



Deborah K. Nichols  
District of Columbia Auditor

024:01.DW:HA

# **OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR**

717 14TH STREET N.W., SUITE 900

WASHINGTON, D.C. 20005

TEL. 202-727-3600 • FAX: 202-724-8814

## **Audit of the Public Service Commission's Agency Fund for Fiscal Year 2000**

**September 24, 2001**

## **EXECUTIVE SUMMARY**

### **PURPOSE**

Pursuant to D.C. Code, Section 34-912(a)(6) and Public Law 93-198, Section 455, the District of Columbia Auditor conducted an audit of the fiscal year 2000 financial activities of the Public Service Commission (PSC) Agency Fund.

### **CONCLUSION**

The Auditor found that during fiscal year 2000, public utility assessments totaling \$1,050,369.10 were deposited into the Public Service Commission Agency Fund and recorded in the District's System of Accounting and Reporting (SOAR).

The Auditor also found that the Public Service Commission's fiscal year 2000 Trust Fund Reconciliation Report, which was submitted to the Mayor and the Council of the District of Columbia, was in agreement with our finding of \$1,050,369.10 in utility assessments for fiscal year 2000.

During fiscal year 2000, the Public Service Commission disbursed from the Agency Fund \$488,577.98 for expenses related to ongoing case activity and refunded \$507,007.82 to PEPCO, Washington Gas, and Verizon. The Auditor successfully reconciled the expense vouchers and the refunds to the District's accounting system.

## **PURPOSE**

Pursuant to D.C. Code, Section 34-912(a)(6) and Public Law 93-198, Section 455, the District of Columbia Auditor conducted an audit of the fiscal year 2000 financial activities of the Public Service Commission (PSC) Agency Fund.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of the audit were to:

1. verify public utility revenue deposits to and disbursements from the PSC's Agency Fund for fiscal year 2000;
2. examine expenses charged against PSC's Agency Fund to determine whether expense vouchers were supported by adequate documentation and whether the expenses were reasonable and necessary as required by D.C. Code, Section 34-912;
3. determine whether expense vouchers were properly reviewed and approved by appropriate PSC officials before payment; and
4. determine the amount of refunds to public utilities that were processed against PSC's Agency Fund.

The audit covered PSC's Agency Fund receipts, disbursements, and refunds for fiscal year 2000.

To accomplish the audit objectives, the Auditor reviewed public utility deposits to PSC's Agency Fund and reconciled the deposits to the District's System of Accounting and Reporting (SOAR). SOAR reflects all financial activity processed against PSC's Agency Fund during fiscal year 2000. The audit team also reconciled deposits made to PSC's Agency Fund to confirmation statements provided by Potomac Electric Power Company (PEPCO), Washington Gas, and Verizon, formerly Bell Atlantic-DC.

The audit team interviewed the PSC's chief financial officer and senior accounting and disbursing analyst, in addition to officials from PEPCO, Washington Gas, and Verizon concerning their deposits to PSC's Agency Fund.

The audit was performed in accordance with generally accepted auditing standards for governmental agencies and included such tests of the accounting records as were deemed necessary under the circumstances.

## **BACKGROUND**

The District of Columbia Public Service Commission is an independent District Government agency established by Congress in 1913 to regulate electric, gas, and telephone companies in the District by functioning as a quasi-judicial agency. Today, the mission of the PSC is to serve the public interest by ensuring that financially healthy electric, gas, and telecommunications companies provide safe, reliable, and quality utility services at reasonable rates to District of Columbia residential, business, and government customers. The PSC has rate making and other regulatory authority over electric, gas, and telecommunications companies providing such services within the District of Columbia. The PSC is composed of a chairman and two commissioners appointed by the Mayor with the advice and consent of the Council of the District of Columbia. Each commissioner serves a four-year term of office and is compensated at the District service salary for a grade 16.

The Public Service Commission functions with two budgets: the annual budget for day-to-day operations and the assessment budget (PSC's Agency Fund) for expenses related to specific cases. The annual budget covers the costs of staff salaries, fringe benefits, rent, utilities, supplies, printing, equipment and maintenance, training, and periodicals. Like other agencies, the PSC participates in the District's annual budget process. However, none of the monies expended by the PSC comes from the District's general revenues. Instead, each public utility doing business in the District pays a pro rata share of PSC's annual operating budget based on a reimbursement formula prescribed by law. The PSC assesses the utilities on a quarterly basis for reimbursement of its expenditures.

In carrying out its mission, the PSC may award contracts for legal, accounting, economic, engineering, court reporting, courier, and advertising services. The costs for these services are fully reimbursed to PSC from revenue deposits made by PEPCO, Washington Gas, Verizon, and other utilities providing services in the District of Columbia.

The Public Service Commission sets public utility rates and otherwise regulates utilities through a formal legal process in which the affected public utility, the Office of the People's Counsel, and other interested parties have an opportunity to present their case. Each public utility is authorized to charge rates that will permit the utility to earn a fair rate of return (or profit) on its capital in exchange for the right to conduct business in the District of Columbia. Utilities must apply to the PSC for changes in rates or regulatory treatment.

D. C. Code, Section 34-912(a)(1), established the Public Service Commission's Agency Fund as a fiduciary fund in the District of Columbia Treasury. Section 34-912(a)(2) requires any public utility making application to the PSC to deposit sufficient dollars, as determined by the PSC, into the Agency Fund to cover PSC's reasonable and necessary expenses pertaining to the application. Revenue deposits must be used exclusively for the payment of expenses arising from any investigation, valuation, revaluation, or proceeding conducted by the PSC and all expenses of any litigation, including appeals arising from decisions, orders, or other actions of the PSC.

D.C. Code, Section 34-912(a)(7), requires the PSC to issue an annual report to the Mayor and the Council of the District of Columbia. The annual report must detail the name of each contractor hired, their qualifications, a brief description of their work, the number of persons employed by each contractor, the hourly rate charged by each person employed by the contractor, and the estimated value of each contract. Each voucher for payment must include an affidavit signed by PSC's chief financial officer, or his/her designee, stating that the voucher was independently examined, including supporting documentation, and that the voucher was appropriate for payment in the stated amount.

D.C. Code, Section 34-912(a)(2), requires that any excess funds deposited by a public utility for a case that has been closed shall be refunded to the utility. PSC Agency Fund financial records must adequately reflect all refunds made to a utility and identify the formal cases for which revenue deposits were refunded.

## **FINDINGS**

### **DEPOSITS TO AND EXPENDITURES AND REFUNDS FROM THE PUBLIC SERVICE COMMISSION AGENCY FUND FOR FISCAL YEAR 2000**

As previously noted, D.C. Code, Section 34-912(a)(2), permits the Public Service Commission to assess utilities for regulatory and litigation expenses associated with retaining technical and legal consultants to perform work required by proceedings before the PSC. The utility assessments are deposited into the PSC Agency Fund.

#### **Summary of Agency Fund Receipts, Expenditures, and Refunds for Fiscal Year 2000**

Table I summarizes PSC's Agency Fund receipts, expenditures, and refunds for fiscal year 2000.

**TABLE I**  
**Public Service Commission's Agency Fund**  
**Statement of Receipts, Expenditures, and Refunds**  
**For Fiscal Year Ending September 30, 2000**

Beginning Balance (10/01/99)	\$ 1,881,293.92
Receipts	1,050,369.10
Expenditures	< 488,577.98>
Refunds to Utilities	<507,007.82>
<b>Ending Balance (09/30/00)</b>	<b>\$ 1,936,077.22</b>

As of October 1, 1999, the beginning balance in PSC's Agency Fund was \$1,881,293.92. Receipts of \$1,050,369.10 less expenditures of \$488,577.98 and refunds to the utilities of \$507,007.82 resulted in an Agency Fund balance of \$1,936,077.22. The ending balance is a reserve balance to be used for authorized expenses pertaining to ongoing case activity. Unexpended funds remaining after a formal case has been properly closed or terminated must be refunded to the appropriate public utility.

### **Fiscal Year 2000 Public Utility Assessments Deposited into PSC's Agency Fund**

During fiscal year 2000, the PSC issued five Notice of Agency Fund Requirements Orders to PEPCO. PEPCO responded by submitting to PSC five checks totaling \$1,050,000. The PSC also received \$369.10 based on Order No. 11240, dated September 24, 1998, from CAT Communications. The \$369.10 was received February 24, 2000, and deposited into PSC's Agency Fund on March 7, 2000. The PSC did not issue Orders to any other utilities during fiscal year 2000.

The audit team confirmed that the PSC received the utility assessments from PEPCO totaling \$1,050,000 and \$369.10 from CAT Communications, and deposited the funds into PSC's Agency Fund. Individual assessments were reconciled to District Treasury deposit tickets, SOAR financial reports, and utility confirmation statements. The Auditor found that PSC's fiscal year 2000 Trust Fund Reconciliation Report, which was submitted to the Mayor and the Council of the District of Columbia, was in agreement with our finding of \$1,050,369.10 in utility assessments for fiscal year 2000

Table II presents fiscal year 2000 deposits made to PSC's Agency Fund. (See Appendix I for a brief description of each formal case.)

**TABLE II**  
**Public Utility Assessments Deposited Into**  
**The Public Service Commission's Agency Fund**  
**During Fiscal Year 2000**

<b>Public Utility</b>	<b>Amount of Deposit</b>	<b>Date PSC Received Check</b>	<b>Date Of Deposit</b>	<b>Formal Case Number</b>
<b>CAT Communications, Intl.</b>	369.10	03/01/00	03/07/00	967N
<b>PEPCO</b>	\$ 200,000.00	10/08/99	11/08/99	945
	500,000.00	02/22/00	02/25/00	945
	225,000.00	04/19/00	04/21/00	945
	125,000.00	07/10/00	07/20/00	991
<b>Grand Total Deposits</b>	<b>\$1,050,369.10</b>			

Source: Public Service Commission and the Office of the D.C. Auditor

### **The Public Service Commission Addressed Previous Audit Finding**

The Chief Financial Officer for the PSC corrected a \$9,556 deficiency noted in the Auditor's report entitled, "Audit of the Public Service Commission Agency Fund For Fiscal Year 1998." In that report, the Auditor concluded that \$9,556 in public utility revenue was erroneously deposited into the District's sales and use tax account rather than PSC's Agency Fund. The Auditor recommended that PSC's Chief Financial Officer ensure that the \$9,556 was properly deposited into the PSC Agency Fund.

In a SOAR journal voucher, dated July 21, 2000, the \$9,556 was taken from the District's sales and use tax account and correctly deposited into PSC's Agency Fund.

The Auditor found that the PSC did not fully respond to another audit finding pertaining to the PSC's 1998 Trust Fund Reconciliation Report which understated Agency Fund assessments. In the fiscal year 1998 audit report, the Auditor recommended that:

The Public Service Commission's chief financial officer revise PSC's fiscal year 1998 Trust Fund Reconciliation report to reflect actual public utility deposits of \$244,524.64 and resubmit the report to the Mayor and the Council of the District of Columbia.

The PSC's chief financial officer provided documentation indicating that the assessments stated in the 1998 Trust Fund Reconciliation Report were increased to \$244,524.64 as recommended by the Auditor. However, the Commission chose not to resubmit a corrected report to the Mayor and the Council of the District of Columbia as recommended by the Auditor.

### **Fiscal Year 2000 Expenditures Processed Against PSC's Agency Fund**

During fiscal year 2000, the PSC processed 105 expense vouchers and journal entries totaling \$488,577.98 against the PSC Agency Fund. The audit team successfully reconciled the \$488,577.98 in expenditures to individual expense vouchers, and to the District's accounting system.



Approximately ninety-eight percent (98%), or \$478,806.42, of the total confirmed expenses paid by PSC during fiscal year 2000 were for professional services provided by attorneys, economists, engineer consultants, and certified public accountants. Two percent (2%), or \$9,771.56, of the confirmed expenses were for administrative costs including copying, telephones, delivery services, and transportation. PSC's Agency Fund expenditures appeared to be reasonable and necessary expenses as required by D.C. Code, Section 34-912. Further, each expense voucher was properly signed and approved for payment by an authorized PSC official.

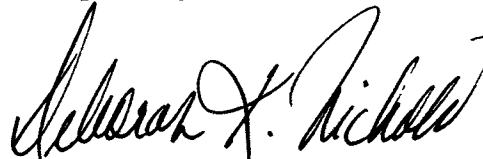
## **CONCLUSION**

The Auditor found that during fiscal year 2000, public utility assessments totaling \$1,050,369.10 were deposited into the Public Service Commission Agency Fund and recorded in the District's System of Accounting and Reporting (SOAR).

The Auditor also found that the Public Service Commission's fiscal year 2000 Trust Fund Reconciliation Report, which was submitted to the Mayor and the Council of the District of Columbia, was in agreement with our finding of \$1,050,369.10 in utility assessments for fiscal year 2000.

During fiscal year 2000, the Public Service Commission disbursed from the Agency Fund \$488,577.98 for expenses related to ongoing case activity and refunded \$507,007.82 to PEPCO, Washington Gas, and Verizon. The Auditor successfully reconciled the expense vouchers and the refunds to the District's accounting system.

Respectfully,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written in a cursive style.

Deborah K. Nichols,

District of Columbia Auditor

# **APPENDIX**

**APPENDIX I**

**Description of Formal Cases In Which  
Utilities Made Deposits to the  
Public Service Commission's Agency Fund  
During Fiscal Year 2000**

<b><u>PEPCO</u></b>	
<b><u>Formal Case Number</u></b>	<b><u>Description of Case</u></b>
945	In The Matter of the Investigation into Electric Services Market Competition and Regulatory Practices.
991	In the Matter of the Investigation into Explosions Occurring in or Around the Underground Distribution Systems of the Potomac Electric Power Company.
<b><u>CAT Communications International</u></b>	
967N	In the Matter of the Joint Application of Bell Atlantic Washington, D.C., Inc. and CAT Communication International, Inc., d/b/a C.C.I. for Approval of the Attached Resale Agreement under Sections 251 and 252 of the Telecommunications Act of 1996

## **AGENCY COMMENTS**

## **AGENCY COMMENTS**

On June 29, 2001 the District of Columbia Auditor submitted a draft report for review and comment to the Chairperson of the Public Service Commission and the Chief Financial Officer for the Public Service Commission. Comments were received from the Chairperson and the Chief Financial Officer on July 16, 2001.

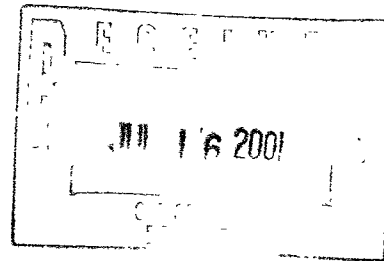
Comments received from the Public Service Commission were in agreement with the Auditor's findings and are appended, in their entirety, to the final report.

# Public Service Commission of the District of Columbia

1333 H Street, N.W., 2<sup>nd</sup> Floor, West Tower

WASHINGTON, D.C. 20005

(202) 626-5100



July 13, 2001

Ms. Deborah K. Nichols  
District of Columbia Auditor  
717 14<sup>th</sup> Street, N.W.  
Suite 900  
Washington, D.C. 20005

Dear Ms. Nichols:

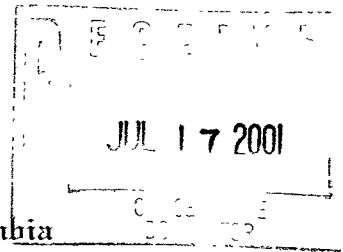
I appreciate the opportunity to comment on your draft audit of the Miscellaneous Trust Fund (Fund) for the District of Columbia Public Service Commission (Commission) for fiscal years 1999 and 2000. I welcome the unbiased review your audit provides on Commission policy and the financial and accounting practices employed in managing the agency Fund. The draft indicates there were no material findings for FY 1999 and FY 2000. These conclusions validate the effort we have made to improve the fiscal management of the Fund.

Although the draft found no exceptions for the actual audit years, the FY 2000 draft did reference a finding and recommendation from the FY 1998 audit. The recommendation to correct the annual report deposit reconciliation and resubmit the annual report to the Mayor and Council Chairperson was not fully accomplished. The corrections were made to the annual report, but unfortunately it was not resubmitted to the Mayor and City Council. This oversight was due in part to the difficulties the financial operations encountered in closing the books for FY 2000. Greater familiarity with the District's accounting system should eliminate these issues as future concerns.

I appreciate the cooperation of you and your staff in this matter. Please contact me at (202) 626-5133 if I can be of further assistance.

Sincerely,

Irvin L. Logan  
Chief Financial Officer



**Public Service Commission of the District of Columbia**  
**1333 H Street, N.W., 2nd Floor, West Tower**  
**Washington, D.C. 20005**  
**(202) 626-5110**  
**acartagena@dcpsc.org**

**ANGEL M. CARTAGENA, JR.**  
**CHAIRMAN**

July 13, 2001

Ms Deborah K Nichols  
District of Columbia Auditor  
717 14<sup>th</sup> Street, N W.  
Suite 900  
Washington, D C 20005

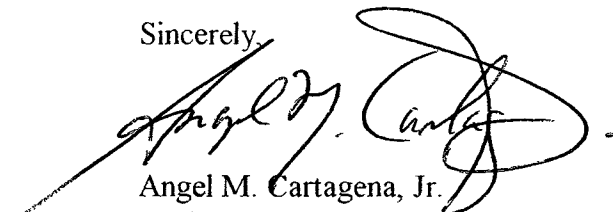
Dear Ms Nichols

The Public Service Commission of the District of Columbia ("Commission") appreciates the opportunity to comment on your draft audit of the Miscellaneous Trust Fund for fiscal years 1999 and 2000. The Commission welcomes your review of the management, financial, and accounting practices in the Trust Fund and is pleased that the results of your review indicate no material findings for the audit years in question. The Commission acknowledges, however, that the FY 2000 draft did reference a finding and recommendation in the FY 1998 audit.

Your recommendation that the Commission correct the annual report deposit reconciliation and resubmit the annual report to the Mayor and Council Chairperson was not in compliance. Corrections were made to the annual report, but through an oversight it was not resubmitted to the Mayor and Council.

I appreciate your consideration and cooperation in this matter. Please contact me if you have any questions or have your appropriate staff person contact Irvin L. Logan, Chief Financial Officer on (202) 626-5133.

Sincerely,



Angel M. Cartagena, Jr.  
Chairman