances. One managerial employee earned time in one or two hour increments and others had large amounts of time credited to their balances without explanation.

2. Medical certificates - Medical documentation was either not on file or was lacking for 13 out of 15 employees reviewed.

Two employees consistently exhausted leave accruals and charged unpaid leave for their absences. There was no documentation on file to justify the need for repetitive absences. We also noted that leave was occasionally coded to FMLA without proper approvals on file.

Effect: 1. Compensatory time - Compensatory time is not earned and used in accordance with authority policies and bargaining unit contracts.

2. Medical certificates - Adequate documentation was not on file to support employee absences and approved leave under FMLA.

Employees are using personal leave time without sufficient accrual balances, resulting in unauthorized unpaid leave. We also noted that time was occasionally charged to FMLA without necessary approvals.

Cause: 1. Compensatory time - It appears that compensatory time was not appropriately monitored. The authority was part of the DAS SmART Unit during the audited period. When the authority was consolidated with DEP to create DEEP, records were transferred from DAS to DEEP. Therefore, it is unclear as to whether the requests were received and misplaced, or were never initially submitted.

2. Medical certificates - It appears that employee attendance was not adequately monitored, which led to unsupported and/or unauthorized leave.

Recommendation: The Public Utilities Regulatory Authority must ensure that compensatory time is earned and used in accordance with authority policies and bargaining unit contracts.

Adequate documentation should be on file to ensure that absences are adequately supported and employees should only charge leave time within their accrual balance limitations and with proper approvals. (See DPUC Recommendation 1.)

Agency Response: DAS Response: "DAS agrees in part with the auditor's findings and recommendations. DAS does not have unilateral authority over these matters, but instead, needs the leadership of the agencies it serves (here DPUC) to ensure compliance with the policies and procedures recommended by DAS. Throughout the time that DAS SmART served DPUC, it made numerous attempts to work with DPUC leadership and staff to improve their time management policies and procedures. However, these efforts were not always successful. DPUC is no longer a client agency of DAS SmART; therefore, there is no opportunity for DAS SmART to correct this finding with regard to DPUC."

PURA response: "PURA accepts the State Auditor's findings and recommendations on the subject of compensatory time and has reminded all management and bargaining unit employees of the need to adhere to state guidelines and bargaining unit contracts when authorizing and monitoring employee requests to accrue or use compensatory time."

Purchasing Cards:

Criteria:

1. The DAS Purchasing Card (P-card) Manual provides guidance on the utilization of P-cards for purchases. The P-card should be used in conjunction with existing state contracts and agency purchasing policies.

2. The authority has formal procedures for administering the purchasing card program for both commodities and travel. Purchasing cards are to be used for purchases under $1,000, and documentation supporting the approval and receipt of items should be maintained.

Condition:

We reviewed ten months of purchasing card activity and noted the following:

1. Lack of timeliness - Payment requests and travel authorizations were not submitted to the business office in a timely manner for processing. Registration fees for three conferences were not paid prior to the event. We also found three employee blanket travel authorizations for the 2010-2011 fiscal year that were not signed by employees and the unit head until nine months into the fiscal year.

2. Lack of documentation - We noted various instances in which documentation to support purchases was lacking, including missing vendor invoices and certification of receipt of goods. We also found sixteen instances in which confirmations for airline tickets were not on file to support the cost incurred.

3. Outdated Policies - Authority purchasing card policies do not reflect current practices. The authority policies, last updated in October 2005, state that the card is to be used for purchases under $1,000. We noted two instances in which employee purchases exceeded $1,000. The monthly transaction report showing credit card activity states the employee's per transaction limit is $2,500. We also found that the authority's travel purchasing card procedures state the card is to be used for lodging, car rental and gasoline. It does not include air travel, which accounts for the majority of the expenses incurred with the card.

Effect: The authority is not in compliance with purchasing card policies and procedures. Without proper approvals and documentation in place, the risk of unauthorized use increases.

Cause: For travel-related charges, verification of monthly charges was not performed. The practice was, as long as an approved travel authorization was on file, the credit card statement was paid in full. We were unable to determine the cause of the other administrative issues noted.

Recommendation: The Public Utilities Regulatory Authority should update purchasing card policies to reflect current practice and monitor their use to ensure that they are used in accordance with established policies and procedures. (See Recommendation 2.)

Agency Response: "The authority agrees with the finding and has begun transitioning and complying with updated policies and procedures managed by the consolidated agency."

Accountability Reports:

Criteria: According to the State Accounting Manual, accountability reports should be prepared when possible to compare the monies that were actually recorded with the monies that should have been accounted for.

According to Public Utility Regulatory Authority Regulation §16-245-2, an application filing fee of $1,000 for a new license or $250 for a renewed electric supplier license should be submitted with the application form.

Condition: During our review of licensing fees, we found that three companies overpaid a total of $2,500 for their licenses. We also found that three companies whose licenses were approved or renewed did not submit payment and collectively owed the authority $2,250.

Effect: Without proper accountability, the risk of loss increases as unpaid fees could go undetected.

Cause: The authority did not prepare accountability reports to ensure the receipts from licensing fees corresponded to the number of applications or renewals.

Recommendation: The Public Utilities Regulatory Authority should prepare periodic accountability reports to ensure accuracy between the monies received for license fees, number of applications received and number of licenses or renewals issued. (See Recommendation 3.)

Agency Response: "The authority agrees with the finding and has begun developing a comprehensive docket system which will replace its current application. The new system will be designed with an automated interface to accounts receivable and fee processing to insure that adequate controls are in place to manage the deliverable and associated fees."

Annual Assessment Billing:

Criteria: 1. Section 16-27 of the General Statutes authorizes the authority to prescribe annual report forms for the public service companies to complete and return. The reports must be signed and sworn to by the company's chief executive officer, president, vice president, chief financial officer, treasurer or assistant treasurer.

2. Section 16-49 of the General Statutes subsection (b), requires regulated companies to report their intrastate gross revenues of the preceding calendar year to the Public Utilities Regulatory Authority. Amounts are then used to calculate the company's share of annual expenses for the Bureau of Energy, Office of Consumer Counsel and the Public Utility Regulatory Authority.

3. Calculation of annual assessment fees should be consistent and clearly communicated among the authority's staff and regulated companies.

Condition: 1. Seven out of 25 companies did not have revenue affidavits on file for the 2009-2010 fiscal year annual assessments. We also could not locate 2008 and 2009 annual reports for two companies on the authority's website.

2. In the 2010-2011 fiscal year, two electric companies were improperly assessed using intrastate revenue at retail rather than gross intrastate revenues. This resulted in lower assessment amounts for the two companies while increasing the allocation of annual expenses for others.

3. The authority does not maintain a list of companies subject to the requirements of Section 16-49 of the General Statutes to ensure all are included in the assessment calculation.

During the audited period, the business office only requested revenue affidavits from companies that reported revenues greater than $100,000 in the prior year assessment. There was no procedure in place to ensure that new licensees or public service companies with revenues less than $100,000 in the prior year submitted a revenue affidavit. We selected 10 public service companies from the authority's website and found that five did not submit revenue affidavits in the 2010-2011 fiscal year. These five companies were, therefore, omitted from the 2010-2011 fiscal year assessment calculation.

Effect:

1. We could not determine whether revenues used in the 2009-2010 fiscal year assessment calculation were signed and sworn by company management. Companies were not in compliance with Section 16-27 of the General Statutes, and were not penalized by the authority.

2. The agency did not calculate the annual assessment in accordance with Section 16-49 (b) of the General Statutes.

3. The completeness of the annual assessment spreadsheet could not be verified. Omission of companies could have occurred without being detected.

Cause:

1. Prior to the 2010-2011 fiscal year, the authority did not monitor whether the companies notarized their annual reports or their revenue affidavits. Notarized reports also could have been misplaced and not posted on the authority's website.

It appears that the companies did not submit the annual reports to the authority and civil penalties were not imposed.

2. There was confusion amongst DPUC staff regarding which revenue amounts should be used when calculating the annual assessment under Section 16-49 of the General Statutes. It also

appears as though large fluctuations in the companies' reported revenues from year to year were not thoroughly reviewed which would have identified the inconsistencies.

3. With limited resources, the business office could only follow up on companies having intrastate revenues greater than $100,000 in the prior year assessment spreadsheet. In addition, without a complete list of public service companies subject to Section 16-49 of the General Statutes, business staff would not know which companies were omitted from the annual assessment.

Recommendation: The Public Utilities Regulatory Authority should maintain original revenue affidavits for verification, establish controls to ensure all companies subject to the requirements of Section 16-49 of the General Statutes submitted required affidavits and are included in the assessment calculation, and should impose civil penalties on those who fail to file annual reports in accordance with Section 16-27 of the General Statutes.

The authority should clarify which revenue figures are to be used in calculating the annual assessment of regulated companies and examine large fluctuations from year to year. (See Recommendation 4.)

Agency Response: "The department agrees with the finding and has revised their affidavit requirement to insure that **all** companies licensed under Section 16-49 of the General Statutes submit executed affidavit reports regardless of sales volume. This requirement will be incorporated in the new docket application insuring that all licensed utilities operating in the state have met the requirement and are assessed appropriately. The department will continue to audit financial reports and affidavit forms and will pursue non-compliant companies."

Nuclear Safety Emergency Preparedness Account:

Criteria: Section 28-31 (a) of the General Statutes requires the authority to establish a nuclear safety emergency preparedness account with a balance that shall not exceed $300,000 at fiscal year end.

Condition: According to the summary of activities provided by the Department of Public Safety, the fund balance exceeded $300,000 by $175,438, as of June, 30, 2009, and by $350,041, as of June 30, 2010. Requests to obtain the fund balance as of June 30, 2011 were not satisfied.

Effect: The program fund balance exceeded the level authorized by statute.

Cause: During the audited period, the authority invoiced the nuclear operating companies based on the amounts requested by the Department of Emergency Management and Homeland Security without verifying the fund balance at the end of the fiscal year.

Recommendation: The Public Utilities Regulatory Authority should comply with the statutory limits of the nuclear safety emergency preparedness account or seek to amend them. (See Recommendation 5.)

Agency Response: *"The department disagrees with this finding as the agency's role was limited to assessing the utility and disbursing the funds based on instructions from the Department of Emergency Management and Homeland Security (DEMHS). The funds are advanced to the state and disbursed through DEMHS to recipients based on approved expenses. The Department of Public Utility Control had limited control over the budget and use of funding. Verification of obligation, realized expenses and recipient reimbursements were managed by DEMHS."*

Auditors' Concluding Comments: Section 28-31(b) of the General Statutes states that "moneys in the account shall be expended by the Commissioner of Emergency Services and Public Protection, in conjunction with the Commissioner of Energy and Environmental Protection, only to support the activities of a nuclear safety emergency preparedness program and only in accordance with the plan approved by the Secretary of the Office of Policy and Management." It appears as though oversight should be shared between the two agencies. If the authority wishes to modify its level of involvement with the fund, perhaps a change in legislation should be pursued.

Property Control and Inventory Reporting:

Criteria: 1. According to State Comptroller memorandum 2011-09, all executive branch agencies must use the Core-CT asset management module to complete the CO-59 annual inventory report. If the values recorded on the CO-59 report do not reconcile with Core-CT, the agency must provide a written explanation of the discrepancy in an attachment.

2. State Comptroller memorandum 2011-09 also requires the agency to submit CO-648B Summary of Motor Vehicle Report for all vehicles owned by the agency.

3. Chapter 6 of the State Property Control Manual states that a person should be assigned responsibility for each asset as the custodian. This assignment facilitates physical inventory procedures and is useful in making inquiries regarding the asset's condition, status and location. When the property control records have been established for all existing property, the system must be maintained in an orderly manner and on a current basis.

4. According to the State Property Control Manual, the purpose of the State and Federal Property Distribution Center is to act as a clearinghouse for the transfer, sale or disposal of property that is surplus to the needs of a holding agency. Property that may be considered obsolete or unusable by one agency may serve another agency's operational needs.

Condition:

1. CO-59 report - The balances included on the CO-59 reports did not agree with Core-CT asset management queries for the fiscal year ended June 30, 2011 for two asset categories.

   a. The ending balance for licensed software in Core-CT was $52,498 greater than the CO-59 report because of an error in the addition column. Core-CT showed licensed software additions totaling $55,568 in fiscal year 2010-2011; however, only $3,070 was included on the CO-59 report.

   b. Site improvement additions for the 2010-2011 fiscal year totaled $13,592 on the CO-59 report but only $10,592 was added in Core-CT.

2. The authority did not submit the CO-648B, Summary of Motor Vehicle Report, together with the CO-59 reports. Five vehicles were purchased and added to the CO-59 report in the 2010-2011 fiscal year totaling $121,315.

3. Physical Inventory - Current inventory records in Core-CT did not allow the authority to promptly locate the assets. Sixteen items, or 80 percent of our sample, were found assigned to employees who are different than the custodians on the inventory records. The remaining four items totaling $2,125 could not be located; therefore, we could not verify their existence.

4. In January 2013, following the retirement of the librarian, it was decided that law books previously maintained in the authority's library would be discarded. Attorneys in the adjudication unit reviewed the law books and retained as many as they could with the limited space available. Some of the law books were taken to the State Library, as they were printed prior to 1901 and believed to be of considerable value.

Effect:

1. CO-59 report - Licensed software was understated by $52,498, and site improvements were overstated by $3,000 on the 2011 CO-59 report.

2. The authority failed to comply with the State Comptroller's instructions in reporting its vehicles.

3. Physical inventory - Inaccurate property control records increases the risk that physical assets could unknowingly be lost, misplaced, or stolen.

4. The authority disposed of state property without receiving proper approval.

Cause:

1. CO-59 report - Authority staff used different Core-CT reports than the ones included in State Comptroller memorandum 2011-09.

2. Failure to report the authority-owned vehicles on the CO-648B report appeared to be an oversight.

3. Physical inventory - It appears as though assets were recorded with incorrect custodians because the authority did not have procedures in place to monitor the movement of assets.

4. The library was dismantled upon the retirement of the librarian and the need for office space; therefore, the agency disposed of the books without seeking proper approval.

Recommendation:

The Public Utilities Regulatory Authority should adhere to the instructions provided by the State Comptroller when completing the CO-59 annual inventory report. The authority should also establish procedures to monitor the relocation of assets and dispose of assets in accordance with state requirements. (See Recommendation 6.)

Agency Response: DEEP response: "The department agrees with the finding and implemented changes that will improve managing its assets and reconciling the inventory with the CO-59 report."

PURA response: "The "librarian" retired in 2009. The library was dismantled and the books were disposed of in March 2013."

OFFICE OF CONSUMER COUNSEL
COMMENTS

FOREWORD:

The Office of Consumer Counsel (OCC) operates under Section 16-2a of the General Statutes and is within the Department of Public Utility Control for administrative purposes only. OCC acts as the advocate for consumer interests in matters relating to public service companies. Under Section 4-38f of the General Statutes, 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. The department to which an agency is assigned for administrative purposes shall provide recordkeeping, reporting and related administrative and clerical functions for the agency to the extent deemed necessary by the department head.

OCC is under the direction of a consumer counsel appointed by the Governor with the advice and consent of either House of the General Assembly. Elin Swanson Katz was appointed as consumer counsel on October 3, 2011. Prior to her appointment, Mary J. Healey served as consumer counsel, effective September 14, 2001.

Public Act 05-251, Section 60 subsection (c), effective July 1, 2005, allows the commissioner of the Department of Administrative Services (DAS), in consultation with the secretary of the Office of Policy and Management, to develop a plan whereby the Department of Administrative Services would merge and consolidate personnel, payroll, affirmative action, and business office functions of selected executive branch agencies within DAS. OCC was one of the agencies selected for consolidation of its personnel, payroll, affirmative action, and business office functions.

As previously noted, Public Act 11-80, effective July 1, 2011, placed OCC within the new DEEP for administrative purposes only.

RÉSUMÉ OF OPERATIONS - OFFICE OF CONSUMER COUNSEL:

There were no receipts credited to the General Fund for OCC for the audited period.

Comparative summaries of OCC expenditures from the Consumer Counsel and Public Utility Control Fund for the audited period, as compared to the period ended June 30, 2009, are shown below:

	Fiscal Year Ended June 30,		
	2009	2010	2011
Personal Services	$1,341,222	$1,178,159	$1,150,808
Other Expenses	423,922	396,137	344,937
Equipment	1,003	8,660	1,534
Fringe Benefits	762,845	753,426	743,327
Indirect Overhead	146,402	208,775	423,571

Total Expenditures	**$2,675,394**	**$2,545,157**	**$2,664,177**

Total expenditures decreased $130,237, or five percent, for the 2009-2010 fiscal year and then increased by $119,020, or five percent, for the 2010-2011 fiscal year. Personal services and related fringe benefit costs accounted for the majority of expenditures during the audited period.

Personal service expenditures decreased by 12 percent from the fiscal year 2008-2009 to 2009-2010 due to a reduction in staff of three full time positions. The positions remained unfilled for fiscal year 2010-2011. Other expenses decreased seven percent and 13 percent for fiscal years 2009-2010 and 2010-2011, respectively, due to the termination of personal service agreements because of budget constraints. Indirect overhead increased 43 percent and 103 percent for the fiscal years 2009-2010 and 2010-2011, respectively. However, these fees are budgeted and charged to OCC by the Comptroller's office for their portion of shared services.

CONDITION OF RECORDS

Our audit of the Office of Consumer Counsel's records disclosed the following areas that require improvement.

Use of the Equipment Appropriation:

Criteria:	Section 4-97 of the General Statutes states: "No appropriation or part thereof shall be used for any other purpose than that for which it was made unless transferred or revised as provided in Section 4-87." The State Accounting Manual states that equipment appropriation 10050 is to be used for the purchase of items that meet the definition of equipment and with expenditure coding signifying a capital asset.
Condition:	During the prior audit, we noted that the counsel charged $8,660 to the equipment appropriation code in the 2009-2010 fiscal year for non-capital items. For fiscal year 2011-2012, we found the counsel continues to use the equipment appropriation code improperly. We found $3,253 charged to equipment appropriation code 10050 and account 54060, general office supplies for items less than $1,000.
Effect:	The counsel is not in compliance with coding requirements set forth by the State Accounting Manual and Section 4-97 of the General Statutes.
Cause:	The reason for the continued misuse is undetermined.
Recommendation:	The Office of Consumer Counsel should only use the equipment appropriation for qualifying purchases in accordance with the State Accounting Manual. (See OCC Recommendation 1.)
Agency Response:	"The Department acknowledges the finding and will work with the Comptroller's Office on clarification of capital assets such as office equipment. The Counsel's position is that the aggregate purchase of office equipment would qualify as appropriate use of equipment funding as the purchase exceeds the necessary threshold and has a useful life of more than one year."

RECOMMENDATIONS

Our previous audit examination of the Department of Public Utility Control contained two recommendations, and one recommendation for the Office of Consumer Counsel. A summary of those recommendations and their status follows:

Status of Prior Audit Recommendations:

Department of Public Utility Control:

- DPUC should improve its controls over state property in accordance with Section 4-36 of the General Statutes as outlined by the State Property Control Manual and the Core-CT Asset Management Guide for Managers. During the current audit, we continued to note issues with property; therefore, this recommendation will be modified and repeated. (See Recommendation 6.)

- DPUC, in conjunction with the Department of Administrative Services, should seek recovery of wages paid to an employee who was absent for periods of time for which he was compensated. This recommendation is no longer relevant. After the DPUC consolidation with the Department of Energy and Environmental Protection, the personnel director was made aware of the overpayment issue/grievance. DEEP contacted the Office of Labor Relations, which indicated that nothing has changed in the case and that the employee's contract precludes collection of the $24,792 owed.

Current Audit Recommendations:

Public Utility Regulatory Authority:

1. **The Public Utility Regulatory Authority must ensure that compensatory time is earned and used in accordance with agency policies and bargaining unit contracts. Adequate documentation should be on file to ensure that absences are adequately supported and employees should only charge leave time within their accrual balance limitations and with proper approvals.**

   Comments:

   Our examination noted that compensatory time earned was not preapproved and approvals were missing. One managerial employee earned time in one or two hour increments while others had large amounts of time credited to their balances without explanation.

   We also found that medical documentation was either not on file or was lacking. Two employees consistently exhausted their leave accruals and charged unpaid leave for their absences. There was no documentation on file to justify the need for repetitive absences.

We also noted that leave was occasionally coded to FMLA without proper approvals on file.

2. **The Public Utilities Regulatory Authority should update purchasing card policies to reflect current practice and monitor their use to ensure that they are used in accordance with established policies and procedures.**

   Comments:

   Through our review of ten months of credit card activity, we found that payment requests and travel authorizations were not submitted to the business office in a timely manner for processing; documentation to support purchases was lacking, including missing vendor invoices and certification of receipt of goods; and outdated agency purchasing card policies.

3. **The Public Utilities Regulatory Authority should prepare periodic accountability reports to ensure accuracy between the monies received for license fees, number of applications received and number of licenses or renewals issued.**

   Comments:

   During our review of licensing fees, we found that three companies overpaid a total of $2,500 for their licenses. We also found that three companies whose licenses were approved or renewed did not submit payment and owed the authority $2,250. The authority did not prepare accountability reports to ensure the receipts from licensing fees corresponded to the number of applications and renewals.

4. **The Public Utilities Regulatory Authority should maintain original revenue affidavits for verification, establish controls to ensure all companies subject to the requirements of Section 16-49 of the General Statutes submitted required affidavits and are included in the assessment calculation, and should impose civil penalties on those who fail to file annual reports in accordance with Section 16-27 of the General Statutes.**

   The authority should clarify which revenue figures are to be used in calculating the annual assessment of regulated companies and should examine large fluctuations from year to year.

   Comments:

   Seven out of 25 companies did not have revenue affidavits on file for the 2009-2010 fiscal year annual assessments. We also could not locate 2008 and 2009 annual reports for two companies on the authority's website. We also found inconsistencies in the authority's calculation of the electric companies' share of annual expenses under section 16-49 of the General Statutes. Lastly, the authority does not maintain a list of companies subject to the requirements of Section 16-49 of the General Statutes to ensure all are included in the assessment calculation.

5. **The Public Utility Regulatory Authority should comply with the statutory limits of the nuclear safety emergency preparedness account or seek to amend them.**

   Comments:

   According to the summary of activities provided by the Department of Public Safety, the fund balance exceeded $300,000 by $175,438, as of June, 30, 2009, and by $350,041, as of June 30, 2010. Requests to obtain the fund balance as of June 30, 2011 were not satisfied.

6. **The Public Utilities Regulatory Authority should adhere to the instructions provided by the State Comptroller when completing the CO-59 annual inventory report. The authority should also establish procedures to monitor the relocation of assets and dispose of assets in accordance with state requirements.**

   Comments:

   The balances included on the CO-59 reports did not agree with Core-CT asset management queries for the fiscal year ended June 30, 2011 for two asset categories. The authority did not submit the CO-648B, Summary of Motor Vehicle Report, together with the CO-59 reports. In our review of physical inventory, current inventory records in Core-CT did not allow the authority to promptly locate the assets. It also appears as though library materials were discarded without proper approval.

Office of Consumer Counsel:

Status of Prior Audit Recommendations:

- The Office of Consumer Counsel, in conjunction with the Department of Administrative Services, should comply with Section 4-97 of the General Statutes by charging the Other Expenses appropriation when purchasing non-capitalized equipment. During the current audit, we continued to find that non-capitalized equipment items, each costing under $1,000, were erroneously charged to the equipment appropriation account. Therefore, this recommendation will be repeated. (See Recommendation 1.)

Current Audit Recommendations:

1. **The Office of Consumer Counsel should only use the equipment appropriation for qualifying purchases in accordance with the State Accounting Manual.**

   Comments:

   For fiscal year 2011-2012, we found the Office of Consumer Counsel continues to use the equipment appropriation improperly. We found $3,253 charged to SID 10050 and account 54060, General Office Supplies for items less than $1,000.

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, 2010 and 2011. This audit was primarily limited to performing tests of each agencies' compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the agencies' internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the agencies are complied with, (2) the financial transactions of the agencies are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the agencies are safeguarded against loss or unauthorized use. The financial statement audits of DPUC and OCC for the fiscal years ended June 30, 2010 and 2011 are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

In accordance with Public Act 05-251, certain executive branch agencies can be subject to some or all business office and other administrative functions being assumed by the Department of Administrative Services. When this occurs, memoranda of agreement are to be executed detailing whether DAS or the audited agency retains ultimate responsibility for compliance with laws, regulations, contracts and grant agreements. In the absence of such agreements, the audited agency would remain responsible for all compliance issues that may arise. When referring to the controls of the audited agency, we are also referring, where appropriate, to the relevant controls that DAS has in place to ensure compliance.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 DPUC and OCC complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls 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, Safeguarding of Assets and Compliance:

Management of DPUC, OCC and the Department of Administrative Services are responsible for establishing and maintaining internal control over the agencies' financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the agencies' internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the agencies' financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the agencies' internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the agencies' internal controls over those control objectives.

A *deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdown in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility 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 agencies' financial operations will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the agency's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendation 1 – Payroll / Personnel Matters, 2 – Purchasing Card, 3 – Accountability Reports and 4 – Annual Assessment Billing. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether DPUC and OCC 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 agencies' financial operations, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards.* However, we noted certain matters, which we reported to each agency's management in the accompanying Condition of Records and Recommendations sections of this report.

Responses by DPUC and OCC to the findings identified in our audit report are described in the accompanying Condition of Records sections of this report. We did not audit DPUC's and OCC's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of DPUC's and OCC's management, the Department of Administrative Services, 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 courtesies extended to our representatives by the personnel of the Department of Public Utility Control and the Office of Consumer Counsel during the course of our audit.

Rebecca M. Balkun
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts