



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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District of Columbia Auditor
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**Audit of Public Service Commission Agency
Fund for Fiscal Year 2003**

September 30, 2008

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EXECUTIVE SUMMARY

PURPOSE

_____ In accordance with Section 455 of the District of Columbia Home Rule Act, as amended, Pub.L. No. 93-198,¹ and pursuant to D.C. Code, Section 34-912(a)(6),² the District of Columbia Auditor (Auditor) conducted an audit of the fiscal year 2003 financial activities of the Public Service Commission (PSC) Agency Fund.

CONCLUSION

The Auditor found that during fiscal year 2003 Public utility assessments and refunds of unspent travel advances to employees totaling \$848,900 were deposited into the PSC's Agency Fund and recorded in the District's System of Accounting and Reporting (SOAR).

The Auditor also found that the PSC's fiscal year 2003 Trust Fund Reconciliation Report, which was submitted to the Mayor and Council of the District of Columbia, agreed with our finding that \$848,900 in public utility assessments and refunds of unspent travel advances to employees were received by PSC and deposited into the Agency Fund in fiscal year 2003.

During fiscal year 2003, the PSC disbursed from the Agency Fund \$696,714 for expenses related to ongoing case activity. During fiscal year 2003 there were no refunds of unexpended assessments processed against the fund. The Auditor found that \$696,714 in fiscal year 2003 expenditures processed against PSC's Agency Fund appeared to be reasonable and necessary expenses as required by D.C. Code, Section 34-912. The Auditor successfully reconciled all expense vouchers and refunds to the District's accounting system (SOAR).

¹ See section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198; 87 Stat. 803); D.C. Code § 1-204.55 (b) (2001) which states: "The District of Columbia shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe. *See also* D.C. Code § 1-204.55 (c) which states: "The District of Columbia Auditor shall have access to all books, accounts, records, findings, and all other papers, things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit."

² See D.C. Code, Section 34-912(a)(6) which states that, "The District of Columbia auditor shall review the amounts deposited and disbursed by the Commission and the Office under this section and shall issue a report to the Mayor and the Council on each agency fund on a biennial basis."

PURPOSE

In accordance with Section 455 of the District of Columbia Home Rule Act, as amended, Pub.L. No. 93-198,³ and pursuant to D.C. Code, Section 34-912(a)(6),⁴ the District of Columbia Auditor (Auditor) conducted an audit of the fiscal year 2003 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 2003;
2. examine expenses charged against the 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 scope and period of the audit covered PSC's Agency Fund receipts, disbursements, and refunds for fiscal year 2003.

³ See section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198; 87 Stat. 803); D.C. Code § 1-204.55 (b) (2001) which states: "The District of Columbia shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe. *See also* D.C. Code § 1-204.55 (c) which states: "The District of Columbia Auditor shall have access to all books, accounts, records, findings, and all other papers, things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit."

⁴ See D.C. Code, Section 34-912(a)(6) which states that, "The District of Columbia auditor shall review the amounts deposited and disbursed by the Commission and the Office under this section and shall issue a report to the Mayor and the Council on each agency fund on a biennial basis."

In conducting the audit, the Auditor reviewed relevant D.C. Code provisions, public utility revenue deposits to and disbursements from PSC's Agency Fund. The Auditor also reconciled the deposits to the District's System of Accounting and Reporting (SOAR) and Executive Information System (EIS). Both SOAR and EIS reflect all financial activity processed against PSC's Agency Fund during fiscal year 2003. The Auditor also reconciled deposits made to the PSC's Agency Fund to confirmation statements provided by Potomac Electric Power Company (PEPCO), Washington Gas, and Verizon.

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

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

The District of Columbia Public Service Commission is an independent agency of the District government established by Congress in 1913 to regulate electric, natural 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 consumers. The PSC has rate-making and other regulatory authority over electric, natural gas, and telecommunications companies providing such services within the District of Columbia. The PSC is composed of a chairperson 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 17.

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

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 the PSC from revenue deposits made by PEPCO, Washington Gas, Verizon, and other utility providers 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 cases. 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 usually 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 the 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 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 the 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 PUBLIC SERVICE COMMISSION AGENCY FUND FOR FISCAL YEAR 2003

As previously noted, D.C. Code, Section 34-912(a)(2), permits thePSC 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 Activity for Fiscal Year 2003

Table I summarizes PSC's Agency Fund activity for fiscal year 2003.

TABLE I
Public Service Commission's Agency Fund:
Statement of Activity For Fiscal Year
Ending September 30, 2003

Beginning Balance (10/01/02)	\$ 1,741,515
Receipts	848,900
Expenditures	(696,714)
Refunds to Utilities	— (0)
Ending Balance (09/30/03)	<u>\$1,893,701</u>

Source: Office of the D.C. Auditor

As of October 1, 2002, the beginning balance in the PSC's Agency Fund was \$1,741,515. Receipts of \$848,900 less expenditures of \$696,714, and no refunds to the utilities resulted in an Agency Fund balance of \$1,893,701. 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 2003 Public Utility Assessments Deposited into PSC's Agency Fund

During fiscal year 2003, the PSC issued three Notice of Agency Fund Requirement Orders to PEPCO, Verizon, and Washington Gas. PEPCO, Verizon, and Washington Gas responded by submitting three checks totaling \$848,486. The Auditor confirmed that the PSC received utility assessments totaling \$100,000 from PEPCO, \$166,000 from Verizon, and \$582,486 from Washington Gas, and a total of \$848,900 was deposited 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 the PSC's fiscal year 2003 Trust Fund Reconciliation Report, which was submitted to the Mayor and Council of the District of Columbia, agreed with our finding that \$848,486 in utility assessments and \$414 in refunds of unspent travel advances were reconciled by PSC and deposited into the Agency Fund in fiscal year 2003.

Table II presents fiscal year 2003 deposits made to the 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 2003

Public Utility	Formal Case Number	Amount	Date PSC Received Check	Date of Deposit
PEPCO	1017	\$ 100,000	08/21/03	09/05/03
Sub - Total		\$ 100,000		
VERIZON	1011	\$ 166,000	10/02/02	10/04/02
Sub - Total		\$ 166,000		
WASHINGTON GAS	1016	\$ 582,486	04/25/03	05/02/03
Sub - Total		\$ 582,486		
TOTAL FOR ALL UTILITIES		\$ 848,486		
<u>REFUND RECEIPTS</u>				
Grace Hu	945	\$ 137	01/10/03	01/13/03
Jeffrey Conopak	989	\$ 277	12/09/02	01/09/03
TOTAL REFUND RECEIPTS		\$ 414		
GRAND TOTAL DEPOSITS		\$ 848,900		

Source: Public Service Commission, SOAR/EIS and the Office of the D.C. Auditor

Fiscal Year 2003 Expenditures Processed Against PSC's Agency Fund Appeared to be Reasonable and Necessary

During fiscal year 2003, the PSC processed 49 expense vouchers and journal entries totaling \$696,714 against the PSC Agency Fund. The Auditor successfully reconciled the \$696,714 in expenditures to individual expense vouchers and the District's accounting system.

Approximately ninety-four percent (94.73%), or \$659,985 of the total confirmed expenses paid by the PSC during fiscal year 2003 were for professional services provided by attorneys, economists, engineer consultants, and certified public accountants. Five percent (5.27%), or \$36,730

of the confirmed expenses were for administrative costs including travel, copying, telecommunications, delivery, and transportation services. The 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.

No Refunds of Unexpended Assessments Were Processed Against PSC's Agency Fund In Fiscal Year 2003

During fiscal year 2003, the PSC processed no refund vouchers against the PSC Agency Fund. The Auditor verified through utility confirmation letters that there were no refunds to utility companies during fiscal year 2003.

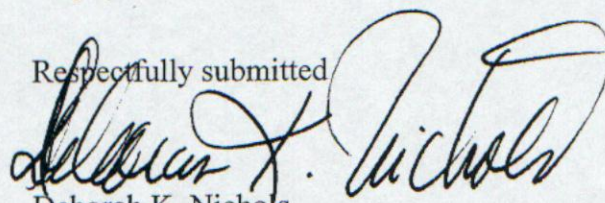
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Respectfully submitted

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", is written over the typed name.

Deborah K. Nichols

District of Columbia Auditor

AGENCY COMMENTS

AGENCY COMMENTS

On September 15, 2008, the Office of the District of Columbia Auditor submitted this report in draft for review and comment to the Chief Financial Officer of the Public Service Commission, the Chairperson of the Public Service Commission, and the Executive Director of the Public Service Commission.

Written comments were received from the Chairperson of the Public Service Commission on September 30, 2008. Where appropriate, changes were made to the final report based upon the comments received. All written comments are appended, in their entirety, to the final report.

APPENDIX

APPENDIX I

**Description of Formal Cases In Which
Utilities Made Deposits to the
Public Service Commission's Agency Fund
During Fiscal Year 2003**

<u>FORMAL CASE NUMBER</u>	<u>DESCRIPTION OF CASE</u>
<u>PEPCO</u>	
1017	In the Matter of Development and Designation of Standard Offer Service in the District of Columbia.
<u>VERIZON</u>	
1011	In the Matter of the Verizon Washington DC, Inc., Compliance with the Conditions Established in Section 271 of the Federal Telecommunications Act of 1996.
<u>WASHINGTON GAS LIGHT</u>	
1016	In the Matter of the Application of Washington Gas Light Company, District of Columbia Division, for Authority to Increase Existing Rates and Charges for Gas Service.



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AGNES ALEXANDER YATES
CHAIR

September 29, 2008

Deborah K. Nichols
District of Columbia Auditor
717 14th Street, NW
Suite 900
Washington, DC 20005

Dear Ms. Nichols:

The District of Columbia Public Service Commission (Commission) appreciates the opportunity to comment on your draft of the Audit of the Public Service Commission Agency Fund (Agency Fund) for fiscal years 2003 and 2004. Since there were no exceptions identified, the Commission does not desire to provide comments on the report. However, there are minor edits enclosed for your review.

I am pleased with the results of your review and commend your staff on the manner in which the audit was conducted. Please contact me if you have any questions or have your appropriate staff person contact Dr. Phylicia Fauntleroy Bowman, Executive Director, on (202) 626-9176 or Mr. Irvin L. Logan, Agency Fiscal Officer on (202) 626-5133.

Sincerely,

Phylicia Fauntleroy Bowman
Agnes A. Yates
for Agnes A. Yates

cc: Phylicia Fauntleroy Bowman, Executive Director
Irvin L. Logan, Agency Fiscal Officer

