



Agenda Date: 10/3/07
Agenda Item: 1B

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

AUDITS

IN THE MATTER OF AN AUDIT OF THE DEPARTMENT)	ORDER INITIATING
OF HUMAN SERVICES' UNIVERSAL SERVICE)	AUDIT
FUND ADMINISTRATIVE COSTS)	
)	
)	
)	DOCKET NO. EA07070562

(SERVICE LIST ATTACHED)

BY THE BOARD:

Background/Procedural History

The Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq. (EDECA or the Act) established the Universal Service Fund (USF). The Act directed the New Jersey Board of Public Utilities (Board), inter alia, to determine for the USF the level of funding, the appropriate administration, and the purposes and programs to be funded. N.J.S.A. 48:3-60(b).

On April 30, 2003, in Docket No. EX00020091, the Board approved a permanent USF program to assist low-income customers with the payment of their electric and natural gas bills. The Board ordered that the program be operated on a state-wide basis and funded through uniform charges on customers' electric and natural gas bills through the Societal Benefits Charge collected pursuant to N.J.S.A. 48:3-60(a). The Board also determined in this Order that initial administrative expenses would be capped at ten per cent (10 %) of the program costs.

In its order dated July 16, 2003, in Docket Number EX00020091, the Board clarified that this cap would total \$3 million, and any administrative costs (excluding one-time start-up costs) exceeding this amount must be approved in advance by the Board. The Board also stated that the USF would be an ongoing, evolving program, subject to review and amended as necessary. In this same Order, the Board designated the Department of Human Services (DHS) as the USF program administrator.

The USF program was intentionally linked to the Federal Low Income Home Energy Assistance Program (LIHEAP) in order to take advantage of the existing infrastructure already in place to administer LIHEAP. Through a shared application and database system, repetition of administrative resources was reduced and applicants were conveniently able to apply for both programs simultaneously. LIHEAP was jointly administered by DHS and the Department of Community Affairs (DCA) when the permanent USF program was authorized by the Board.

On August 31, 2006, Governor Jon S. Corzine designated DCA as the State's administrator of LIHEAP. In a letter dated September 21, 2006, DCA Commissioner Susan Bass Levin requested that the Board designate DCA as the Universal Service Fund program administrator.

At its October 23, 2006 special meeting, the Board changed the USF program administrator from DHS to DCA. By December 2006, DCA assumed full responsibility as USF program administrator. DHS and DCA agreed that to simplify matters for accounting purposes, DCA would assume responsibility for budgeting and reporting of USF administration costs starting at the beginning of the second quarter of fiscal year 2007, October 1, 2006.

The Board previously authorized payments to DHS totaling \$8,629,445 out of USF funds for administrative costs incurred in state fiscal years (SFY) 2004, 2005 and 2006. On July 13, 2007, Staff was advised by DHS that DHS revised its SFY 2004, 2005 and 2006 administrative costs. Said revision has resulted in an additional \$172,600 due DHS.

On July 23, 2007, DHS sent Staff a cost statement indicating that the first quarter SFY 2007 USF administrative costs were \$826,909. That cost statement is currently under review by Staff.

Discussion

Since DHS no longer administers the USF program, and since DHS has now revised its USF administrative costs for SFY 2004, 2005, a close-out audit of DHS USF administration costs is warranted.

The Board's Division of Audits does not have the authority to audit another State agency. Accordingly, in late Fall of 2006, the Board directed that a Secretary's letter be sent to the Office of the State Auditor requesting that a close-out audit be performed of DHS USF administrative costs for the period during which DHS was the USF program administrator. After initially receiving no response, Staff followed up on the Board's request and on January 5, 2007, Assistant State Auditor Stephen Eells indicated that his office was unable to perform the audit due to other demands on their resources. In addition, Staff also contacted DHS Commissioner Jennifer Velez, who indicated on June 5, 2007 that an audit is appropriate and that her staff will work cooperatively with the auditors that will be selected via the Treasury-approved process as briefly set forth below.

The Department of the Treasury currently has a pool of audit firms under a term contract for financial audits of state government programs. Treasury has confirmed that this pool can be utilized for the DHS audit.

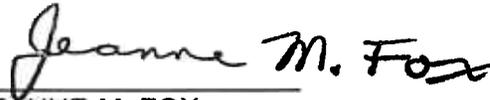
FINDINGS AND ORDER

The Board HEREBY FINDS that a close-out audit of DHS USF administrative costs is warranted. Accordingly, the Board HEREBY APPROVES the attached audit scope and HEREBY DIRECTS the Division of Audits to initiate the procurement of an audit firm for this purpose from those firms currently under a term contract with the Department of the Treasury for financial audits of state government programs. Furthermore, the Board HEREBY AUTHORIZES payment of related audit fees from the USF Trust Fund.

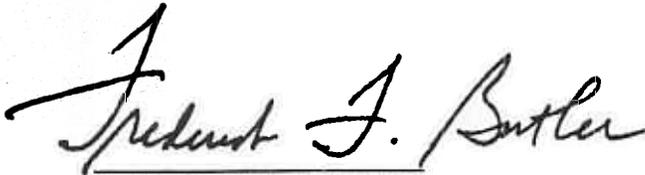
In addition, until such time as the audit report is received, the Board HEREBY DEFERS payment consideration of the additional \$172,600 in USF administrative costs resulting from DHS' revision of its SFY 2004, 2005 and 2006 administration costs.

DATED: 10/3/07

BOARD OF PUBLIC UTILITIES
BY:



JEANNE M. FOX
PRESIDENT



FREDERICK F. BUTLER
COMMISSIONER



JOSEPH L. FIORDALISO
COMMISSIONER



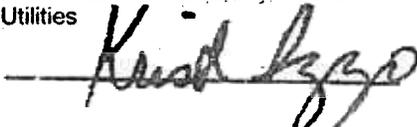
CHRISTINE V. BATOR
COMMISSIONER

ATTEST:



KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



Audit of DHS USF Administrative Costs
Scope of Work

I. Auditor Qualifications

The auditor must be a certified public accountant licensed to practice in New Jersey or a member of the audit staff of the New Jersey Office of the State Auditor.

The auditor should have adequate training and experience in governmental accounting and be in good standing in the profession. The auditor in charge of field work should have a practical working knowledge of applicable state and federal laws and regulations. The auditor should be independent under the requirements of the American Institute of Certified Public Accountants and Government Auditing Standards ("GAS") in relationship to the engagement.

The firm should be currently registered with the New Jersey State Board of Accountancy and should have participated in an external quality control review at least once every three years, conducted by an organization not affiliated with the firm. A copy of the most recent external quality control review report should be provided to the Board of Public Utilities, Director Division of Audits. All audit staff assigned to the audit should have the necessary hours of continuing professional education required by GAS.

II. Audit Scope

The Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49, et seq. provided that the Board of Public Utilities establish a non-lapsing Universal Service Fund ("USF") to assist low income consumers with the payment of their electric and gas bills. The Department of Human Services ("DHS") was the Board's USF program administrator from July 2003 through September 2006, after which the Department of Community Affairs became the USF program administrator. As per a Memorandum of Understanding between the Board and DHS, DHS was paid for costs incurred in administering the USF program. DHS administrative costs consisted of Office of Information Technology charges for system programming services, administrative costs charged to DHS by the Department of Community Affairs and direct/indirect administration costs incurred by DHS itself.

The audit is to focus on the USF administrative costs reported by DHS for the state fiscal years (SFY) 2004, 2005, 2006 and the first quarter of SFY 2007. DHS reported its USF administrative costs for the period were as follows:

SFY 2004	\$2,802,404
SFY 2005	\$2,949,030
SFY 2006	\$3,050,611
First Qtr. SFY 2007	\$826,909

The audit shall determine if the USF administrative costs reported by DHS were correctly calculated, fairly stated and accurately recorded.

The audit shall be performed in accordance with GAS issued by the United States Government Accountability Office under the Comptroller General and in accordance

with all applicable federal and state laws, rules, regulations, circulars and scope of its licensure.

The Auditor shall perform compliance testing, which shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion.

III. Audit Reporting

The New Jersey Board of Public Utilities desires an audit report containing the following:

- a.) A statement that the audit was performed in accordance with GAS issued by the United States Government Accountability Office under the Comptroller General and in accordance with all applicable federal and state laws, rules, regulations, circulars and scope of its licensure.
- b.) A certified opinion (or disclaimer of opinion) as to whether the USF administrative costs reported by DHS in SFY 2004, 2005, 2006 and the first quarter of SFY 2007 were correctly calculated, fairly stated and accurately recorded.
- c.) A detailed schedule of findings and recommendations with related dollar amounts quantified.

IN THE MATTER OF AN AUDIT
OF THE DEPARTMENT OF HUMAN SERVICES
UNIVERSAL SERVICE FUND ADMINISTRATIVE COSTS
DOCKET NO. EA07070562

SERVICE LIST

James McGuire, DAG
Deputy Attorney General
124 Halsey Street, 5th Floor
Newark, New Jersey 07102

Sarah Steindel
Division of the Ratepayer Advocate
31 Clinton Street, 11th Floor
Post Office Box 46005
Newark, New Jersey 07101

Dennis Moran, Director
Division of Audits
Board of Public Utilities
Two Gateway Center, 8th Floor
Newark, New Jersey 07102

Daniel Sussman
Division of Audits
Board of Public Utilities
Two Gateway Center, 8th Floor
Newark, New Jersey 07102

Peter Hilerio,
Office of the Secretary
Board of Public Utilities
Two Gateway Center, 8th Floor
Newark, New Jersey 07102