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Deborah K. Nichols
District of Columbia Auditor

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Audit of the Public Service Commission Agency Fund for Fiscal Year 1999

August 13, 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 financial activities of the Public Service Commission (PSC) agency fund for fiscal year 1999.

CONCLUSION

The Auditor found that during fiscal year 1999, public utility assessments totaling $290,025.60 were deposited into the PSC agency fund and recorded in SOAR.

The Auditor also found that the PSC's fiscal year 1999 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 $290,025.60 in utility assessments for fiscal year 1999.

During fiscal year 1999, $194,529.47 was disbursed for expenses, and $490,808.43 was refunded to PEPCO, Washington Gas, and Verizon. The Auditor successfully reconciled PSC's receipts, expenditures, and refunds to SOAR.

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 financial activities of the Public Service Commission (PSC) agency fund for fiscal year 1999.

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 1999;

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 deposits, disbursements, and refunds for fiscal year 1999.

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 1999. 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.

The audit team interviewed the Public Service Commission's chief financial officer and senior accounting and disbursing analyst, in addition to officials from PEPCO, Washington Gas, and Verizon concerning their deposits to the 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 ratemaking and other regulatory authority over electric, gas, and telecommunication companies providing 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 PSC 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 PSC'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

RECEIPTS, EXPENDITURES, AND REFUNDS FROM THE PUBLIC SERVICE COMMISSION AGENCY FUND FOR FISCAL YEAR 1999

As previously noted, D. C. Code, Section 34-912(a)(2), permits the PSC 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 PSC Agency Fund Receipts, Expenditures, and Refunds for Fiscal Year 1999

Table I summarizes PSC agency fund receipts, expenditures, and refunds for fiscal year 1999.

TABLE I
Public Service Commission's Agency Fund
Statement of Receipts, Expenditures, and Refunds
For The Fiscal Year Ending September 30, 1999

Beginning Balance (10/01/98)	$ 2,276,606.22
Receipts	290,025.60
Expenditures	<194,529.47>
Refunds to Utilities	<490,808.43>
Ending Balance (09/30/99)	**$ 1,881,293.92**

Source: Office of the D.C. Auditor

As of October 1, 1998, the beginning balance in the PSC agency fund was $2,276,606.22. Receipts of $290,025.60 less expenditures of $194,529.47 and refunds of $490,808.43 to PEPCO, Washington Gas, and Verizon resulted in an agency fund balance of $1,881,293.92. 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 1999 Public Utility Assessments Deposited Into the Agency Fund

During fiscal year 1999, the PSC issued Notice of Agency Fund Requirement Orders to PEPCO, Washington Gas, Verizon, Winstar Communications, MCImetro Access Transmission, One Point Communications, Phone For All, Inc., Frontier, Northpoint Communications, and several other smaller telecommunications utilities. Also during fiscal year 1999, the PSC received total utility deposits of $290,025.60. Most of PSC's activities for fiscal year 1999 pertained to the telecommunications industry.

The audit team reconciled the utility assessments to D.C. Treasury deposit tickets, PSC's 1999 Trust Fund Reconciliation Report submitted to the Mayor and the Council of the District of Columbia, and to District financial reports from SOAR.

Table II presents fiscal year 1999 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 1999

Public Utility	Amount of Deposit	Date PSC Received Check	Date Check Deposited	Formal Case Number
Bell Atlantic-DC	$ 600 00	10/05/98	02/01/99	967T
	625 00	10/05/98	02/01/99	967V
	625 00	10/05/98	02/01/99	967W
	625 00	10/05/98	02/01/99	967X
	577.50	10/14/98	02/01/99	967E
	525.00	10/14/98	02/01/99	956O
	600 00	10/14/98	02/01/99	967U
	625 00	10/29/98	02/03/99	967Y
	625 00	10/29/98	02/03/99	967Z
	625 00	10/29/98	02/03/99	967AA
	625 00	12/22/98	02/03/99	967BB
	625.00	01/12/99	02/03/99	967CC
	625.00	01/12/99	02/03/99	967DD
	625 00	01/12/99	02/03/99	967EE
	637 50	01/20/99	02/03/99	967FF
	650.00	02/18/99	03/02/99	967GG
	650 00	04/12/99	05/04/99	TIA99-1
	650.00	04/12/99	05/04/99	TIA99-2
	650 00	04/12/99	05/04/99	TIA99-3
	650 00	05/06/99	05/14/99	TIA99-4
	650.00	05/06/99	05/14/99	TIA99-5
	650.00	05/06/99	05/14/99	TIA99-6
	650.00	05/06/99	05/14/99	TIA99-7
	650 00	05/06/99	05/14/99	TIA99-8
	650 00	05/06/99	05/14/99	TIA99-9
	6,400 00	05/13/99	06/09/99	950
	42,945.00	09/01/99	09/14/99	981
	$ 65,035.00			
Washington Gas	33,000.00	11/13/98	02/01/99	GT96-5, GT97-1,2,3
	17,682.00	08/31/99	09/14/99	981
	$ 50,682.00			
PEPCO	**$149,373.00**	8/30/99	09/14/99	981
Other Utilities	**$24,935.60**			
Grand Total Deposits	**$290,025.60**			

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

Fiscal Year 1999 Expenditures Processed
Against the PSC Agency Fund

During fiscal year 1999, the PSC processed 60 expense vouchers and journal entries totaling $194,529.47, and four refund vouchers totaling $490,808.43 against the PSC agency fund. The audit team successfully reconciled PSC's expenses and refunds to SOAR.

Approximately 98%, or $190,638.88, of the total confirmed expenses paid by PSC during fiscal year 1999 were for professional services provided by attorneys, economists and engineer consultants, and certified public accountants. Two percent, or $3,890.59, of the confirmed expenses were for administrative costs including copying, telephones, delivery services, and transportation. Agency fund expenditures appeared to be reasonable and necessary expenses as required by D.C. Code, Section 34-912. Further, each expense and refund voucher was properly signed and approved for payment by authorized PSC officials.

CONCLUSION

The Auditor found that during fiscal year 1999, public utility assessments totaling $290,025.60 were deposited into the PSC agency fund and recorded in SOAR.

The Auditor also found that the PSC's fiscal year 1999 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 $290,025.60 in utility assessments for fiscal year 1999.

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Respectfully submitted,

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 1999

BELL ATLANTIC	
Formal Case Number	Description of Case
950	Investigation into the payment center operations of Bell Atlantic- Washington, DC.
956 O	Joint application for B-Atlantic & Onepoint Communications for approval of a resale agreement.
967 E	Joint application for B-Atlantic & Frontier Telemanagement, Inc., for approval of a resale agreement.
967 T	Joint application for B-Atlantic & ATX Telecommunication Services, LTD., for approval of a resale agreement.
967 U	Joint application for B-Atlantic & COMAV TELCO, Inc , for approval of a resale agreement
967 V	Joint application for B-Atlantic & NTEL Communications for approval of a resale agreement.
967 W	Joint application for B-Atlantic & Business Telecom, Inc , LLC for approval of a resale agreement
967 X	Joint application for B-Atlantic & ACC National Telecom Corp. for approval of interconnection agreement.
967 Y	Joint application for B-Atlantic & USN Communications, Atlantic Inc , for approval of a resale agreement.
967 Z	Joint application for B-Atlantic & Northpoint Communications, Atlantic Inc , for approval of interconnection agreement.
967 AA	Joint application for B-Atlantic & ICG Telecom Group, Inc., for approval of a resale agreement.
967 BB	Joint application for B-Atlantic & DIECA Communications Inc., for approval of interconnection agreement.
967 CC	Joint application for B-Atlantic & CTC Communications Inc., for approval of a resale agreement
967 DD	Joint application for B-Atlantic & Preferred Carrier Services, Inc., for approval of a resale agreement.
967 EE	Joint application for B-Atlantic & Nextlink Washington Inc., for approval of interconnection agreement.
967 FF	Joint application for B-Atlantic & Focal Communications Corp. of the Mid-Atlantic for approval interconnection agreement.

Formal Case Number	Description of Case
967 GG	Joint application for B-Atlantic & ACI Corp. for approval of interconnection agreement
981 M	In the matter of the Investigation into year 2000 Compliance by Utility Companies and Telecommunication Carriers.
TIA99-1	Joint application of Bell Atlantic-Washington, D.C., Inc and Globalinc Telecommunications, Inc. for approval of resale agreement.
TIA99-2	Joint application of Bell Atlantic-Washington, D.C , Inc. and Transwire Operations, LLC. for approval of interconnection agreement.
TIA99-3	Joint application of Bell Atlantic-Washington, D C., Inc. and Paging Network of Washington. Inc. for approval of an interconnection agreement.
TIA99-4	Joint application of Bell Atlantic-Washington, D.C., Inc. and Dakota Services LTD. for approval of international agreement.
TIA99-5	Joint application of Bell Atlantic-Washington, D.C., Inc. and XDSL Networks, inc. for approval of interconnection agreement.
TIA99-6	Joint application of Bell Atlantic-Washington, D.C., Inc and Hyperion Communications of District of Columbia, LLC for approval of an interconnection agreement.
TIA99-7	Joint application of Bell Atlantic-Washington, D.C., Inc and AX Telecommunications, Inc. for approval of an interconnection agreement.
TIA99-8	Joint application of Bell Atlantic-Washington, D.C , Inc. and Omnipoint Communications, Inc. for approval an interconnection agreement.
TIA99-9	Joint application of Bell Atlantic-Washington, D C , Inc. and Now Communications, Inc. for approval of resale agreement.
WASHINGTON GAS	
GT96-5, GT97-1, 2 & 3	Applications of Washington Gas Light Company, for authority to amend its tariff

AGENCY COMMENTS

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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 17, 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.

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ANGEL M. CARTAGENA, JR.
CHAIRMAN

July 13, 2001

Ms Deborah K Nichols
District of Columbia Auditor
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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

Public Service Commission of the District of Columbia

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July 13, 2001

Ms. Deborah K. Nichols
District of Columbia Auditor
717 14th 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