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May 21, 2026

RE: IN THE MATTER OF AN AUDIT OF THE UTILITIES' CALCULATIONS OF UNIVERSAL SERVICE FUN/LIFELINE PROGRAM FACTORS - Docket No. AA25050298

TO: Service List:

At its May 21, 2026 agenda meeting, the New Jersey Board of Public Utilities ("Board") accepted, for filing purposes only, the final audit report prepared by Silverpoint Consulting, LLC ("Silverpoint") in connection with Silverpoint's audit of the State of New Jersey's investor-owned public utilities' calculations of Universal Service Fund/Lifeline Program Factors ("Audit"). The Board has authorized the release of the final Audit to the public in the form of posting the Audit Report on the Board's website. The deadline to file comments related to the Audit with the Board and the Board's Division of Audits is July 31, 2026.

If you have any questions, please contact Alice Bator at (609) 913-6257.

Sincerely,

A handwritten signature in cursive script that reads "Sherri L. Lewis".

Sherri L. Lewis
Board Secretary

IN THE MATTER OF AN AUDIT OF THE UTILITIES' CALCULATIONS OF UNIVERSAL SERVICE FUND/LIFELINE
PROGRAM FACTORS

Docket No. AA25050298

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**New Jersey Board of Public Utilities
Docket No. AA25050298**

**Audit of Utilities' Calculations
of Universal Service Fund/
Lifeline Program Factors**

Final Report

Submitted By:



April 30, 2026

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I. Executive Summary

A. Report Purpose and Scope

Silverpoint Consulting LLC (Silverpoint) was retained by the New Jersey Board of Public Utilities (Board or BPU) to conduct an audit of the Universal Service Fund (USF) and Lifeline programs at New Jersey's seven electric and gas utilities. Inherent in that review was an assessment of utility processes and procedures for their consistency with applicable regulatory statutes and Board Orders. The audit also included an examination of the administrative budgeting process and actual expenditures of the Department of Community Affairs (DCA) in its role as USF program administrator. The period of review for this audit encompassed the three annual USF filings years of 2022/2023, 2023/2024, and 2024/2025. Principal components of the scope of work for this audit included review and assessment of the following:

- Internal controls supporting the calculation, monitoring, adjustment, and reporting of USF/Fresh Start and Lifeline rates
- Methods, inputs, and documentation supporting the development of USF and Lifeline benefit expenditures, and the basis for differences between forecasted and actual benefits
- The reasonableness of utility administrative expenses included in USF/Fresh Start rates and the effectiveness of associated internal controls
- The adequacy of communications and information exchange between utilities and DCA
- Methodologies, inputs, and documentation used by utilities to forecast sales volume, the precision of those forecasts, and the impact on rates and customers from a lack of accuracy
- USF program over/under recovery processes and whether one-way interest incentives would encourage more accurate forecasting
- Processes and methodologies used by utilities to compile and report data to the Board
- The impact of program budgets on customer rates and a comparison of USF/Fresh Start program budgets across the audit period
- Utility compliance with Fresh Start Orders and administration of the forgiveness process
- A review of DCA USF budgeted expenditures for the audit period, the methods, inputs, and documentation supporting their development, and the effectiveness of internal controls
- Sampling and testing of DCA expense transactions to ensure accuracy and reasonableness
- Methods and internal controls used to reconcile DCA administrative expenses to costs paid by Treasury to community-based and other organizations assisting in USF administration
- The purpose, necessity, and cost effectiveness of IBM costs included in the USF budget.

In this executive summary, Silverpoint provides a brief synopsis of the principal conclusions and recommendations discussed in the next three chapters of this report.



B. Summary of the Investigation

The seven gas and electric utilities examined in this audit are Atlantic City Electric Company (ACE), Elizabethtown Gas Company (ETG), Jersey Central Power & Light Company (JCP&L), New Jersey Natural Gas Company (NJNG), Public Service Electric and Gas Company (PSE&G), Rockland Electric Company (RECO), and South Jersey Gas Company (SJG). During the audit, the Silverpoint team conducted several in-depth interviews with each company and submitted a total of more than 120 data requests to the utilities. We found company personnel to be candid and forthright in their responses to our inquiries, and we appreciate their assistance and cooperation throughout our engagement. Silverpoint requested eight interviews with DCA, submitted more than forty data requests including supporting documentation for validation testing, and we appreciate the courtesy extended to us by agency personnel during our review.

1. USF/Lifeline Program Rates

In Chapter II, Silverpoint discusses our analysis of three principal components of annual USF/Fresh Start and Lifeline rate calculations—estimates of customer benefit payouts, projections of gas and electric volume sales, and administrative expenses. We also discuss the adequacy of the utilities’ data compilation practices and internal controls for the data supporting the annual joint utility USF compliance filing. Our principal conclusions and recommendations follow.

Estimated USF and Fresh Start Benefit Payouts

During the audit period, there were meaningful differences between the actual USF and Fresh Start benefits paid out to customers and the estimated payouts assumed for the purpose of calculating interim rates. In the 2023/2024 program year, for example, actual utility payouts to gas customers exceeded estimates by \$24 million. The same was true for payouts to electric customers. Silverpoint found that no party has overall responsibility for the production of benefit payout estimates. Silverpoint recommends that Staff and the utilities reexamine and potentially revise their approach for estimating USF and Fresh Start benefit payouts for future filings. The parties may need to adopt a more sophisticated—and by implication much more time consuming—analytical approach if their ultimate objective is to minimize the risk of large over- or under-recoveries. On the other hand, the parties should also consider whether investing more effort to develop better estimates is necessary since rates are self-correcting over time.

Silverpoint also identified a potential issue with the methods used to allocate total forecasted USF benefits between gas and electric for the purpose of calculating separate rates. The under-allocation of total forecasted payouts to the gas contributed to under-recovery by gas utilities and over-recovery by electric utilities in some years. As such, a more thoughtful approach may be needed to allocate estimated benefit payouts between gas and electric, and we suggest that the utilities reexamine and potentially revise their approach.

Projected Gas and Electric Sales Volumes

The difference between forecasted and actual sales volumes accounted for approximately \$11.7 million in under-collections from gas customers and approximately \$2.4 million in over-collections from electricity customers over the three-year period. Sales volume projections are derived, by convention, based on normal weather. Silverpoint examined utility methodologies for developing these volume projections and found each company’s forecasting practices to be

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sufficiently rigorous and consistent with good utility practice. Overall, Silverpoint found utility forecasts during the audit period to be reasonable, and variations from projections were consistent with actual experienced weather. We found no basis for changing current weather normalization practices solely for the purpose of the annual USF filing.

Utility Administrative Expenses

Silverpoint's reviewed deferred utility administrative expenses during the three-year period and found them generally consistent with the language of the Board's 2010 Order. Given their minimal size, we would otherwise have recommended that these expenses be recoverable in base rates. We anticipate, however, that most if not all utilities will seek recovery this year for significant expenses associated the increased USF enrollment targets set in the 2025 Order. Some of these new expenses may not fit squarely within the categories contained in the 2010 Order. As such, Silverpoint recommends that the Board and Staff re-examine and redefine, if necessary, the categories of allowable administrative expenses in the upcoming USF proceeding.

Data Supporting the Joint Utility USF Compliance Filing

Silverpoint assessed the sufficiency of the processes and methodologies used by utilities to compile and report the data contained in the spreadsheet supporting the annual USF compliance filing. We found each utility's process for assembling these data to be adequate and its controls sufficient and have no recommendations in this area.

2. Fresh Start Administration and Reporting

Chapter III summarizes Silverpoint's assessment of each utility's compliance with the Board's Fresh Start orders in three areas—administration of the Fresh Start program, calculation and reporting of Fresh Start metrics, and communications requirements with program participants. It also summarizes our review of associated data exchanges between the utilities and DCA related to the administration of the USF and Fresh Start programs. Our principal conclusions and recommendations on these topics follow. The main principal underlying these recommendations is that regardless of which utility serves a given customer, the outcome for that customer should be the same.

Utility Administration of Fresh Start

Silverpoint reviewed each utility's business rules and associated processes for compliance with the Board's Fresh Start Orders. Given project time constraints, the audit team focused on key aspects of program administration. In particular, we assessed each utility's methods for determining customer eligibility for Fresh Start in terms of minimum arrearages and in terms of prior enrollment. We also reviewed their processes for applying Fresh Start forgiveness credits and other lump sum benefits to customer account balances.

Silverpoint found that only two of the seven utilities appear to be complying with the Board's Orders in terms of determining eligibility for Fresh Start based on current arrearages of at least sixty dollars. Some utilities appear to conflate customer outstanding balances with their arrearages and can overstate original Fresh Start balances. As such, a similarly situated customer that qualifies for Fresh Start at one utility might not be deemed eligible by another utility or may qualify for a

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different amount of forgiveness. We estimate the potential impact of excess forgiveness at over \$2 million per year. Silverpoint recommends that Staff and the utilities develop detailed definitions, guidelines, and computational rules or procedures for the arrearage aspect of Fresh Start program administration to ensure consistency across all utilities. Silverpoint also suggests that validation testing be conducted after any necessary changes are made to utility business rules and system processing consistent with this recommendation.

Silverpoint also found disparate treatment among utilities for determining eligibility for Fresh Start based on the timing of prior enrollment. The current process entails the use of the inquiry function for DCA's database of Fresh Start customer participation history. All utilities correctly evaluate eligibility based on the effective date of the customer's prior enrollment in Fresh Start. Most utilities, however, also consider whether that prior enrollment was at an electric or a gas utility rather than just any utility. As such, a similarly situated customer that qualifies for Fresh Start at one utility might not be deemed eligible by another. Silverpoint recommends that Staff and the utilities develop detailed guidelines for determining Fresh Start eligibility based on prior enrollment to ensure consistency across all utilities. As with the prior recommendation, we suggest utilities undergo validation testing after any necessary changes are made to their utility business rules to confirm consistent treatment by all companies.

Silverpoint identified a potential issue with how some utilities apply lump sum benefits such as Home Energy Assistance or Lifeline to a customer's account (which would reduce current arrearages) when those credits arrive at or near the same time as DCA's notification of USF eligibility—and therefore at the same time as the utility's test for Fresh Start eligibility. Silverpoint recommends that Staff and the utilities explore this topic in more detail and determine clarifying guidelines or rules as needed to ensure consistency across all utilities moving forward with validation testing to follow.¹

Fresh Start Quarterly and Annual Report Metrics

The Board's June 2023 Order implemented quarterly and annual reporting requirements for ten new Fresh Start metrics. While all utilities are technically complying with the Order—each one has filed the required reports—they are not calculating and reporting the same thing. For some metrics, utility interpretations are quite disparate, such as measuring customers' remaining arrearage balances as opposed to their original ones. Silverpoint recommends that Staff and the utilities develop detailed definitions, guidelines, and computational rules for each metric to ensure consistency and comparability among reported results.

Fresh Start Related Customer Communications

Silverpoint found that all utilities are complying fully with Fresh Start customer outreach and communications requirements in the Board's 2004 Order. They are also complying with expanded

¹ Assuming stakeholders develop the detailed guidelines and procedures governing Fresh Start administration recommended here, it may be an opportune time to evaluate the overall goals of the Fresh Start program and whether the existing paradigm adequately serves those goals. For example, the \$60 eligibility threshold has not changed since the commencement of the program even though similar programs use a higher dollar threshold. Likewise, the automatic enrollment aspect of the program may be administratively convenient for utilities and customers alike, but some customers may prefer not to use their once-in-five-year opportunity for a small arrearage that they likely otherwise could pay off.



communications requirements in the Board’s 2023 Order with a few exceptions. As of this writing, two utilities have not yet implemented their process to send the second form of communication to Fresh Start customers consistent with the Board’s 2023 Order, and we recommend that both utilities notify Staff when they have satisfied this requirement.

DCA USF and Fresh Start Related Data Processing

Data exchanges with DCA are an integral part of utility processes for administering Fresh Start as well as USF. DCA appears to be, at certain times, delaying the transfer of customer HEA benefit information to utilities. As a result, Fresh Start balances may be larger than necessary, since lump sum HEA benefits typically offset a portion of any customer arrears. Silverpoint estimates the potential excess forgiveness at \$2.5 million per year. DCA also maintains the database that allows each utility to determine if and when its customer previously received Fresh Start at another utility. As discussed above, the utilities have disparate approaches to assessing eligibility for Fresh Start based on prior participation at another utility. As such, DCA’s database inquiry logic may need to be revised. Silverpoint recommends that the Board and Staff explore both of these issues further.

3. DCA USF Administrative Budgets and Expenses

In Chapter IV, Silverpoint discusses its examination of DCA’s administrative cost governance processes, including budget development, cost allocation, procurement, payment processing, reconciliation, and oversight of IT contractors and subgrantees. The team assessed the rigors of internal controls and developed and executed a risk-based testing plan to validate the organization’s adherence to those controls. We evaluated differences between budgeted and actual expenditures during the audit period and the effectiveness of DCA’s management process for IBM IT costs. Our conclusions and recommendations on these topics follow.

Budgeted versus Actual Administrative Expenses and IBM Costs

Silverpoint compared forecasted USF budget expenditures to final administrative costs over the three-year audit period. The agency consistently operated below the Board-approved administrative budgets, which were developed using reasonable methods. Silverpoint also reviewed the purpose, necessity, and cost effectiveness of annual IBM IT costs included in the USF budget. We found that management process and controls—annual consultative scoping, competitive procurement through the State contract, and invoice review and approval controls—are operating effectively.

Deficiencies in Documentation

In our view, state agencies should have clearly documented financial and administrative policies, procedures, and internal controls to ensure fiscal accountability, compliance, and transparency. Documentation should cover such topics as budgeting, procurement, contracting, payment processing, segregation of duties, and cost allocation. While DCA appears to have established operational processes and multiple layers of review, it has little formal documentation. Process understanding is primarily conveyed through institutional knowledge and established practice, and administrative workflows rely on informal practices, staff experience, and embedded State system controls rather than on consolidated standard operating procedures. As such, the audit team needed

to construct a detailed process narrative to confirm our factual understanding of the agency's administrative procedures and control architecture before we could evaluate or test them.

To strengthen consistency and enhance overall control visibility, DCA should develop formal policy, procedure, and controls documentation that includes defined roles and responsibilities across all program, fiscal, procurement and treasury functions, key control points and approval requirements, and definition of end-to-end process flows.

Allocation of Shared Administrative Costs between USF and HEA

During FY22, DCA allocated 40% of shared administrative costs to the USF program and 60% to HEA. For FY23 and FY24 that rate changed to 48%/52%. DCA offered no support for any of these allocation rates nor for the increase of the USF share from 40% to 48%. The only available documentation we received was for the derivation of an allocation rate of 42%/58% in 2016 that was based on an analysis of caseloads. It is our understanding that during the audit period the USF allocation percentage was the subject of discussions between DCA and Staff before the administrative budget was submitted to the Board. It is troublesome that the basis for the allocation rates in those years was not documented. The impact of the allocation rate on total USF expenses is significant and should be made explicit. For the purpose of transparency, Silverpoint recommends that allocation factors such as updated caseload analysis be documented for all shared cost categories and included as required support for the annual USF administrative budget filing.

Adequacy of Governance and Controls

Based on our validation and testing work, Silverpoint concluded that the USF program operates within a well-established and effective external governance framework. Board budget approval, staff-level oversight, Treasury reconciliation, and formal reimbursement authorization each functioned as intended throughout the audit period. Board-level governance, subgrantee governance, IT governance, and fiscal discipline are well-designed and operate effectively. We did, however, identify areas for improvement that should be addressed to strengthen those controls. In particular, no single DCA role is formally accountable for the accuracy, completeness, and authorization of charges flowing to the USF program. Also, the USF program manager does not have adequate visibility into four specific categories of costs that are charged to the USF account—non-standard payroll allocations, journal entry reclassifications, inter-agency charges, and state-allocated charges. In Chapter IV, we provide a list of recommended measures to address these issues.

Improvements in Administrative Procedures

Although Silverpoint found no fundamental breakdown in controls, we did identify opportunities for process improvement through formalized process and control execution. For example, management approvals are often only documented through email correspondence, and there is no standardized exception tracking or resolution framework for invoice or processing issues. In Chapter IV, we provide a list of suggested procedural improvements and measures to strengthen control execution.

II. USF/Lifeline Program Rates

A. Introduction

The Universal Service Fund program was designed to provide bill credits to New Jersey electric and gas customers. These bill credits can range from \$20 to \$200 per month.² Eligibility criteria are based on household income levels and the percentage of income devoted to energy costs. Customers submit one application to apply for both the federal Low Income Home Energy Assistance Program (HEA) program and the USF program. The Department of Community Affairs administers the USF program on behalf of the Board. DCA determines customer eligibility for the program using energy burden information obtained from the applicant's utility.

The Fresh Start program is a utility debt forgiveness initiative for low-to-moderate-income residents, who can earn arrearage forgiveness after fully paying twelve months of bills over a twelve-to-fifteen-month period. Customers in the USF program are currently eligible for Fresh Start once every five years.³ The Lifeline program was designed to provide electric and gas bill assistance to senior citizens and disabled adults, with eligibility based on the applicant's annual gross income. This program is administered by the Department of Human Services (DHS) and has its own application process.

Each September, the Board approves interim USF/Fresh Start rates and Lifeline rates for the upcoming October through September program period. These rates are part of the overall Societal Benefit Charge (SBC) that is applied to all utility customer bills except for certain wholesale users. Utilities send the USF and Lifeline charges collected from customer bills to the State Treasury each month. Utilities also report to Treasury via Staff the USF and Fresh Start benefit amounts they paid out to customers. Utilities are ultimately reimbursed for these amounts, albeit not necessarily on a dollar-to-dollar basis.⁴

In this chapter of the report, Silverpoint discusses our review of USF/Fresh Start and Lifeline rates in place for the 2022/2023, 2023/2024, and 2024/2025 program years. We provide an overview of the annual utility compliance filing, describe the calculation of interim rates, and discuss variances in terms of over- or under-collections. We next describe in more detail our analysis of three factors most responsible for those variances—the gap between estimated and actual benefit payouts, the allocation of estimated benefit payouts between gas and electric, and the difference between forecasted and actual sales volumes. Later, Silverpoint describes our review of the overall processes and methodologies used by utilities to compile and report data presented to the Board in connection with the development of rates. We then focus in more depth on two data sources in particular—utility forecasts of sales volume and utility administrative expenses. Silverpoint summarizes the audit team's conclusions and recommendations at the end of the chapter.

² This range reflects the increase to credit levels set forth in the BPU's June 25, 2025 Order.

³ For the first two years of the audit period, there was no frequency limitation for Fresh Start, as customers needed only to meet a \$60 arrearage minimum.

⁴ The calculation of utility reimbursements from Treasury is managed by Staff.



B. USF/Fresh Start and Lifeline Program Rates

1. Overview of USF/Lifeline Compliance Filings

Each June, PSE&G submits to the Board an annual combined compliance filing for the USF/Fresh Start and Lifeline programs on behalf of itself and the State’s other electric and gas utilities. The filing contains proposed interim USF/Fresh Start rates and Lifeline rates applicable to gas and electric utilities on a per therm and per kilowatt-hour basis, respectively. In concert with the filing, PSE&G compiles a multi-tab spreadsheet containing information provided by each utility, most of which relates to the current program year. These data include the utility’s monthly remittances to Treasury, actual monthly USF and Fresh Start expenditures, reimbursements from Treasury, deferred administrative expenses, and carrying costs, as well as its estimated over/under recovery position for the year. Each utility also provides projected monthly sales volumes for the upcoming twelve-month period.

The calculation of interim USF/Fresh Start rates reflects certain assumptions about estimated future benefit payouts to customers, DCA administrative expense budgets, and certain utility administrative expenses. By way of example, the next table summarizes the calculation of interim rates that were approved by the Board for the 2024/2025 program year.⁵

**USF/Fresh Start Interim Rate Calculation
October 2024 to September 2025 Program Year**

	Gas	Electric	Total
Estimated USF payouts	\$49,737,387	\$117,436,764	\$167,174,151
Estimated Fresh Start payouts	\$20,252,026	\$41,076,596	\$61,328,622
Est. for Program Modifications ⁶	(\$10,126,013)	(\$20,538,298)	(\$30,664,311)
Est. DCA Administrative Expenses	\$3,404,910	\$8,039,459	\$11,444,369
Utility Administrative Expenses	\$36,901	\$269	\$37,170
Est. Total Under/(Over) Recovery	\$29,418,578	(\$2,219,307)	\$27,199,271
Total Program (Numerator)	\$92,723,789	\$143,795,483	\$236,519,272
Projected Volume (Denominator)	4,556,471,674	69,283,702,224	
Before tax interim rate	\$0.0203	\$0.002075	

Utilities have adopted certain conventions for the purpose of calculating these rates. For example, projected gas and electric sales volumes—the denominators in these calculations—are based on utility forecasts that assume normal weather. Baseline estimates of total yearly USF payouts and Fresh Start payouts are derived by multiplying the benefit payouts in April of the current year by

⁵ Decision and Order Approving Interim USF Rates and Lifeline Rates, September 25, 2024, Docket No. ER24070486.

⁶ This value represents the expected increase/decrease to the baseline payout estimate due to recent program changes.

twelve. In the last few years, utilities also have included a program modification adjustment to reflect the expected impact on USF and Fresh Start payouts from Board-ordered changes. Interim rates remain in effect for the entire program year with no opportunity for adjustment, so some degree of under- or over-collection of total program expenses is expected. Utilities include an estimate of this variance in the numerator of the interim rate of calculation. In the above table, for example, \$27.2 million of estimated 2023/2024 program year under-recovery was included in rates for the upcoming year.

During the audit period, there were meaningful differences between the amounts collected from customers through the USF/Fresh Start rate and total program expenses. The 2023/2024 program year was the perfect storm in that regard—significantly warmer than normal winter temperatures reduced collections from customers while actual benefit payouts far exceeded predicted levels. In our review, Silverpoint focused on three areas responsible for the majority of the under- and over-collections during the audit period.⁷ These are the estimation of USF and Fresh Start benefit payouts, the allocation of estimated benefit payouts between gas and electric utility rates, and gas and electric sales volumes.⁸ We discuss these in more detail in the next sections below.

The calculation of interim Lifeline rates is based on estimated future benefit payouts to customers in the upcoming year. Utilities have no role in forecasting this amount. An estimate of total Lifeline benefit payouts is developed by DHS and provided to PSE&G in a letter from Staff.⁹ This amount has been \$74,550,000 in each year of the audit period.¹⁰ The next table summarizes the calculation of interim Lifeline rates that were approved by the Board for the 2024/2025 program year.¹¹ The denominators for these calculations are projected sales volumes that are based on utility forecasts.

**Lifeline Interim Rate Calculations
October 2024 to September 2025 Program Year**

	Gas	Electric	Total
Allocation percentage	34%	66%	
Estimated Lifeline payouts	\$25,347,000	\$49,203,000	\$74,550,000
Total Program (Numerator)	\$25,347,000	\$49,203,000	\$74,550,000
Projected Volume (Denominator)	4,556,471,674	69,283,702,224	
Before tax interim rate	\$0.0056	\$0.00710	

The relative percentage of total operating revenues is used to allocate the Lifeline budget between gas and electric utilities. The allocations for each program year during the audit period are summarized in the next table.

⁷ Over- and under-recovery is also affected by the amount utilities are reimbursed by Treasury during the year.
⁸ During the audit period, the difference between budgeted and actual DCA administrative expenses were in the \$1.0-\$1.5 million range; utility administrative expenses were minimal.
⁹ Interview PSE&G-1.
¹⁰ The 2024 Lifeline budget of \$74,550,000 includes \$6.9 million for the Work First New Jersey program.
¹¹ Decision and Order Approving Interim USF Rates and Lifeline Rates, September 25, 2024, Docket No. ER24070486.

Lifeline Budget Allocation Percentages

Program Year	Gas	Electric
2022/2023	32%	68%
2023/2024	36%	64%
2024/2025	34%	66%

Silverpoint has no information on total Lifeline benefits paid out to utility customers to assess whether these allocation percentages were appropriate. Each month, utilities send Lifeline rates collected from customer bills to Treasury. They also send information on Lifeline benefit amounts paid out to customers during the month and are ultimately reimbursed. There is no true-up process.¹²

2. Estimated versus Actual USF and Fresh Start Benefit Payouts

Silverpoint compared actual USF and Fresh Start payments to estimated total benefit payouts for each of the three program years. The comparisons for gas utilities and electric utilities are summarized in the next table.¹³

Estimated USF and Fresh Start Benefits Versus Actual Payouts

Gas					
	Actual USF Benefit Payouts	Actual Fresh Start Benefit Payouts	Total USF and Fresh Start Payouts	Total Estimated Payout in Rates	Under/(Over) Recovery
2022/2023	\$38,698,550	\$14,936,309	\$53,634,859	\$51,026,755	\$2,608,104
2023/2024	\$49,782,772	\$22,183,698	\$71,966,470	\$47,165,902	\$24,800,568
2024/2025	\$41,838,625	\$16,316,736	\$58,155,361	\$59,863,400	(\$1,708,039)
Electric					
	Actual USF Benefit Payouts	Actual Fresh Start Benefit Payouts	Total USF and Fresh Start Payouts	Total Estimated Payout in Rates	Under/(Over) Recovery
2022/2023	\$121,364,532	\$28,693,490	\$150,058,022	\$172,182,265	(\$22,124,243)
2023/2024	\$122,580,631	\$41,835,860	\$164,416,491	\$140,448,011	\$23,968,480
2024/2025	\$125,267,106	\$34,001,815	\$159,268,921	\$137,975,062	\$21,293,859

¹² Several times a year, utilities receive a notice from DHS to retrieve a file from the State’s MoveIt portal containing information on Lifeline benefits. Companies process and post these Lifeline credits to customer accounts. DHS sometimes sends a Lifeline check directly to a customer rather than directing the utility to apply a credit to the customer’s account. As such, utilities cannot determine the total amount of Lifeline credits awarded to its customers.

¹³ Actual gas and electric USF and Fresh Start payouts calculated from utility data provided in responses to Data Request ACE-4, Data Request ETG-4, Data Request JCP&L-5, Data Request NJNG-3, Data Request PSE&G-17, Data Request RECO-5, Data Request SJG-4. Estimated payout in rates from Decision and Order Approving Interim USF Rates and Lifeline Rates dated September 28, 2022, September 27, 2023, and September 25, 2024.



Actual payouts to gas customers for Fresh Start and USF in the 2023/2024 program year were roughly \$24 million more than estimated. The same was true for electric customers. Overall, the combined utility USF filing underestimated total payouts by \$48 million, or 25 percent of the total payouts of \$187 million. In the other two program years, the outcome was more lopsided. Electric utilities over-recovered by \$22 million in 2022/2023 while gas utilities slightly under-recovered. In 2024/2025, electric utilities significantly under-recovered while gas utilities slightly over-recovered.

The estimated payouts shown in the above table for each of the three program years reflect the sum of the standard April-times-twelve estimate for Fresh Start and for USF plus an adjustment meant to reflect the impact on total payouts from recent Orders. Silverpoint requested supporting workpapers for these program modification adjustments and was ultimately able to identify how much related to each individual program for two of the three years. The resulting analysis provides better insight into which program caused most of the disparity.

The next two tables summarize the difference between estimated and actual payouts for Fresh Start and USF for gas utilities and for electric utilities for the 2023/2024 program year.¹⁴ The baseline estimates for total USF payouts and Fresh Start payouts are derived by multiplying the benefit payouts during the most recent April by twelve.

**Gas Utility Benefit Payouts versus USF/Fresh Start Interim Rate
2023/2024 Program Year**

	<i>Actual USF Payouts</i>	<i>Actual Fresh Start Payouts</i>	<i>Total Benefit Payouts</i>
Benefit Payouts	\$49,782,772	\$22,183,698	\$71,966,470
	<i>Estimated USF in Rates</i>	<i>Estimated Fresh Start in Rates</i>	<i>Total Estimate in Rates</i>
Baseline Estimate	\$37,327,175	\$12,124,130	\$49,451,305
Program Modification	(\$216,780)	(\$2,068,623)	(\$2,285,403)
Total in Interim Rates	\$37,110,395	\$10,055,507	\$47,165,902

¹⁴ Program modification supporting information provided in response to Data Request PSE&G-6. The response did not clearly identify how much of the 2022/2023 program modification could be assigned to USF or Fresh Start individually, and the total amount did not match the one included in the final Order.

**Electric Utility Benefit Payouts versus USF/Fresh Start Interim Rate
2023/2024 Program Year**

	<i>Actual USF Payouts</i>	<i>Actual Fresh Start Payouts</i>	<i>Total Benefit Payouts</i>
Benefit Payouts	\$122,580,631	\$41,835,860	\$164,416,491
	<i>Estimated USF in Rates</i>	<i>Estimated Fresh Start in Rates</i>	<i>Total Estimate in Rates</i>
Baseline Estimate	\$118,202,490	\$24,527,383	\$142,729,873
Program Modification	(\$216,780)	(\$2,065,082)	(\$2,281,862)
Total in Interim Rates	\$117,985,710	\$22,462,301	\$140,448,011

This analysis indicates that most of the shortfall in total collections by electric utilities was related to the Fresh Start program. For the gas utilities, there was a meaningful shortfall in collections for both programs. As such, program modification adjustments that reduced payout estimates for the 2023/2024 program year were clearly off the mark.

Silverpoint performed a similar analysis for the 2024/25 program year. The next two tables summarize the difference between estimated and actual payouts for Fresh Start and USF for gas utilities and for electric utilities.¹⁵

**Gas Utility Benefit Payouts versus USF/Fresh Start Interim Rate
2024/2025 Program Year**

	<i>Actual USF Payouts</i>	<i>Actual Fresh Start Payouts</i>	<i>Total Benefit Payouts</i>
Benefit Payouts	\$41,838,625	\$16,316,736	\$58,155,361
	<i>Estimated USF in Rates</i>	<i>Estimated Fresh Start in Rates</i>	<i>Total Estimate in Rates</i>
Baseline Estimate	\$49,737,387	\$20,252,026	\$69,989,413
Program Modification		(\$10,126,013)	(\$10,126,013)
Total in Interim Rates	\$49,737,387	\$10,126,013	\$59,863,400

¹⁵ Program modification supporting information provided in response to Data Request PSE&G-6.



**Electric Utility Benefit Payouts versus USF/Fresh Start Interim Rate
2024/2025 Program Year**

	<i>Actual USF Payouts</i>	<i>Actual Fresh Start Payouts</i>	<i>Total Benefit Payouts</i>
Benefit Payouts	\$125,267,106	\$34,001,815	\$159,268,921
	<i>Estimated USF in Rates</i>	<i>Estimated Fresh Start in Rates</i>	<i>Total Estimate in Rates</i>
Baseline Estimate	\$117,436,764	\$41,076,596	\$158,513,360
Program Modification		(\$20,538,298)	(\$20,538,298)
Total in Interim Rates	\$117,436,764	\$20,538,298	\$137,975,062

This comparison demonstrates that most of the shortfall in collections by electric utilities for 2024/2025 relates to the Fresh Start program. There was also a significant shortfall in collections for this program by gas utilities. Overall, it appears that the program modification adjustments were too aggressive. There was no program modification associated with USF that year. Estimates for gas USF benefit payout rates were, however, roughly 20 percent too high, and those for electric customers were a bit too low.

Silverpoint inquired about the process used to develop the estimates of total Fresh Start and USF customer benefits. As previously noted, utilities traditionally used actual results for April to forecast these payouts for the upcoming program year. Utilities recognized, however, that recent program modifications such as the removal of the one-time-only rule for Fresh Start participation would impact total benefit payouts. Unfortunately, the adjustments that were applied to initial estimates during the audit period were consistently off the mark.

Responsibility for developing benefit estimates appears to be diffused, and Silverpoint found that no party has overall responsibility for their production. PSE&G has indicated that program modification estimates are developed based on discussions between Staff and utilities.¹⁶ Most utilities, however, stated that they have no role in developing these budgets.¹⁷ When Silverpoint reviewed emails and workpapers summarizing the assumptions used to derive the program modification adjustments, our impression was that this analysis had been developed primarily by Staff and a manager at one utility who has been involved with customer benefit programs from the time of the Board’s initial USF and Fresh Start Orders, with vetting by PSE&G.¹⁸ It is our understanding that the analysis was shared with all utilities prior to filing.

We recommend that the parties reexamine and potentially revise their approach for estimating USF and Fresh Start benefit payouts for future USF compliance filings. The parties may need to adopt

¹⁶ Response to Data Request PSE&G-28.

¹⁷ Responses to Data Request ACE-15, Data Request ETG-15, Data Request SJG-18, and Data Request RECO-23. DCA’s director also indicated the agency had no role in developing estimates of future payouts.

¹⁸ Response to Data Request PSE&G-6.



a more sophisticated—and by implication much more time consuming—analytical approach to improve estimates and minimize the risk of large over- or under-recoveries. The parties should also consider whether investing more effort to develop better estimates is necessary since rates are self-correcting over time. In that case, using the April-times-twelve convention alone may be sufficient.

3. Allocation of Estimated Benefit Payouts between Gas and Electric

As shown in the previous section, in the 2022/2023 program year, gas utilities under-collected program expenses by \$2.6 million while electric utilities over-collected by \$22.1 million. In the 2024/2-25 program year, gas utilities over-collected by \$1.7 million while the electric utilities under-collected by \$21.2 million. These lopsided outcomes raise the possibility of an underlying issue with how total estimated benefit payouts are being allocated between gas and electric utilities for the purpose of calculating rates.

Utilities do not provide separate USF and Fresh Start payout estimates for gas and electric utilities. Instead, they develop one estimate for each program and allocate that amount between gas and electric. These allocations are made based on the relative percentage of gas and electric payouts made for each program in April of the current year. A summary of the percentages for each year of the audit period is shown in the next table.

USF and Fresh Start Benefit Estimates Included in Rates

2022/23			
	Total	Gas	Electric
USF Allocation %		18.991%	81.009%
Fresh Start Allocation %		34.471%	65.529%
USF	\$146,189,398	\$27,763,427	\$118,425,971
Fresh Start	\$49,048,074	\$16,907,463	\$32,140,611
Program Expansion	\$27,971,548	\$6,355,865	\$21,615,683
Total	\$223,209,020	\$51,026,755	\$172,182,265
2023/24			
	Total	Gas	Electric
USF Allocation %		24.000%	76.000%
Fresh Start Allocation %		33.079%	66.921%
USF	\$155,529,665	\$37,327,175	\$118,202,490
Fresh Start	\$36,651,513	\$12,124,130	\$24,527,383
Program Expansion	(\$4,567,266)	(\$2,285,403)	(\$2,281,862)
Total	\$187,613,912	\$47,165,902	\$140,448,011
2024/25			
	Total	Gas	Electric
USF Allocation %		29.75%	70.25%

Fresh Start Allocation %		33.02%	66.98%
USF	\$167,174,151	\$49,737,387	\$117,436,764
Fresh Start	\$61,328,622	\$20,252,026	\$41,076,596
Program Expansion	(\$30,664,311)	(\$10,126,013)	(\$20,538,298)
Total	\$197,838,462	\$59,863,400	\$137,975,062

Fresh Start allocation percentages have been relatively consistent across the three years, but the USF rate for gas utilities has steadily increased, reaching 29.75% by 2024/2025. In the 2022/2023 program year, the rate used to allocate estimated total USF benefit payouts to gas utilities was 18.991%. Gas utilities, however, ultimately paid out 24% of total USF benefits paid to customers that year.¹⁹ The difference in allocation rates clearly contributed to the under-recovery by gas utilities and over-recovery by electric. It is possible that a more thoughtful approach may be needed to allocate estimated benefit payouts between gas and electric. We suggest that the utilities reexamine and potentially revise their approach for the next USF compliance filing.

4. Estimated versus Actual Gas and Electric Sales Volume

The established convention for calculating rates is the use of normal weather forecasts for the purpose of estimating gas and electric volume sales. These projected sales figures in turn serve as the denominators in USF/Fresh Start rate calculations. The difference between forecasted and actual sales volumes was a major focus of discussion during recent USF compliance proceedings, particularly regarding gas.

Silverpoint’s scope of work for the audit included a review of the impact on rates and customers from the “lack of accuracies in forecasting sales volume.” First, to clarify, Silverpoint does not characterize the difference between actual sales volume and projected sales volume assuming normal weather as inaccuracy. A comparison of the projected versus actual gas and electric sales for each year of the audit period, along with the impact of the variance on the amount collected from customers, is shown on the next table.

¹⁹ In an earlier table, Estimated USF and Fresh Start Benefits Versus Actual Payouts, actual gas USF benefit payouts were \$38,698,550, and actual electric USF payouts were \$121,364,532, which calculates to be approximately 24% gas and 76% electric.

Projected and Actual Sales Volumes

2022-2023			
	Projected	Actual	% Under/(Over)
Gas Therms (000)	4,563,383	4,129,659	-9.50%
Pre-tax Rate	\$0.0104	\$0.0104	
Total Collections	\$47,459,183	\$42,948,454	\$4,510,730
Electric MWH (000)	68,936,987	68,409,769	-0.76%
Pre-tax Rate	0.003205	0.003205	
Total Collections	\$220,943,043	\$219,253,310	\$1,689,734
2023-2024			
	Projected	Actual	% Under/(Over)
Gas Therms (000)	4,601,410	4,164,230	-9.50%
Pre-tax Rate	\$0.0108	\$0.0108	
Total Collections	\$49,695,228	\$44,973,684	\$4,721,544
Electric MWH (000)	68,312,639	70,249,620	2.84%
Pre-tax Rate	\$0.001243	\$0.001243	
Total Collections	\$84,912,610	\$87,320,278	(\$2,407,667)
2024-2025			
	Projected	Actual	% Under/(Over)
Gas Therms (000)	4,556,472	4,432,194	-2.73%
Pre-tax Rate	\$0.0203	\$0.0203	
Total Collections	\$92,496,382	\$89,973,538	\$2,522,843
Electric MWH (000)	69,283,702	70,093,923	1.17%
Pre-tax Rate	\$0.002075	\$0.002075	
Total Collections	\$143,763,682	\$145,444,890	(\$1,681,209)

The variance in sales volume clearly did contribute to shortfalls in collections. That impact on both gas and electric collections was ultimately magnified (in 2023/2024) or mitigated (in 2024/2025) by the difference between forecast and actual USF and Fresh Start customer benefit payouts.

Silverpoint discusses its assessment of utility forecasting methods and processes in Section II.D below.

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C. Utility Annual Compliance Filing Data

Silverpoint’s scope of work for this audit included a review of the overall processes and methodologies used by the utilities to compile and report data presented to the Board in connection with the development of USF/Fresh Start and Lifeline rates. These data are contained in the spreadsheet supporting the annual compliance filing. The individual data fields in each relevant tab of that spreadsheet are summarized on the following table.

Annual USF Compliance Filing Supporting Spreadsheet Data Fields

<i>Spreadsheet Tab Name</i>	<i>Data Field</i>
Gas State Received \$ vs Costs	Amount Received from Treasury
	USF Benefit Expenditures by Month
	Fresh Start Benefit Expenditures by Month
	Monthly Admin Costs
Elec State Received \$ vs Costs	Amount Received from Treasury
	USF Benefit Expenditures by Month
	Fresh Start Benefit Expenditures by Month
	Monthly Admin Costs
Electric Payments to State	Electric or Gas Recoveries Paid to State by Month
	Jurisdictional Volume by Month
Gas payments to State	Gas Recoveries Paid to State by Month
	Jurisdictional Volume by Month
\$ Transferred from State	Actuals by Month
Summary Admin	RECO/SJG Admin Costs by Month
Transfer Remittance Gas	USF and Lifeline Remittances by Month
	Amount Received from Treasury
Transfer Remittance Electric	USF and Lifeline Remittances by Month
	Amount Received from Treasury
Lifeline Allocation	Electric Operating Revenues
	Gas Operating Jurisdictional Revenues

To facilitate our review, Silverpoint asked each utility to provide a detailed written description of its process for compiling and calculating each data field including the business rules/processing steps utilized to calculate the reported value including any manual steps or adjustments. We asked the utilities to identify the underlying data points or occurrences that are used to calculate monthly reported value (e.g., individual USF credits paid to customers) as well as the systems or accounts in which needed data are housed.

Silverpoint also asked each utility to describe the internal controls in place to support the calculating, monitoring, adjusting, and reporting of these values. We asked them to identify which departments or personnel are responsible for reviewing and issuing final approval or sign-off on these values for purposes of reporting in the annual filing. A synopsis of the responses from each of the seven utilities is contained in Appendix A.

In their initial responses, most utilities sufficiently described their overall processes, but many were unclear about how they defined which underlying data points were included in a specific month. For example, a utility might use the date an individual USF credit was posted to a customer account to delineate the month in which that dollar amount would be included in USF Benefit Expenditures. This type of delineation is important to ensure that all relevant data are included once and only once in annual results. Silverpoint subsequently provided utilities an opportunity to supplement their initial responses to resolve the reporting month issue and any other open issues.

For the most part, the overall processes and methodologies used by the utilities to compile and report data were relatively straightforward. PSE&G, however, has adopted a convention for allocating its Fresh Start payouts in order to derive a separate Fresh Start Benefit Expenditure for gas and for electric. PSE&G, as the only combined electric and gas utility in the State, apportions its total Fresh Start payout using a 64% electric/36% allocation methodology for all combined and single service customers.²⁰ This approach was established at the inception of Fresh Start based on a historical percentage of write-offs between electric and gas customers. The convention was reportedly adopted in consultation with Staff and was necessary due to the limitations of the utility's billing system.²¹

Silverpoint found each utility's annual process for assembling data for the combined USF filing to be adequate, although to some extent it is on automatic pilot. The programming logic used to derive reported values was likely developed quite some time ago, and unless the utility moved to a new computer system in the interim, has likely not been revisited since. Nevertheless, utilities do have in place the type of accounting controls that are routinely subject to outside auditors, and checks are built into source systems like customer billing. Internal reviews take place within responsible teams to ensure reasonableness of calculated values. Overall, we believe there are adequate controls in place for calculating, reviewing, and approving the data included by each utility in the spreadsheet supporting the joint utilities' annual USF compliance filing.

D. Gas and Electric Volume Forecasting

1. Evaluation of Forecasting Practices

Silverpoint's scope of work for this audit included a review and evaluation of the methodologies and inputs used by each utility to forecast jurisdictional sales volume. As discussed earlier,

²⁰ PSE&G has roughly 645,000 electric-only customers, 330,000 gas-only customers, and 1.4 million combination residential customers as of the end of March 2026.

²¹ Response and supplemental response to Data Request PSE&G-22.



projected gas and electric sales volumes are important factors in the calculation of USF and Fresh Start rates and have been the focus of considerable attention in recent proceedings.

Silverpoint discussed forecasting practices and methodologies with each utility during focused interviews and examined related documentation provided in response to follow-up data requests. We found that each company employs methods that are consistent with good utility practice. Each utility and/or its consultant utilizes appropriately sophisticated econometric regression models and software that incorporate adequate historical data and explanatory variables to forecast gas or electric sales volume. Weather normalization methods, which are discussed in more detail later in this section, are reasonable. All utilities update their forecasts at least once a year, so current thinking is reflected in the forecasts used for the annual USF filing. Overall, we found utility forecasting practices to be sufficiently rigorous and ably managed by well-qualified personnel. A synopsis of each utility's forecasting process including weather normalization is included in Appendix B.

By way of summary, weather is the principal driver of natural gas sales. Gas utility forecasting models focus on deriving baseload and heat load rates by subgroups of customer classes (e.g., residential heating and non-heating) that are then applied to projected customer counts assuming normal weather. Historical billing information used to derive baseload and heat load rates reflects energy efficiency and conservation improvements to date; expectations about future improvements in these areas are then reflected in model variables. The gas utilities typically analyze larger industrial customers individually given their disparate nature.

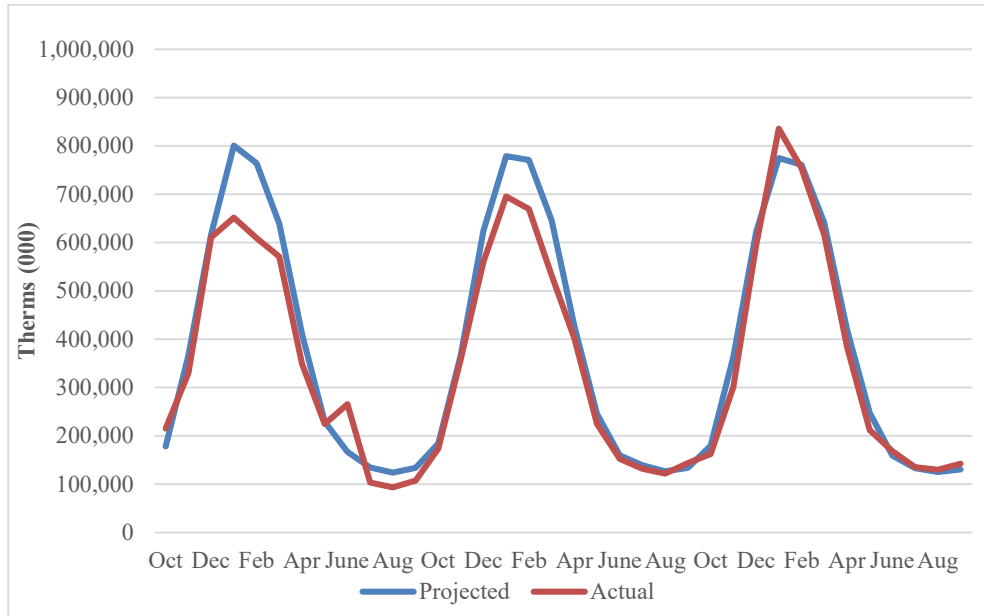
Forecasting for electricity sales is less straightforward and in some sense a two-step process. First, utility forecasting models focus on deriving sales volume forecasts for tariff classes or customer subgroups based on such factors as end uses for electricity, energy prices, and demographic and economic data, as well as assumptions about normal weather. Historical sales data used in these models reflect existing levels for solar and electric vehicle (EV) penetration. Each utility next makes out-of-model adjustments to its forecast to reflect current assumptions about the potential impact of such factors as future EV and solar adoption and mandated electrification initiatives. These adjustments generally have little impact on the first year of the forecast that is used for the purpose of the USF filing, however, and are generally more relevant for predicting demand in later years.

All the utilities have an internal forecast review process, in some cases at senior executive levels. Most do not have a formal approval process although there is generally a sign-off designating that the forecast is considered official for planning purposes. Each utility confirmed that it uses the same forecasts for all rate and cost recovery proceedings. Equally important, each utility uses the same forecast for corporate and financial planning, which helps to ensure that appropriate diligence is being applied to the forecasting effort.

2. Actual versus Projected Gas Volume Forecasts

A comparison of projected to actual jurisdictional volume sales by natural gas utilities during the audit period is shown on the next graph.²² The anomaly in actual sales data during the June to September 2023 period is due to a significant data correction by PSE&G during that time.²³

**Total Natural Gas Utility Projected versus Actual Volume Sales
October 2022 through September 2024**



As is evident in the graph, the majority of natural gas utility sales, roughly 60%, are concentrated in a four-month period and so are disproportionately affected by winter weather. Actual sales for gas utilities as a whole were approximately 9.5 percent lower than projected during the first two years, and less than three percent lower in the third. For perspective, the following table shows a comparison of the number of heating degree days (HDD) assumed by PSE&G in its normal weather forecasts to the actual HDDs experienced in its service territory during the three winter heating seasons in the audit period.²⁴

**PSE&G November-March
Heating Degree Days**

Winter	Actual	Normal	% Difference
2022-2023	3,113	3,772	17.5%
2023-2024	3,169	3,784	16.3%
2024-2025	3,520	3,770	6.6%

²² Responses to Data Request ETG-4, Data Request NJNG-3, Data Request PSE&G-17, and Data Request SJG-4.

²³ During Interview PSE&G-4, PSE&G indicated it had overstated the sales volume of a large customer by 104 million therms in June and offset one-third of that amount in reported sales for the next three months.

²⁴ Response to Data Request PSE&G-29.



Clearly, the first two winter seasons were appreciably milder than normal. Outside of the winter months, however, utility total projected and actual sales tracked rather closely, indicative of the overall robustness of their forecasting methods.

Parties in a recent USF proceeding recommended a one-way interest rate incentive to encourage more accurate forecasting. This suggestion appears to conflate accuracy with the difference between normal and actual weather. For the sake of comparison, the “accuracy” of gas utility forecasts in terms of the absolute value of the difference between projected and actual sales during the audit period is summarized on the next table.

**Natural Gas Utility Projected versus Actual Volume Sales
October 2022 through September 2024**

	2022-2023	2023-2024	2024-2025
ETG	7.85%	9.22%	4.88%
NJNG	8.28%	10.61%	4.51%
PSE&G	10.37%	9.06%	2.42%
SJG	8.21%	10.51%	0.32%
Combined	9.50%	9.50%	2.73%

No one utility has been consistently further off than another, and Silverpoint found no basis for abandoning the convention of normal weather forecasting for any kind of interest-rate incentive. Should parties wish to pursue the issue of gas forecast accuracy in more depth in future proceedings, utilities could share the results of any back testing, in which normal weather assumptions in their models are replaced with actual weather conditions and compared to actual sales.

Silverpoint graphed projected to actual sales by month over the audit period for each gas utility; these graphs are contained in the forecasting process overviews in Appendix B. Overall, Silverpoint found utility forecasts during the audit period to be reasonable, and variations from projections were consistent with actual experienced weather.

3. Actual versus Projected Electricity Volume Forecasts

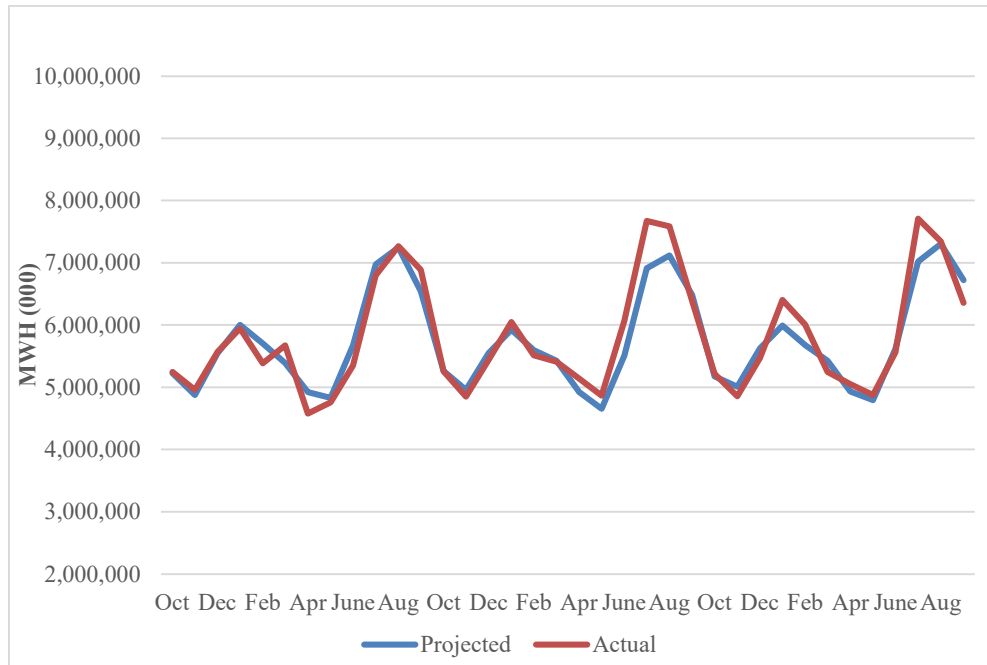
Electric utility sales are impacted by weather but are generally less so than gas utilities given the significant use of electricity for purposes other than heating and cooling. A comparison of projected to actual jurisdictional volume sales for electric utilities as a whole is shown on the next graph.²⁵ The noticeable disparity between projected and actual sales in April 2023 is reportedly due to unseasonably warm weather, with temperatures in the 90s for at least ten days.²⁶

²⁵ Responses to Data Request ACE-5, Data Request JCP&L-5, Data Request PSE&G-17, and Data Request RECO-5.

²⁶ Interview PSE&G-4. PSE&G noted that customers are less likely to turn on air conditioning during such conditions in early Spring, so there was no offsetting increase in electricity sales for cooling purposes.



**Total Electric Utility Projected versus Actual Volume Sales
October 2022 through September 2024**



As is evident in the graph, projected versus actual sales tracked relatively closely over the audit period except for the three-to-four-month summer period in 2024. Actual sales for electric utilities as a whole were approximately 0.75 percent lower than projected during the first year of the audit period. They were approximately 2.8 percent and 1.2 percent higher than projected during second and third years, respectively. For perspective, the following table shows a comparison of the temperature-humidity index assumed by PSE&G in its normal weather forecasts to the actual condition experienced in its service territory during the three summer cooling seasons in the audit period.²⁷

**PSE&G June-September
Temperature-Humidity Index**

Summer	Actual	Normal	% Difference
2022-2023	16,097	15,356	4.8%
2023-2024	17,906	15,571	15.0%
2024-2025	15,783	15,684	0.6%

As noted above, parties in a recent USF proceeding suggested a one-way interest rate incentive to encourage more accurate forecasting. The “accuracy” of electric utility forecasts in terms of the absolute value of the difference between their projected and actual sales during the audit period is summarized on the next table.

²⁷ Response to Data Request PSE&G-29.

**Total Electric Utility Projected versus Actual Volume Sales
October 2022 through September 2024**

	2022-2023	2023-2024	2024-2025
ACE	2.40%	0.63%	2.51%
JCP&L	2.39%	0.30%	0.85%
PSE&G	0.27%	4.66%	1.85%
RECO	0.23%	6.12%	2.47%

No one utility has been consistently further off than another and Silverpoint found no basis for abandoning the convention of normal weather forecasting for any kind of interest-rate incentive. Should parties wish to pursue the issue of electricity forecast accuracy in more depth in future proceedings, utilities could share the results of any back testing, in which normal weather assumptions in models are replaced with actual weather conditions and compared to actual sales.

Silverpoint graphed projected versus actual sales by month over the audit period for each electric utility; these graphs are contained in the forecasting process overviews in Appendix B. Overall, Silverpoint found electric utility forecasts during the audit period to be reasonable and variations from projections were consistent with actual experienced weather.

4. Weather Normalization

Projected gas and electricity sales for the upcoming twelve-month period are a key input to the calculation of USF and Fresh Start rates. These sales projections are derived, by convention, based on normal weather. In recent USF proceedings, parties raised concerns about the disparity between projected and actual sales volume, which some saw as a major cause of significant under-collection in USF/Fresh Start rates.

To derive normal weather, utilities generally use 24 hours of historical data from relevant weather stations to determine an arithmetic average for each day, most often stated in terms of heating degree days or cooling degree days. These daily averages are then used to derive averages for each calendar month. The number of years of weather data used by New Jersey’s gas and electric utilities to derive normal weather are shown on the next table.

Weather Normalization Summary

Utility	Years	Weather Stations
ACE	30	Atlantic City
ETG	10	Newark
JCP&L	20	Newark, Atlantic City
NJNG	20	Phila. Airport, Newark, Atlantic City
PSE&G	20	Newark
RECO	10	Central Park
SJG	20	Phila. Airport, Atlantic City

Each of the utilities has been using its method for quite some time. ACE uses thirty years of data, consistent with the National Oceanic and Atmospheric Administration (NOAA) definition of normal weather.²⁸ Two utilities, ETG and RECO, use ten years of weather data. Other utilities use twenty years of data, which JCP&L considers to be the industry norm.²⁹

During our interviews, utilities offered arguments for and against using any given number of years of data for normalization purposes. For example, using thirty years of data can be slow to reflect changes in climate. Also, a lengthier period could pick up aberrant weather that is possibly not a true indicator of longer-term trends. Shorter periods like ten or fifteen years might better reflect the changing, warmer climate, however using ten years of data could represent a biased sample and not be robust statistically. Certain weather patterns (e.g., El Nino) would not necessarily be reflected adequately in only ten years of data.

PSE&G in particular noted that using twenty years is a compromise between using too many years of data, which might miss the impacts of climate change, and using too few, which could magnify atypical weather.³⁰ There is, however, no standard practice for weather normalization.³¹ That said, if all utilities wanted to do was forecast the weather for next year—which is the only period relevant for the purpose of an annual USF filing—then recent weather would arguably be a better predictor.

Silverpoint found no basis to change current utility weather normalization practices solely for the purpose of the USF filing. Similarly, we do not believe the issues raised in recent USF proceedings in and of themselves provide sufficient reason to mandate utilities use a common method for weather normalization, which is done in other jurisdictions like New York. Utilities use the same forecasts and forecasting methods, including weather normalization, in their other recovery and rate proceedings, and so any potential changes should be considered first from that perspective.

E. Utility Administrative Expenses

Silverpoint's scope of work for this audit included an assessment of the accuracy and appropriateness of utility administrative expenses. Two utilities—SJG and RECO—requested recovery of deferred administrative expenses in USF compliance filings during the three-year audit period. These charges are summarized on the following tables.

²⁸ Interview ACE-4. NOAA defines "normal" weather as the 30-year average of climate variables—such as temperature, precipitation, and snowfall—calculated for specific locations. These 30-year averages, known as Climate Normals, are updated by NOAA every ten years to provide a baseline for comparing current daily, monthly, and seasonal conditions to expected trends, with the current standard covering 1991–2020.

²⁹ Interview JCP&L-4.

³⁰ Interview PSE&G-4.

³¹ Information on this subject is limited. A presentation by Itron to NYISO (undated) referenced the firm's benchmarking study which found that 71% of respondents used twenty or more years of data to define normal weather. https://www.nyiso.com/documents/20142/1407608/1_WeatherNorm_McMenamin.pdf/5fddb719-1218-9144-6af9-4e2ffb3467bc



SJG Administrative Expenses

Period Charges Incurred	Postage	Carrying Costs	Total	Amt in Board Order
July 2021 – June 2022	\$4,711	\$30	\$4,711	\$4,640
July 2022 – June 2023	\$13,463		\$13,463	\$13,464
July 2023 – June 2024	\$35,369		\$35,369	\$35,369

RECO Administrative Expenses

USF Program Year	Advertising	Postage	Total	Amt in Board Order
July 2021 – June 2022	\$1,238	\$1,571	\$2,809	\$2,809
July 2022 – June 2023	\$988	\$2,304	\$3,292	\$3,293
July 2023 – June 2024		856	\$856	\$857

Per the Board’s 2010 Order, utilities are able to defer and seek recovery of their USF-related administrative costs in four categories:³²

1. USF-related postage, mailing and the costs associated with the publication of notices of USF-related public hearings, excluding postage and mailing costs of USF bill inserts
2. Reasonable and prudent external USF-related IT costs incurred as a direct result of a Board Order or Secretary’s Letter
3. Reasonable and prudent outside legal costs in the event the annual USF filings necessitate litigation, unless otherwise recovered in base distribution rates
4. Additional reasonable and prudent extraordinary expenses (including IT) incurred as a result of significant Board-ordered modifications to the USF program.

Silverpoint reviewed the nature of SJG and RECO deferred utility administrative expenses during the three program years and found them to be generally consistent with the language and intent of the 2010 Order. As part of our validation work, Silverpoint tested a sample of these administrative charges at both utilities. We identified some minor discrepancies in SJG’s charges totaling \$216, most of which was due to manual spreadsheet errors. We were satisfied that both utilities had sufficient controls in place to ensure such costs are not otherwise recovered in base rates. The deferred administrative charges either originate from other company departments or are separately identifiable on vendor invoices and are therefore easier to segregate from costs included in base rates. A more detailed discussion of Silverpoint’s review of SJG and RECO administrative expenses is contained in Appendix C.

In the scope of work for this audit, Silverpoint was asked to opine on whether the methods of recovery for deferred utility administrative expenditures would be more appropriate in base rates or USF rates. But for the Board’s June 2025 Order, we likely would have recommended that these two utilities begin incorporating their costs into base rates.

³² Order Adopting Stipulations of Settlement, June 21, 2010, Docket EO09090771.

In its June 2025 Order³³, however, the Board adopted Staff’s recommendation that utilities expand their outreach and enrollment efforts with low-and-moderate-income residential customers. The objective of this effort is to increase USF program participation by ten percent over a three-year period beginning October 1, 2025. Utility outreach efforts include assisting customers with USF applications at payment centers and at off-site events, as well as pre-screening applications that are sent to DCA. During the 2025 proceedings, Staff recommended that utilities petition the Board for authority to defer costs associated with this initiative, which could include additional staffing resources, equipment, training, and the like.

While the 2025-2026 USF program year is not within our scope for this audit, we did speak briefly with the utilities about their intentions to submit administrative expenses associated with the new outreach efforts. For example, early in the audit, PSE&G noted that all utilities may be incurring significant administrative costs in connection with this initiative.³⁴ Most are using a combination of in-house personnel and new hires to handle outreach efforts including processing customer applications, and all have incurred costs for training and new equipment.

Given the likelihood that most if not all utilities will be seeking recovery for meaningful expenses associated with the 2025 Order, Silverpoint suggests that the Board and Staff revisit the issue of allowable administrative expenses at that time. It may be necessary to change how utilities are ultimately reimbursed for these costs. For example, utility treatment of costs to comply with the 2025 Order may depend upon whether the outreach program will be limited to three years or be extended, and therefore more readily rolled into costs in the next rate case. Keeping these costs explicit in the USF filing, however, may allow the parties to see, at least in part, what costs are being incurred for this initiative.

During our review of RECO and SJG administrative expenses, an issue arose regarding whether costs for emails and/or social media, in particular those used to satisfy Fresh Start communications requirements in the 2023 Order, should fit within the intended purpose of USF-related postage and mailing costs in the 2010 Order. If the Board expects to refine the rules for recoverable utility administrative expenses in the next proceeding, it may wish to clarify this issue.

F. Summary of Conclusions and Recommendations

Silverpoint analyzed the derivation and accuracy of three principal components of annual USF/Fresh Start and Lifeline rate calculations—estimates of customer benefit payouts, projections of gas and electric volume sales, and administrative expenses. We also examined the adequacy of data compilation practices and the sufficiency of internal controls for data supporting the joint utility USF compliance filing. Our conclusions and recommendations on these topics follow.

Estimated USF and Fresh Start Benefit Payouts

During the audit period, there were meaningful differences between the total USF and Fresh Start benefits paid out to customers and the benefit amounts assumed for the purpose of calculating rates. In the 2023/2024 program year, for example, actual utility payouts to gas customers

³³ Order Modifying USF Program, June 18, 2025, Docket QO24110853.

³⁴ Interview PSE&G-1.



exceeded estimates by \$24 million. The same was true for payouts to electric customers. Silverpoint found that no party has overall responsibility for the production of the estimates used in the annual filing. Silverpoint recommends that Staff and the utilities reexamine and potentially revise their approach for estimating USF and Fresh Start benefit payouts for future filings. The parties may need to adopt a more sophisticated—and by implication much more time consuming—analytical approach if their ultimate objective is to minimize the risk of large over- or under-recoveries. On the other hand, the parties should also consider whether investing more effort to develop better estimates is necessary since rates are self-correcting over time.

Silverpoint also identified a potential issue with the method used to allocate expected total USF and Fresh Start benefits between gas and electric for the purpose of calculating separate rates. The under-allocation of total estimated payouts to gas rates contributed to the under-recovery by gas utilities and over-recovery by electric utilities in some years. As such, a more thoughtful approach may be needed to allocate estimated benefit payouts between gas and electric. We suggest that the utilities reexamine and potentially revise their approach for this year's proceeding.

Projected Gas and Electric Sales Volumes

The difference between forecasted and actual sales volumes accounted for approximately \$11.7 million in under-collections from gas customers and approximately \$2.4 million in over-collections from electricity customers over the three-year period. Sales volume projections are derived, by convention, based on normal weather. Silverpoint examined utility methodologies for developing these volume projections and found each company's forecasting practices to be sufficiently rigorous and consistent with good utility practice. Overall, Silverpoint found utility forecasts during the audit period to be reasonable, and variations from projections were consistent with actual experienced weather. We found no basis for changing current weather normalization practices solely for the purpose of the annual USF filing.

Utility Administrative Expenses

Silverpoint's reviewed SJG and RECO deferred utility administrative expenses during the three-year period and found them generally consistent with the language of the Board's 2010 Order. Given their minimal size, we would otherwise have recommended that these expenses be recoverable in base rates. We anticipate, however, that most if not all utilities will be seeking recovery this year for significant expenses associated with the increased USF enrollment targets set in the 2025 Order. Some of these new expenses may not fit squarely within the categories contained in the 2010 Order. As such, Silverpoint recommends that the Board and Staff re-examine and redefine, if necessary, the categories of allowable administrative expenses in the upcoming USF proceeding.

Data Supporting the Joint Utility USF Compliance Filing

Silverpoint assessed the sufficiency of the processes and methodologies used by utilities to compile and report the data contained in the spreadsheet supporting the annual USF compliance filing. We found each utility's process for assembling these data to be adequate and its controls sufficient. We have no recommendations in this area.

III. Fresh Start Administration and Reporting

A. Introduction

Silverpoint’s overall scope of work for the Fresh Start portion of this audit was to assess whether the utilities are in compliance with the Board’s Orders, to identify any misalignments, and to recommend corrective action if necessary. Included in that scope is a review of each utility’s Fresh Start reports filed with the Board and a sample of each utility’s Fresh Start accounts. A large portion of our efforts focused on determining whether utility administration of the Fresh Start program was consistent with Board Orders. The Board’s June 2023 Order instituted new requirements for quarterly and annual filings of Fresh Start metrics and expanded communication requirements with program participants. Our audit work therefore also encompassed an examination of each utility’s process for calculating and reporting these metrics and for complying with customer outreach requirements.

In this chapter, Silverpoint first provides an overview of data exchanges between the utilities and DCA in connection with administration of the USF and Fresh Start programs, which provides the necessary background and context for the detailed discussions that follow it. Next, we discuss our analysis of each utility’s compliance with the Board’s early Fresh Start Orders from March 2004 and February 2005, as well as the more recent June 2021, June 2023, and March 2024 Orders that modified certain aspects of the program. Our evaluation focused on key aspects of Fresh Start program administration, including determination of program eligibility and proper application of customer benefits.

Later in this chapter, Silverpoint discusses our analysis of the methods used by utilities to calculate metrics included in the quarterly and annual Fresh Start reports required by the Board’s June 2023 Order. We also discuss whether utilities are complying with the new customer outreach requirements introduced in that Order.

B. DCA USF and Fresh Start Related Data Processing

1. DCA USF and Fresh Start Related Systems

Exchanging USF, HEA, and Fresh Start related data with DCA is an integral part of each utility’s process for administering these programs. DCA’s data processing system is an integrated set of batch, database, and web-service components that support the intake and adjudication of HEA, USF, Emergency, and Recertification program applications. The DCA system transmits eligibility and benefit data to each of the utilities and receives and processes utility responses. It also maintains portability and Fresh Start eligibility data.

The system's core components underpin both a public-facing portal and the internal model-driven application used by DCA adjudicators, both of which are designed to manage the lifecycle of benefit applications from submission to final adjudication. The applicant portal offers a user-friendly interface where the public can submit applications for assistance and allows users to upload necessary documents and track the status of their applications. The adjudication application

is used internally by DCA personnel to review and process applications. It also enables adjudicators to create applications on behalf of applicants.³⁵

The main data warehouse for the benefit programs is referred to as Lakehouse. Lakehouse stores information from applications submitted through the public portal. It also stores eligible application information from state agencies that qualify residents for other benefit programs like Lifeline and the Supplemental Nutrition Assistance Program (SNAP).³⁶

2. USF and HEA Program Data Transfer

DCA sends different types of HEA and USF related records to the utilities in a “Send” file every Friday. Each record has a specific purpose and is identified by a distinct header code. USF APP records, for example, request energy burden information on a new application, where USF BENE records provide information on USF benefit amounts payable to customers. Each utility’s information technology (IT) systems and/or customer information systems process the information in DCA Send files within days of receipt, and in turn transmit information back to DCA the following Thursday in a “Receive” file. Records in the Receive file contain the original data fields sent from DCA with additional information added by the utility as applicable.

There is currently no formal process in place for utilities to reconcile the USF benefit amounts provided by DCA to the those applied to customer accounts by the utilities, either on a weekly/monthly basis or at the end of each program year.³⁷ A more detailed discussion of data exchange between DCA and a utility, beginning with an HEA record through processing USF benefits, is included in Appendix D.

An in-depth assessment of DCA’s data processing practices (e.g., accuracy of USF benefit calculations or file transfer protocols) was not part of our defined work scope. Nevertheless, during our discussions with utilities about their USF-related processes, Silverpoint did identify a potential issue related to DCA’s timing for sending out HEA benefit records and certain “unknown” records. We believe the issue could have a significant financial impact.

Some eligible benefit applications contain customer address information, but the utility name or the account number is either missing or unverifiable. These applications typically come through the uploads from other State agencies at the beginning of the benefit season. DCA adjudicators cannot correct these applications since no customer documents are provided by those agencies.³⁸ In these instances, the DCA system will create an HEA or USF record with an UNKWN header code. UNKWN records with a utility code are directed to that utility, but records without a utility code are sent to all utilities in the hopes that one can identify and claim the customer so that benefit processing can continue.

During our interviews, utilities noted that they receive large numbers of UNKWN records with no utility code from DCA in weekly Send files during October and November, which is the beginning

³⁵ Architectural Description Document provided in response to Data Request DCA-4.

³⁶ Architectural Description Document provided in response to Data Request DCA-4.

³⁷ Responses to Data Request ACE-14, ETG-14, JCP&L-14, NJNG-12, PSE&G-27, RECO-22, and SJG-17.

³⁸ Applications that come in from utilities, community-based organizations, or the customer portal come with attached documentation that allow DCA to reach out to the customer if a utility were not identified.



of the USF program year. Estimates are in the range of 10,000-20,000 such records per year.³⁹ During those same months, it appears that DCA holds back HEA BENE records so as not to overwhelm the utilities, then sends these records later, mostly in December. Silverpoint was unable to obtain more information from DCA to further clarify this potential issue.⁴⁰

Delaying HEA benefit records means that these lump sum amounts are not applied to the customer’s account—and therefore to any arrearages—before a utility determines eligibility for Fresh Start. As such, in these early months of the program year, some customers may be qualifying for Fresh Start that otherwise would not, i.e., their arrearages would have been paid off. Without further information, however, it would be difficult for us to estimate the financial impact.

Silverpoint could, however, derive a ballpark estimate of how much arrearages are potentially being forgiven that otherwise would not have been if HEA benefits were applied timely. The numbers of Fresh Start participants at each utility as of December 2025 are summarized on the next table.⁴¹

**Customers in Fresh Start Programs
December 2025**

Utility	Participants
ACE	8,181
ETG	4,490
JCP&L	3,513
NJNG	2,929
PSE&G	23,940
RECO	146
SJG	4,417
Total	47,616

Not all USF customers also receive HEA benefits, but for the purpose of discussion we estimate that ten percent of these roughly 48,000 customers had applied (or reapplied) and were qualified for both HEA and USF benefits during October and November. If we assume an average HEA benefit of \$500, then failing to reduce arrearages by that amount before Fresh Start agreements were established would result in roughly \$2.5 million in excess forgiveness.

It is unclear why UNKWN records appear to be prioritized. We have no data on how many UNKWN records are ultimately claimed by utilities, but our overall impression was that it may be

³⁹ Response to Data Request DCA-38.

⁴⁰ Silverpoint requested a follow-up interview with DCA on this and other data processing issues in February, but the agency declined. In a subsequent data request, Silverpoint asked DCA to explain why a utility may receive a HEA BENE record after it has already received a USF BENE record and enrolled a customer in Fresh Start. DCA provided no clear response (Response to Data Request DCA-39).

⁴¹ Responses to Data Request ACE-12, Data Request ETG-12, Data Request JCP&L-12, Data Request NJNG-10, Data Request PSE&G-25, Data Request RECO-20, and Data Request SJG-15.



a relatively small percentage. Anecdotally, ETG and SJG received roughly 13,000 such records in the last year but was able to match only about a dozen of them.⁴² Silverpoint recommends that this issue be explored further.

3. Fresh Start Database API

The Board's 2023 Order changed eligibility criteria for Fresh Start to once every five years, starting with the 2024/2025 program year. DCA subsequently created a Database Application Programming Interface (API) that would enable utilities to determine if and when its customer had previously received Fresh Start from another utility.⁴³ To create the initial database, utilities provided DCA with historical information on customer Fresh Start enrollments over the past five years, including program start date and fuel type (gas, electricity, or both).

In order to keep the database up to date and useful, utilities provide DCA with Fresh Start enrollment dates on an ongoing basis. Some utilities use the weekly Receive file to provide information on new Fresh Start enrollments. Others transfer enrollment information through the API inquiry function.⁴⁴ According to DCA, ongoing submission of information by the utilities is discretionary, not mandatory, so this data repository may not necessarily be complete.⁴⁵

The Fresh Start inquiry function allows utilities to search for customers by various data fields including social security number (SSN), address, phone number, and email address. The process for finding a match varies by utility.⁴⁶ It is possible for a utility not to find a match even though the customer received Fresh Start within the past five years. Some utilities have fewer data fields to search with, particularly when they do not retain customer SSNs.⁴⁷ Spelling differences in addresses, for example, can also prevent a match. If utilities cannot locate a match in the database, their protocol is to assume the customer did not participate in Fresh Start within the last five years.

If able to find a match, the DCA inquiry returns information on whether the customer had been enrolled in Fresh Start within five years of the current potential enrollment, i.e., the date of the USF BENE record. The inquiry indicates whether, within the last five years, the customer had received (a) Fresh Start for both electric and gas, (b) Fresh Start for just electric, (c) Fresh Start for just gas, and (d) no Fresh Start for either electric or gas and so is eligible for both. Silverpoint was unable to obtain more in-depth information about the logic and processing used within this DCA function to ascertain whether it is consistent with Board Orders.⁴⁸

⁴² Interview ETG-SJG-2.

⁴³ A database API enables efficient communications between software applications and the database, allowing applications to request and manipulate data residing in the database through a standardized interface.

⁴⁴ Interview NJNG-2, Interview RECO-2, Interview ACE-2, and Interview ETG-SJG-2.

⁴⁵ Interview DCA-2.

⁴⁶ Interview DCA-3.

⁴⁷ PSE&G Interview #2 Notes.

⁴⁸ As noted earlier, Silverpoint requested a follow-up interview with DCA on this and other data processing issues, but the agency declined.

C. Utility Administration of Fresh Start

1. Framework for the Review

The scope of work for this audit includes an assessment of whether utilities are in compliance with the Board's Fresh Start Orders, including the processes with which each utility administers the forgiveness process. It is important to note at the outset that no administrative proceeding was ever conducted to establish and document guidelines or rules for Fresh Start program administration. As such, it is not surprising that the utilities' methods for administration of the Fresh Start program are not consistent.

Silverpoint's original work plan was to review and assess each utility's business rules for administering Fresh Start that we would then validate by limited and focused testing using customer account information.⁴⁹ Based on our early interviews with the utilities, it appeared that the companies were not implementing certain aspects of the program in the same way. We recognized that it was impractical to try to elicit the type of detailed, in-depth information we needed through further interviews. Instead, we developed an extensive request for information designed to improve our understanding of each utility's business rules and associated IT processes for administering Fresh Start, beginning with receipt of a customer's USF BENE record.

Silverpoint asked each utility to clearly explain such key processing steps as calculating the customer's relevant arrearage balance, verifying eligibility based on prior program participation, setting up the customer's account for Fresh Start, and administering forgiveness over a 12-to-15-month period. We also inquired about the utility's treatment of specific scenarios, such as the application of lump sum benefit credits to customer accounts before and after a Fresh Start program has been established. We questioned compliance with specific Order language and provided test case scenarios designed to clarify arrearage eligibility practices.

Silverpoint reviewed each utility's information about its business rules and associated processes for Fresh Start program administration.⁵⁰ Given time constraints, in this report we have focused on certain key aspects of Fresh Start administration, which include the following:

- Eligibility for Fresh Start based on the size of customer arrearages
- Eligibility for Fresh Start based on timing of prior participation
- Criteria for awarding arrearage forgiveness credits
- Application of HEA and other lump sum benefits on Fresh Start customer accounts
- Treatment of Fresh Start programs upon newly updated USF benefits.

⁴⁹ Silverpoint would normally first clearly define a utility's business rules before it used sampling and testing to validate that the utility's actual practice was consistent with those rules. Silverpoint suggests that validation testing be conducted after any necessary changes are made to utility business rules and processing consistent with our audit recommendations.

⁵⁰ Responses and supplemental responses to Data Request ACE-11, Data Request ETG-11, Data Request JCP&L-11, Data Request NJNG-9, Data Request PSE&G-24, Data Request RECO-19, and Data Request SJG-14.

Silverpoint did not examine customer porting as it appeared to be more of an issue regarding USF rather than Fresh Start.

Silverpoint evaluated each utility's processes surrounding these five key aspects of Fresh Start administration and where possible, identified which of the seven utilities we believe have processes that are consistent with the language of Board Orders. There are certain aspects for which we cannot make such a determination given the absence of clarifying language in current Orders.

2. Fresh Start Eligibility Criteria – Size of Arrearages

Fresh Start is an arrearage forgiveness program for the benefit of certain customers receiving USF benefits. One of the most important components of Fresh Start administration is determining whether a customer qualifies for Fresh Start based on the amount of his or her current arrearage. The 2004 Order sets the minimum threshold for customer arrearage at \$60. Key language from the 2004 Order is as follows:

- Only pre-program arrearages, which are arrearages that existed before the bill cycle that a customer first receives a USF credit, will be eligible for forgiveness. (March 2004 Order, p. 5)
- Any arrearage of more than 30 days that is on the customer's account upon enrollment in USF will be eligible for forgiveness. (March 2004 Order, p. 5)

Additional language in the 2023 Order offers further clarification on the meaning of 'enrollment in USF.' Footnote 24 in that Order indicates as follows: When the utility company receives a USF benefit record from the State's USF database system, the customer is "enrolled" in USF.⁵¹

Silverpoint interprets the language of these Orders to mean that the relevant arrearage for the purpose of determining eligibility for Fresh Start is the amount that existed at the time that the utility receives a USF BENE record for the customer.

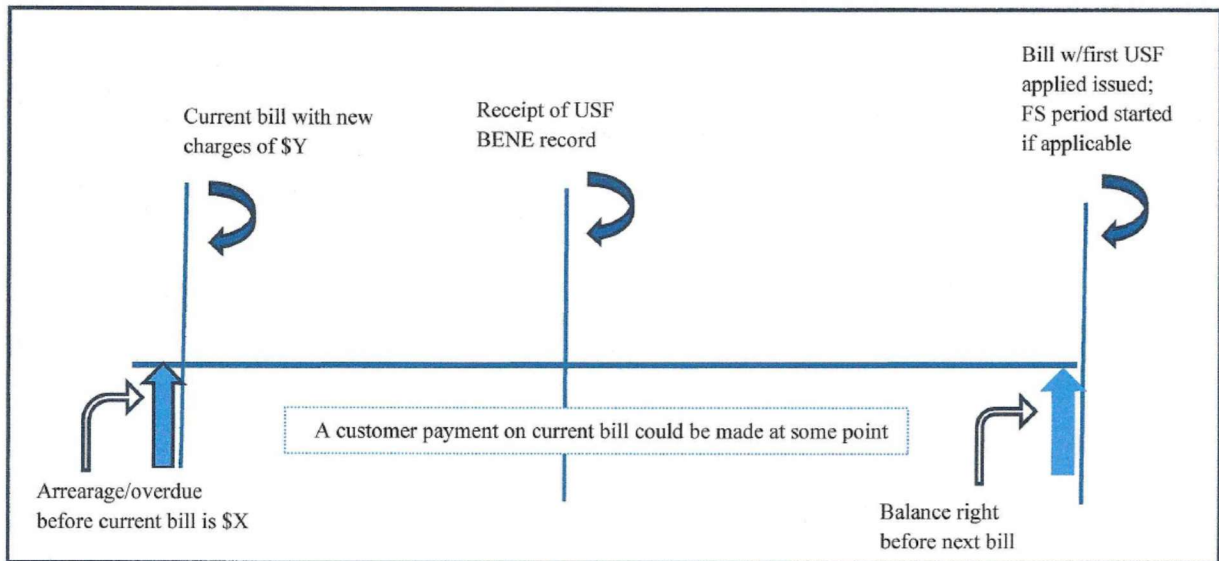
We found that in some instances, utilities appear to be conflating outstanding balances and arrearages. An outstanding balance is the total amount currently owed on an account, including payments not yet due. Arrearage specifically refers to the portion of that debt which is overdue or late. Stated differently, arrearages are part of the outstanding balance, but not all outstanding balances are in arrears. In our view, a customer's current month's bill is not yet due, and should therefore not be considered part of arrears for the purpose of determining Fresh Start eligibility.

The following diagram will be useful as we discuss each utility's approach to this important aspect of Fresh Start administration.

⁵¹ While this specific footnote is contained in the portion of the 2023 Order that addresses Fresh Start and USF program changes for a limited time period (i.e., enrollment or re-enrollment in USF from October 1, 2023 through September 30, 2024), the Board's definition of when a customer is enrolled in USF appears to apply universally.



Determination of Customer Arrearages



Two utilities—SJG and ETG—determine eligibility for Fresh Start when they receive the USF BENE records from DCA. According to their business rules, if the customer’s total outstanding balance on the current bill plus any past due amount is at least \$60, the customer would be enrolled in Fresh Start for this total amount (\$X plus \$Y on the diagram) assuming he or she is otherwise eligible from a past participation perspective. If the date of the USF BENE falls after the customer pays the current bill, the bill amount will not be included in the total outstanding balance test. If the current bill is not yet paid, however, the amount will be included in the total eligible for Fresh Start.

PSE&G, NJNG, and ACE have a different approach. These utilities do not determine eligibility when the USF BENE record is received. Instead, they determine eligibility right before the next bill is issued (rightmost blue arrow in the diagram), which allows the utility to determine if the current bill has or has not been paid.⁵² If the total outstanding balance at that time is at least \$60, the customer would be enrolled in Fresh Start for that amount (\$X if the customer paid the current bill or \$X plus \$Y if the customer did not pay the current bill), assuming he or she is otherwise eligible from a past participation perspective.

RECO and JC&PL apply another approach. These utilities only count in arrears the amounts outstanding on bills that had a due date before the USF BENE record is received (\$X in the diagram). Stated differently, if the due date of the current bill is equal to or later than the date of the USE BENE record, the bill is considered current and not included in the arrears amount tested for eligibility. If the customer ultimately does not pay the current bill, it would remain as a separate balance, as the Fresh Start program amount would already be established.

⁵² PSE&G has indicated that it receives too high a volume of records in its Send files to be able to make the determination of eligibility when it receives the USF BENE records. Instead, the utility makes this determination on each customer’s next meter reading date, which is the day before the next bill, to better spread the workload throughout the month.



It appears that JCP&L and RECO may be the only utilities complying with the language of the Order. That said, it is possible that their approach could create a “stranded” overdue bill (i.e., a new arrearage not covered by the Fresh Start agreement) if the customer ultimately does not pay the current bill.

It is our impression that each utility’s approach for determining eligible arrearages does not appear to have been necessitated by certain characteristics or limitations of its customer information and billing systems. For example, while RECO and JCP&L are administering this aspect of the program in the same fashion, they have two different systems—JCP&L has an SAP billing system while RECO uses Oracle CC&B.

In our data request to the utilities, Silverpoint posed a series of test case scenarios (i.e., specific X and Y dollar values in the diagram above). We asked each company to indicate if it would or would not have extended Fresh Start to the customer, and if so, based on what arrearage balance. These scenarios were intended to help confirm our understanding of the utilities’ determination of eligible arrearages.

For those utilities that replied to our request, their responses to the test cases generally match what we have represented above, although not all utilities provided the same level of detail in their answers. For example, Silverpoint posed a scenario in which a customer had zero arrearage (X in the diagram) and a current bill of \$100 (Y in the diagram). We asked the utility to indicate if it would extend Fresh Start to a customer who paid either (a) \$0 or (b) \$35 on the current bill. RECO and JCP&L would not enroll the customer under either case, as arrearage was zero. The remaining utilities would enroll the customer in Fresh Start, regardless of when the customer made the payment on the current bill.⁵³

Silverpoint asked each utility to indicate whether its business rules and IT processes reflect compliance with the guidelines provided in the two excerpts from the 2004 Order cited earlier. Those that responded indicated that their methods complied with the Order.

The dollar impact of including outstanding balances that are not arrears can be significant. For example, if on average an extra fifty dollars were included in the Fresh Start balance by the five utilities, which had a total of 43,957 Fresh Start participants as of year-end 2025, it would result in over \$2 million in incorrect forgiveness.

3. Fresh Start Eligibility Criteria – Prior Fresh Start Participation

Originally, the Fresh Start program was a one-time-only opportunity for USF customers to earn arrearage forgiveness. The original 2004 Order and 2005 Amendment Order did not explicitly address the fact that some first-time USF participants could potentially have arrearages at two different utilities—one electric and one gas—at the same time. There is no evidence that gas and

⁵³ If the \$35 payment was received before the outstanding balance was calculated, the utilities would calculate arrearage as \$65 and consider the customer eligible for Fresh Start.



electric utilities coordinated the provision of Fresh Start. As such, it is possible some first-time USF participants received Fresh Start from their electric utility and gas utility at the same time.⁵⁴

Under the pandemic-related 2021 Order, any USF participant that met the \$60 minimum for arrearages was eligible for Fresh Start, regardless of the customer's past participation in USF (and by implication, in Fresh Start). This practice was in effect for the 2021/2022, 2022/2023, and 2023/2024 program years. The 2021 Order contains no language explicitly addressing the fact that a USF participant could have qualifying arrearages at two different utilities at the same time. Most companies confirmed that, in those years, each gas and electric utility had independently extended Fresh Start to any USF participant that met the arrearage minimum.

The 2023 Order requires that utilities screen USF enrollees upon entry to the USF program to determine if the customer has received Fresh Start during the prior five years.⁵⁵ The 2023 Order does not specify whether that prior participation should be distinguished by energy type, i.e., electric or gas. The DCA inquiry application was designed to provide information on a customer's previous Fresh Start program participation. When a utility sends an inquiry to DCA about a specific customer, the application will (if a match is made) provide the starting dates of any prior Fresh Start participation and indicate whether that program was at an electric, gas, or combination utility (i.e., PSE&G).⁵⁶

When Silverpoint reviewed business rules for the 2024/2025 program year, all companies indicated that they evaluate eligibility based on the effective date of the customer's prior enrollment in Fresh Start. As such, if the date of a new USF BENE record for a customer is more than five years after the start of the customer's last Fresh Start program, the customer would be potentially eligible for Fresh Start, contingent on the arrearage balance. All utilities except ACE check for prior Fresh Start participation in their own records first before accessing the DCA inquiry application. ACE does not check its own records but relies instead on ACE records contained in the DCA database. As we discuss more at the end of this section, ACE discovered a problem with its records in the DCA database whereby it incorrectly provided Fresh Start benefits to some customers and failed to provide benefits to others.

Silverpoint found different treatment among the utilities regarding the gas versus electric distinction. JCP&L, for example, would enroll a customer in Fresh Start if the date of the last Fresh Start enrollment at another *electric* utility is more than five years earlier. Stated differently, interim participation in Fresh Start at a gas utility would not preclude these utilities from enrolling its electric customer in the program. ACE and RECO business rules follow this same logic. SGJ and ETG do as well, albeit for gas. It is unclear, however, how these utilities treat a customer's previous enrollment in PSE&G's Fresh Start program, which may have been for only gas, only electric, or both gas and electric.⁵⁷

⁵⁴ At that time, DCA identified first-time USF recipients in its Send file, however it is unknown whether the agency delineated eligibility by fuel type at that time.

⁵⁵ 2023 Order, p. 9.

⁵⁶ Response to Data Request DCA-2.

⁵⁷ It is unclear whether the DCA database captures whether a PSE&G customer was gas-only, electric-only, or both gas and electric.



Based on our current interpretation of their business rules, NJNG does not appear to make the same distinction for energy type. All else being equal, a NJNG gas customer could be excluded from receiving Fresh Start if enrolled in a program with his or her electric supplier within the last five years.⁵⁸ It is unclear how NJNG interprets recent enrollment in PSE&G's Fresh Start program. PSE&G's business rules indicate that the utility does not make the distinction for energy type when querying the API database. PSE&G clarified that it would extend Fresh Start if a customer was not enrolled in a program at any other utility within the last five years.

ACE DCA Database Issues Affecting Fresh Start Enrollment

Early in the audit, ACE notified Staff of possible issues with its administration of the Fresh Start program. ACE indicated that there were issues with the upload of its historical Fresh Start data to the DCA database such that one batch file was missed due to human error. This file was critical for program eligibility checks.⁵⁹ As noted above, ACE does not check its own records for prior Fresh Start enrollment but relies on ACE records contained in the DCA database. ACE reported that beginning in October 2024, 1,236 customers were incorrectly enrolled and received forgiveness credits even though they were ineligible. We believe this occurred because ACE records on these customers' participation in Fresh Start within the prior five years were missing from the DCA database. ACE indicated that the missing customer records have since been reconciled and the database is up to date.⁶⁰

ACE indicated that it will exclude the associated forgiveness amount from the upcoming USF filing as well as the monthly reconciliation process so as not to get reimbursed.⁶¹ ACE also reported that in July 2025 it initially identified approximately 500 customers who did not receive Fresh Start forgiveness credits but were otherwise eligible. After further analysis, 472 customers were subsequently processed in October 2025 and are active in the program. This issue was apparently triggered by some programming changes within its SAP system to make the processing more efficient but that caused an issue with the data that was sent to the DCA API database.⁶²

4. Criteria for Awarding Arrearage Forgiveness Credits

To earn forgiveness credits through the Fresh Start program, a customer must pay his or her current monthly bill in full each month. If the customer has not fully satisfied the requirements of Fresh Start (i.e., twelve monthly bills paid in full) by the end of the twelve-month period, the customer enters a three-month grace period, whereby any payment the customer makes is put toward the first twelve months of bills to help the customer earn forgiveness of the Fresh Start balance. Any unearned forgiveness is restored to the account as due at the end of the fifteen-month Fresh Start program period. Based on our initial review of utility business rules, it appears that utilities are properly applying the rules for determining whether a customer earns one or more forgiveness credits in a given month.

⁵⁸ During Interview NGNG-2, the utility stated that a customer can receive Fresh Start for electric and gas at the same time, which would imply that NJNG would check for benefits from another gas utility. This distinction was not made in the business rules it provided, however.

⁵⁹ Response to Data Request ACE-4.

⁶⁰ Supplemental response to Data Request ACE-4.

⁶¹ Response to Data Request ACE-4. ACE chose to keep the ineligible customers on the program.

⁶² Interview ACE-2 and response to Data Request ACE-4. ACE indicated that it communicated completion of this issue to Staff during the February monthly meeting.



5. Application of HEA and Other Benefits on Fresh Start Customer Accounts

As discussed earlier in Section II.B, DCA delays sending some customer HEA benefit records in the early months of the program year, i.e., October and November. As a result, some number of customers may be qualifying for Fresh Start forgiveness who arguably would not if their HEAP benefit check had been applied in a timely fashion to current arrearages.

Silverpoint asked the utilities to clarify how they apply lump sum benefits such as HEA or Lifeline to customer accounts that are received (a) before or at the same time as the USF BENE record and (b) after the USF BENE record has been received, and Fresh Start has been set up on the customer's account. Both the March 2004 Order and the June 2023 Order make clear that any lump sum assistance benefits such as HEA or Lifeline received after the customer has been enrolled in Fresh Start should be applied toward current monthly bills, which would allow customers to earn forgiveness credits. Based on our review of utility business rules, it appears all the utilities are properly applying these benefits to current bills for Fresh Start participants, allowing them to earn monthly forgiveness credits.

We believe it is the intention of the utilities to properly apply these benefits to the customer's current account balance if they are not already enrolled in Fresh Start, although in some instances their business rules are not quite clear. When the lump sum credit record is sent at or around the same time as the USF BENE record, processing order becomes important.

SJG and ETG, for example, indicated that they would apply such credits to the customer's existing balance before processing the USF BENE record. This is important, since the utilities determine eligibility for Fresh Start based on the size of the outstanding balance on the same day that it receives the USF BENE record. JCP&L indicated that it processes such lump sum credits before any USF BENE records, as does RECO. Although other utilities such as PSE&G, NJNG, and ACE indicate they apply the lump sum credit upon receipt, the implication is less clear, particularly since there is a delay between the receipt of a USF BENE record and the time these utilities determine Fresh Start eligibility.

6. Treatment of Fresh Start Programs upon Newly Updated USF Benefits

During the 2022/2023 and 2023/2024 USF program years, customers were eligible to receive Fresh Start forgiveness regardless of past participation. When a customer reapplies for USF, DCA sends a recalculated monthly credit amount to the utility to update the customer's account. In some cases, these new amounts are received while the customer is still in its twelve-to-fifteen-month Fresh Start program.

Silverpoint asked the utilities to explain what changes would occur to a customer's Fresh Start agreement if the utility received a new USF BENE record for the customer while the current arrangement was underway during (a) the 2022/2023 and 2023/2024 program years and (b) beginning with the 2024/2025 program year.

For the 2022/2023 and 2023/2024 program years, ACE, ETG, JCP&L, PSE&G, and SJG indicated that they checked for any new arrearages and if at least \$60, added it in to the remaining as-yet-unforgiven balance in Fresh Start and restarted the agreement for up to fifteen months. NJNG and

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RECO indicated a similar treatment, although they did not explicitly state that they require a \$60 minimum for new arrearages. Beginning with the 2024/2025 program year, utilities update the customer’s USF credit but make no changes to an existing Fresh Start arrangement.

D. Fresh Start Quarterly and Annual Report Metrics

1. Framework for the Review

In its June 2023 Order, the Board implemented new reporting requirements for ten Fresh Start metrics, which are listed in the next table.⁶³ In its subsequent March 2024 Order, the Board clarified that the date range for the first annual report of these metrics was October 31, 2023 through December 31, 2024, followed by the calendar year thereafter.⁶⁴ Technically speaking, all utilities are complying with the 2023 Order because they have filed required quarterly and annual metric reports with the Board.⁶⁵

Quarterly and Annual Fresh Start Metrics

<i>Quarterly Metrics</i>	
Total # of Customers Participating in Fresh Start Each Month	Total # of Fresh Start Customers That Earned Forgiveness Each Month
Total Fresh Start Dollars Potentially Forgivable Each Month	Total Fresh Start Dollars Forgiven Each Month
<i>Annual Metrics</i>	
Total Fresh Start Balance Held by Utilities from (Date Range)	Total Fresh Start Balance Forgiven from (Date Range)
Total # of Fresh Start Customers That Completed Program During This Time Period	Total # of Fresh Start Customers That Earned 100% Forgiveness During This Time Period
Total # of Successful Fresh Start Customers in Arrears After Conclusion of the Program	Total Past Dollars Owed

After the June 2023 Order, there was no coordinated effort to develop detailed guidelines and instructions for how these new metrics should be calculated. The audit team anticipated that all utilities would not be calculating and reporting the same thing for each metric and subsequently decided to document how each utility currently interprets and calculates these ten metrics as an aid to future standardization efforts, which we recommend.

To facilitate our review, Silverpoint asked each utility to provide a detailed written description of its process for compiling and calculating each metric including the business rules/processing steps

⁶³ Order on Universal Service Fund and Fresh Start Program Modifications, June 29, 2023. Docket No. AO20060471.

⁶⁴ Order Amending Universal Service Fund and Fresh Start Program Modifications, March 20, 2024, Docket No. AO20060471.

⁶⁵ Responses and Supplement responses to Data Request ACE-12, Data Request ETG-12, Data Request JCP&L-11, Data Request NJNG-10, Data Request PSE&G-25, Data Request RECO-20, and Data Request SJG-15.

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utilized to calculate the reported value including any manual steps or adjustments. We asked the utilities to identify the underlying data points or occurrences that are used to calculate reported values (e.g., individual USF credits paid to customers) as well as the systems or accounts in which needed data are housed. Our analysis focused on the utility’s method for calculating the metric and was independent of any differences in the meaning of the data used to derive metric results, which stem from differences in program administration discussed earlier in this chapter. Silverpoint initially synopsized each utility’s approach to calculating the quarterly and annual metrics and submitted these summaries to utilities for further clarification.⁶⁶

2. Comparison of Utility Metric Calculation Methods

Silverpoint compared utility calculation methods for each metric to identify similarities and differences.⁶⁷ The comparison for each metric is summarized in the tables that follow. Silverpoint’s preliminary observation on each metric follows the table.

Fresh Start Quarterly Report Metrics

Total # of Customers Participating in Fresh Start Each Month	
PSE&G ⁶⁸ , ACE, ETG, SJG, RECO	<ul style="list-style-type: none"> Count customers with an active Fresh Start agreement Unclear how those active during the specific month are identified or how those completing the program during the month are treated
JCP&L	<ul style="list-style-type: none"> Counts customers active and enrolled in Fresh Start at month’s end, excluding those removed or final billed; appears to exclude those who completed during the month. Appears to run the report on the last day of the month to delineate reporting period
NJNG	<ul style="list-style-type: none"> Counts customers with active status as of the last day of the reporting month and includes those customers completing the program with an ending date in the month Unclear how active status as of month-end is identified

Five of the utilities failed to clarify how they treat customers that complete their Fresh Start program during the month and whether those customers are counted in the metric. Only NJNG explicitly indicated that it includes in reported results both those active in Fresh Start at month end and those that completed the program during the month. JCP&L on the other hand explicitly indicated that it excludes customers that completed the program during the month.

Most utilities did not clarify what date or data field is used to determine that the customer was still active in the month being reported. Unless the metric calculation is run on the last day of the month, program status for customers can change between the end of the report month and the time the report is generated, which could lead to inaccurate results.

⁶⁶ Silverpoint was not able to clarify all aspects of each utility’s calculation approach, such as how the company identified relevant data for inclusion or exclusion in results for each month.

⁶⁷ Responses and Supplemental responses to Data Request ACE-10, Data Request ETG-10, Data Request JCP&L-10, Data Request NJNG-8, Data Request PSE&G-23, Data Request RECO-18, and Data Request SJG-13.

⁶⁸ PSE&G selects customers with status of “active” or “grace,” the latter of which appears to pertain to the period after the first twelve months.



Total # of Fresh Start Customers That Earned Forgiveness Each Month	
PSE&G, ETG, SJG, JCP&L, NJNG ⁶⁹	<ul style="list-style-type: none"> Count customers who received a Fresh Start credit having a defined posting date in the specific month
ACE ⁷⁰ (thru Dec. 2025)	<ul style="list-style-type: none"> Appears to count customers who received their quarterly credit during the report month based on the customer's quarterly review date, so each customer would be counted at most once per quarter
RECO	<ul style="list-style-type: none"> Extracts customer account data into Excel and manually reviews accounts to determine if a customer is eligible for forgiveness for the period and if so, counts them in the total Appears to identify those relevant to each report month during manual review

Five utilities use the specific date the Fresh Start credit was recorded to clearly identify those customers to be counted in a month's reported results for this metric, which would satisfactorily prevent missing data or double counting. RECO apparently identifies those customers relevant to a given reporting month during its manual review process. It appears ACE may be counting customers that can earn their quarterly credit during the month being reported. Since it awards credits quarterly, only a portion of Fresh Start customers can earn their credit during any specific month.

Total Fresh Start Dollars Potentially Forgivable Each Month	
NJNG, ETG, SJG	<ul style="list-style-type: none"> Selects customers with active status as of the last day of the reporting month and those with an end date in the month, and sums their potential forgiveness amounts (1/12th of total arrearage) Unclear how active status as of month-end is identified
PSE&G, RECO	<ul style="list-style-type: none"> Totals the potential monthly credit amount (1/12th of total arrearage) for all active customers; RECO's review is performed manually Unclear how utilities identify those participating during the specific month or how those completing during the month are treated
JCP&L	<ul style="list-style-type: none"> Selects customers actively enrolled in Fresh Start at month's end, excluding those removed or final billed, and sums the potential monthly forgiveness credit (1/12th of total arrearage); appears to exclude those who completed during the month Appears to run the report on the last day of the month to delineate reporting period
ACE (thru Dec. 2025)	<ul style="list-style-type: none"> Appears to select the potential quarterly forgivable amount for active customers currently enrolled in Fresh Start based on the customer's quarterly review date (so each customer's amount counted at most once per quarter)

⁶⁹ Only NJNG affirmatively indicated that customers receiving forgiveness for multiple months (e.g., during the grace period) are counted once in the month of forgiveness.

⁷⁰ As of December 2025, ACE began awarding credits monthly rather than quarterly. The utility did not provide a description of its current method for calculating the metrics.



NJNG, ETG and SJG appear to include in reported results both potential credits for those active at month end and those that completed the program during the month. JCP&L on the other hand explicitly indicates that it excludes customers that completed the program during the month, which would exclude the amounts forgiven during the last month of the program for some customers. It is unclear how PSE&G and RECO treat customers that complete their Fresh Start program during the month and whether they are counted in the metric.

It appears that ACE is adding the amount of a customer’s potential quarterly credit during the month that the credit could possibly be awarded. Since it awards credits quarterly, only a portion of Fresh Start customers can potentially earn their credit during a specific month.

Total Fresh Start Dollars Forgiven Each Month	
PSE&G, ETG, SJG, JCP&L, NJNG ⁷¹	<ul style="list-style-type: none"> Identify customers who received a Fresh Start credit with a defined posting date in the specific month and totals the amount of their credits
ACE (thru Dec. 2025)	<ul style="list-style-type: none"> Appears to identify customers who received their quarterly credit during the reporting month based on customers’ quarterly review dates and totals amounts posted (so each customer amount counted at most once per quarter); now reports monthly
RECO	<ul style="list-style-type: none"> Extracts customer account data into Excel and manually reviews accounts to determine if the customer is eligible for one or more forgiveness credits for the period and if so, includes amounts in the sum of credits awarded Appears to identify those relevant to each report month during manual review

Five utilities use the specific date the Fresh Start credit was recorded to identify those customers receiving a credit and include the value of the credit(s) in a month’s reported results, which would satisfactorily prevent missing data or double counting. RECO appears to identify customers relevant to a given reporting month during its manual review process. It appears that ACE may be counting the value of credits awarded to those customers that may earn their quarterly credit in the month being reported. Since it awards credits quarterly, only a portion of Fresh Start customers can earn their credit during any specific month.

⁷¹ Only NJNG affirmatively indicated that for customers receiving multiple credits in a month, all credit dollars are included in the total.

Fresh Start Annual Report Metrics

Total Fresh Start Balance Held by Utilities from (Date Range)	
PSE&G, JCP&L, NJNG	<ul style="list-style-type: none"> Total the original arrearage amount deferred for each customer active in program during the report period Since they report an annual total, it appears these utilities would add the amount of one assessment for each customer in the program JCP&L and NJNG appear to count the arrearage amounts for customers who re-upped during the period
ACE	<ul style="list-style-type: none"> Selects the quarterly forgivable amount for active customers based on the quarterly review date; manually sums the totals from its quarterly report and reports an annual total
ETG, SJG, RECO	<ul style="list-style-type: none"> Total the remaining arrearage balance for all active Fresh Start agreements during time period, which is tracked and reported by month Unclear how RECO active accounts are designated and what dates delineate report period At ETG/SJG the month-end aging report is run prior to other changes that could affect financials

ACE, JCP&L, NJNG, and PSE&G report one annual total value for this metric; ETG, SJG, and RECO report monthly values. Three of the utilities—JCP&L, PSE&G, and NJNG—are totaling the *original* arrearage balance deferred under Fresh Start agreements. ETG, SJG and RECO, on the other hand, are reporting the *remaining* arrearage balance, which is consistent with reporting on a monthly basis. ACE appears to total one-quarter of the total deferred amount in each quarter and then totals quarterly amounts for the reporting period.

The first annual metric reports covered fifteen months, October 2023 through December 2024. During the October 2023 to September 2024 period, customers could receive Fresh Start even if they had participated in the prior year. As such, some customers could have had two separate Fresh Start agreements in place during that time period. In such cases, JCP&L and NJNG indicated that they would count the original balance from each separate agreement; treatment by other utilities is unclear.

Total Fresh Start Balance Forgiven by Utilities from (Date Range)	
PSE&G, JCP&L	<ul style="list-style-type: none"> Identifies customers who received a Fresh Start credit with a defined posting date in the specific months in the date range and totals the amount of their credits to report a yearly total
ETG, SJG, RECO	<ul style="list-style-type: none"> Total monthly credits awarded to Fresh Start customers with posting date in a specific month; results are tracked monthly
ACE, NJNG	<ul style="list-style-type: none"> Manually sum amounts from quarterly metric reports for the relevant report date range

ACE, JCP&L, NJNG, and PSE&G report one annual total value for this metric; ETG, SJG, and RECO report monthly values. Five utilities use the specific date the Fresh Start credit was recorded to identify those customers receiving a credit and includes the value of the credit in reported results,

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which would satisfactorily prevent missing data or double counting. ACE and NJNG sum the amounts for this measure that were reported in the quarterly metric reports, which would provide an accurate annual total as long as the quarterly metric method were sound.

Total # of Fresh Start Customers That Completed Program During This Time Period	
PSE&G, ACE, ETG, SJG	<ul style="list-style-type: none"> Identify and count Fresh Start accounts with an end date within each month of the period being reported
NJNG, RECO	<ul style="list-style-type: none"> Counts customers with status codes for completion (successful and not) or those with an end date; appears to use the end date within the reporting period to identify reporting month RECO uses 15-month completion date by default or actual completion date if earlier
JCP&L	<ul style="list-style-type: none"> Creates an entry in a specific table when the customer completes the program, then totals the number of these accounts; appears to use end date to identify the report period

ACE, JCP&L, NJNG, and PSE&G report one annual total value for this metric; ETG, SJG, and RECO report monthly values. Most utilities use, or appear to use, the customer’s program end date as recorded to identify the customers to be counted for the purpose of reporting results, which would satisfactorily prevent missing data or double counting.

Total # of Fresh Start Customers That Earned 100% Forgiveness During This Time Period	
PSE&G, ETG, SJG, RECO	<ul style="list-style-type: none"> Count Fresh Start accounts with an end date within each month of the period being reported whose initial total frozen arrearage amount equals total credits applied to the account (PSE&G, RECO) or with a remaining balance of zero (ETG/SJG) RECO uses 15-month completion date by default or actual completion date if earlier
ACE	<ul style="list-style-type: none"> Counts customers on a list of those who received a “congratulations” letter within each month of the report period
JCP&L, NJNG	<ul style="list-style-type: none"> Creates an entry in a specific table when the customer “graduates,” then totals the number of these accounts (JCP&L) or counts those with a successful completion status code (NJNG); appear to use end date to identify reporting period

ACE, JCP&L, NJNG, and PSE&G report one annual total value for this metric; ETG, SJG, and RECO report monthly values. Most utilities use, or appear to use, the customer’s program end date as recorded to identify those customers to include in reported results, which would satisfactorily prevent missing data or double counting. Most also perform a check to verify that all credits had been awarded.

Total # of Successful Fresh Start Customers in Arrears After Conclusion of the Program	
PSE&G, ETG, SJJ	<ul style="list-style-type: none"> Generates A/R report on accounts that successfully completed Fresh Start during the month that owe a balance beyond 30 days and counts the number of those accounts 30 days overdue is defined in relation to the billing due date not Fresh Start end date
ACE	<ul style="list-style-type: none"> Matches items on a list of customers with end dates in the reporting period and on a list of residential accounts past due with balance > \$0 and counts those customers on both lists Manual review to identify successful completion; explicitly excludes customers that re-enrolled during the time period
JCP&L, RECO, NJNG	<ul style="list-style-type: none"> Queries for accounts identified as successfully completing the program that have an open past due balance and counts the number of these accounts RECO verifies sum of credits equal original balance held Utility queries appear to check for arrearage as of the last day of the reporting period

ACE, JCP&L, NJNG, and PSE&G report one annual total value for this metric; ETG, SJJ, and RECO report monthly values. As a general matter, there is a lack of clarity in how “in arrears” is defined and determined by each of the utilities. NJNG, JCP&L and RECO appear to determine if the participant had arrears *at the end of the report period* (i.e., December 31st) rather than when the customer completed the Fresh Start program. The other four utilities check for arrearage *at the time that the customer completes the Fresh Start program*. ACE explicitly excludes customers that re-enrolled in a new Fresh Start program during the reporting period.

Total Past Due Dollars Owed	
PSE&G, ETG, SJJ	<ul style="list-style-type: none"> Generates A/R report on accounts that successfully completed Fresh Start during the month that owe a balance beyond 30 days and sums the amounts overdue for customers on both lists 30 days overdue is defined in relation to the billing due date not Fresh Start end date
ACE	<ul style="list-style-type: none"> Matches items on a list of customers with end dates in the reporting period and a list of residential accounts past due with balance > \$0 and sums overdue balances for those on both lists Manual review to identify successful completion; explicitly excludes customers that re-enrolled
JCP&L, NJNG, RECO	<ul style="list-style-type: none"> Queries for accounts identified as successfully completing the program that have an open past due balance and sums the total of these arrearages Query appears to check for arrearage as of last day of reporting period and sums those amounts

ACE, JCP&L, NJNG, and PSE&G report one annual total value for this metric; ETG, SJJ, and RECO report monthly values. As with the previous metric, there is a lack of clarity in how “in arrears” is defined and determined by each of the utilities. NJNG, JCP&L and RECO appear to determine if the participant had arrears at the end of the report period (i.e., December 31st) rather than when the customer completed the Fresh Start program. The other four utilities check for



arrange at the time that the customer completes its Fresh Start program. ACE explicitly excludes customers that re-enrolled in a new Fresh Start program during the reporting period.

3. Metric Reporting Responsibility and Internal Controls

Silverpoint asked the utilities to describe the internal controls in place to support the calculating, monitoring, adjusting, and reporting of Fresh Start metrics. The following table summarizes the personnel and departments responsible for calculating and approving Fresh Start metric results and summarizes internal controls in place to ensure the accuracy and integrity of results.

Fresh Start Metric Responsibilities and Internal Controls

Utility/Responsible Group(s)	Internal Controls to Ensure Accuracy/Integrity of Results
<p>ACE Credit and Collections; CCI; Regulatory/Legal</p>	<ul style="list-style-type: none"> • CCI compiles quarterly report from internal Delinquency Report, followed by manager level review; SAP IT controls in place around original development process for the Report • Customer Operations team reviews and approves • Report sent to Regulatory Legal team for final review/approval before submission
<p>ETG/SJG Workforce Analytics, CC&B IT, Customer Operations & Analytics</p>	<ul style="list-style-type: none"> • Workforce Analytics Team and CC&B IT responsible for calculating fields. Customer Operations & Analytics responsible for compiling the reported data. • Manager, Customer Analytics reviews and issues final approval
<p>JCP&L Human Services/ Customer Cares Support team</p>	<ul style="list-style-type: none"> • Report was tested in testing environment for accuracy. • Human Service Analyst enters data into reporting template/checks consistency with prior reports. Customer Care Support analyst reviews quarterly metrics before sending to the BPU; Human Services Supervisor/Mgmt. team reviews annual metric before sending to Legal for filing
<p>NJNG Rates and Tariffs; Regulatory Business Unit</p>	<ul style="list-style-type: none"> • Director of Rates and Tariffs extracts and compiles data in spreadsheets; Regulatory Business Unit review completed report for accuracy, completeness and consistency prior to filing
<p>PSE&G Collections; State Regulatory Affairs and Centralized Services</p>	<ul style="list-style-type: none"> • Report prepared by a Collections Analyst; at the end of each quarter, the report and approval memo are sent to Collections Process Lead for review and approval. Next sent to State Regulatory Affairs and Centralized Services for review/filing
<p>RECO Energy Affordability Group, Customer Accounting</p>	<ul style="list-style-type: none"> • Energy Affordability group responsible for calculating reported values as well as reviewing and issuing final approval. Customer Accounting may perform manual steps

E. Fresh Start Related Customer Communications

The Board's 2004 Order set forth requirements for customer outreach and communications in connection with the Fresh Start program. Utilities are required to contact each participant upon initial enrollment to alert them of their enrollment and to explain the terms of the program. Utilities are also required to contact participants after their first missed payment exceeding thirty days to remind them of the importance of on-time payments.⁷² Silverpoint confirmed that all utilities are complying with this Order.⁷³ As a general matter, utilities have been communicating with their Fresh Start customers more frequently than required under the Board Order, and typically reach out by mail or email when a participant fails to earn a forgiveness credit in a given month. In June 2025, however, ACE identified an issue with Fresh Start payment letters whereby participants were no longer receiving their payment reminder letters after moving. In March 2026, ACE confirmed that this issue was corrected.⁷⁴

The 2023 Order imposed additional outreach efforts towards Fresh Start customers who have accrued a current non-Fresh Start overdue balance. In this instance, utilities must contact customers directly during the sixth and twelfth month of their program participation, reminding them that any unearned Fresh Start forgiveness will be restored to the customer's account at the end of the fifteen-month program in addition to any current arrearages. This outreach must occur via two modes of communication including but not limited to emails, phone calls, letters, postcards, bill inserts, texts, or robocalls.⁷⁵

All utilities are sending a formal letter to relevant Fresh Start participants in months six and twelve. ACE, PSE&G, SJG, and ETG are using automated calls as the second mode of customer contact, and NJNG is using emails.⁷⁶ RECO recently determined that it had not implemented a process to send the second form of communication to Fresh Start customers. The company reported that it is currently creating an email and text campaign to satisfy the requirement and that it expects to go live within the next two months.⁷⁷ JCP&L never confirmed that it was utilizing a second mode of communication.⁷⁸

F. Summary of Conclusions and Recommendations

Silverpoint assessed each utility's compliance with the Board's Fresh Start orders in three areas—administration of the Fresh Start program, calculation and reporting of Fresh Start metrics, and communications requirements with program participants. Silverpoint also examined associated

⁷² Order, March 4, 2004, Docket No. EX00020091, pp. 6-7. Fresh Start was called Arrearage Payment Program (APP) at that time.

⁷³ Responses to Data Request ACE-6, Data Request ETG-6, Data Request JCP&L-6, Data Request NING-4, Data Request PSE&G-19, Data Request RECO-8, and Data Request SJG-6.

⁷⁴ Response and supplement response to Data Request ACE-4.

⁷⁵ Order on Universal Service Fund and Fresh Start Program Modifications, June 29, 2023. Docket No. AO20060471, pp. 22-23.

⁷⁶ Responses to Data Request ACE-6, Data Request ETG-6, Data Request NING-4, Data Request PSE&G-19, and Data Request SJG-6.

⁷⁷ Response to Data Request RECO-16.

⁷⁸ Response and supplemental response to Data Request JCP&L-6.



data exchanges between the utilities and DCA related to administration of the USF and Fresh Start programs. Our conclusions and recommendations on these topics follow.

Utility Administration of Fresh Start

Silverpoint reviewed each utility's business rules and associated processes for compliance with the Board's Fresh Start Orders. Given time constraints, the audit team focused on certain key aspects of program administration. In particular, we assessed each utility's methods for determining customer eligibility for Fresh Start in terms of minimum arrearages and in terms of prior enrollment. We also reviewed their processes for applying Fresh Start forgiveness credits and other lump sum benefits to customer account balances.

Silverpoint found that only two of the seven utilities appear to be complying with the Board's Orders in terms of determining eligibility for Fresh Start based on current arrearages of at least sixty dollars. Some utilities appear to be conflating outstanding balances with arrearages and therefore overstating original Fresh Start balances. We estimate the potential impact in excess forgiveness at over \$2 million per year. Silverpoint recommends that Staff and the utilities develop detailed definitions, guidelines, and computational rules or procedures for the arrearage aspect of Fresh Start Program administration to ensure consistency across all utilities. Silverpoint also suggests that validation testing be conducted after any necessary changes are made to utility business rules and processing consistent with this recommendation.

Silverpoint also found disparate treatment among utilities for determining eligibility for Fresh Start based on the timing of prior enrollment. This process entails the use of the inquiry function for DCA's database of Fresh Start customer participation history. All utilities correctly evaluate eligibility based on the effective date of the customer's prior enrollment in Fresh Start. Most utilities take into consideration whether prior enrollment was at an electric or a gas utility rather than at just any utility. As such, all else being equal, a customer could be enrolled in Fresh Start at one utility but not at another. Silverpoint recommends that Staff and the utilities develop detailed guidelines for determining Fresh Start eligibility based on prior enrollment to ensure consistency across all utilities. As with the prior recommendation, we suggest utilities undergo validation testing after any necessary changes are made to their utility business rules to confirm consistent treatment by all companies.

Silverpoint identified a potential issue with how some utilities apply lump sum benefits (e.g., HEA, Lifeline) to a customer's account when those credits arrive at or near the same time as DCA's USF enrollment notification—and therefore the utility's test for Fresh Start eligibility. Silverpoint recommends that Staff and the utilities explore this topic in more detail and develop clarifying guidelines or rules as needed to ensure consistency across all utilities moving forward.

Silverpoint also found that during the 2022/2023 and 2023/2024 program years, utilities did not apply the same rules for restarting a customer's Fresh Start application upon receipt of a newly updated USF benefit record. Silverpoint recommends no further action on this issue since current Fresh Start program rules no longer permit such overlap in enrollments.

Fresh Start Quarterly and Annual Report Metrics

The Board's June 2023 Order implemented quarterly and annual reporting requirements for ten new Fresh Start metrics. While all utilities are technically complying with the Order—each one has filed the required reports—they are not calculating and reporting the same thing. For some metrics, utility interpretations are quite disparate, e.g., measuring the remaining arrearage balance as opposed to the original balance. Silverpoint recommends that Staff and the utilities develop detailed definitions, guidelines, and computational rules for each metric to ensure consistency and comparability among reported results.

Fresh Start Related Customer Communications

Silverpoint found that all utilities are complying fully with Fresh Start customer outreach and communications requirements in the Board's 2004 Order. They are also complying with expanded communications requirements in the Board's 2023 Order with a few exceptions. As of this writing, RECO has not yet implemented its process to send the second form of communication to Fresh Start customers consistent with the Board's 2023 Order, and JCP&L has not confirmed whether it sends the second form of communication. We recommend that both utilities notify Staff when they have satisfied this requirement.

DCA USF and Fresh Start Related Data Processing

Data exchanges with DCA are an integral part of utility processes for administering Fresh Start as well as USF. DCA appears to be, at certain times, delaying the transfer of customer HEA benefit information to utilities. As a result, Fresh Start balances may be larger than necessary, since lump sum HEA benefits typically offset a portion of any customer arrears. Silverpoint estimates the potential excess forgiveness at \$2.5 million per year. DCA also maintains the database that allows a utility to determine if and when its customer previously received Fresh Start at another utility. As discussed above, the utilities have disparate approaches to assessing eligibility for Fresh Start based on prior participation at another utility. As such, DCA's database inquiry logic may need to be revised. Silverpoint recommends that the Board and Staff explore both of these issues further.

IV. DCA USF Administrative Budgets and Expenses

A. Introduction

The Department of Community Affairs is the Board’s designated administrator of the USF program subject to a 2024 Memorandum of Understanding (MOU).⁷⁹ DCA’s Office of Home Energy Assistance (OHEA) is responsible for the management and day-to-day administration of the program in accordance with the Board’s orders and policies. Silverpoint’s scope of work for this audit encompassed DCA’s administrative budgeting, expenditure processing, internal controls, and reconciliation practices. Included in that scope is an assessment of the methods, inputs, and documentation used by DCA to support the development of its USF budgeted expenditures.

Silverpoint’s review was conducted as a management audit and compliance review and not as a financial statement audit under Government Auditing Standards. The methodology was risk-based, control-informed, and aligned with the multi-layered governance structure established by statute and by Board Order. In this chapter, Silverpoint first describes our understanding of DCA’s budgeted and actual cost governance processes. We discuss our initial assessment and observations of these processes and offer suggestions in several areas where formalization, documentation, and monitoring could be enhanced. Silverpoint next provides a comparison of DCA’s budgeted and actual USF-related program expenditures over the three-year period and describes the development of our testing plan to validate the agency’s adherence to its administrative control processes. Finally, we discuss findings and observations that resulted from the audit team’s validation testing.

B. Budgeted and Actual Administrative Expense Governance

1. Documentation of DCA Administrative Cost Governance Processes

To gain an initial understanding of DCA’s administrative processes, Silverpoint conducted a comprehensive, structured on-site interview with DCA and OHEA personnel. Based on this interview, the audit team determined that while the agency appeared to have established operational processes and multiple layers of review across functions (programmatic, fiscal, procurement, and Treasury), it lacked formal written policies or procedural documents. DCA acknowledged that formal process flow documentation is not consistently maintained and that process understanding is primarily conveyed through institutional knowledge and established practice. As a result, many administrative workflows rely on informal practices, staff experience, and embedded State system controls rather than on consolidated Standard Operating Procedures (SOPs).⁸⁰

Due to the limited availability of formal documentation describing DCA’s administrative processes, Silverpoint developed a detailed narrative to confirm our factual understanding of existing workflows prior to proceeding with further assessment and testing. The resulting work product, the Administrative Cost Governance Process Narrative (Process Narrative), is included

⁷⁹ The 2024 MOU replaces the original MOU entered into by the agencies on December 22, 2006.

⁸⁰ Interview DCA-2.



as Appendix E. This document provides a consolidated description of the administrative cost lifecycle for the USF program and presents an end-to-end view of key processes including administrative budgeting, procurement, payment, reconciliation, IT governance, and subgrantee oversight.

Silverpoint developed the Process Narrative through structured interviews, system walkthroughs, document requests, and review of supporting artifacts.⁸¹ The Process Narrative reflects Silverpoint’s analysis of Board Orders, contract amendments, allocation methodologies, monitoring tools, and fiscal documentation. Our analysis was supported by interviews with program, fiscal, procurement, IT, and monitoring personnel. In areas where complete end-to-end SOPs were not available, process descriptions were based on management representations corroborated by available transactional evidence. Accordingly, the Process Narrative synthesizes information from multiple sources into a unified, cross-functional representation of current operations. It is organized across six integrated process cycles, which are summarized on the next table.

Administrative Cost Governance Processes

Process Cycle	Process Description
Cycle 1	Administrative Budget Development & Cost Allocation
Cycle 2	Procurement & Obligation Establishment
Cycle 3	Invoice Processing & Payment
Cycle 4	Treasury Posting & Fiscal Year-end Reconciliation
Cycle 5	IT/IBM Governance & Budget-to-Payment Oversight
Cycle 6	Subgrantee Administrative Cost Governance

The Process Narrative documents the administrative control architecture used by DCA to preserve structural separation of the steps necessary to execute a payment—initiation, authorization, recording, and payment execution. The control architecture reflects a layered governance model consisting of (1) operational execution, (2) fiscal validation, (3) centralized financial processing, (4) staff-level oversight, and (5) statutory Board authorization, with independent disbursement by Treasury. Across all process cycles, spending authority is governed by layered internal and external controls that include pre-obligation funding validation, purchase order encumbrance controls in the State’s procurement system (NJSTART), fiscal coding, and purchase order-to-invoice validation.

⁸¹ Additional interviews included those on budget development, forecasting, and administrative cost governance (DCA-4), expense authorization, payment, posting, and reconciliation (DCA-5), and IBM and other IT costs (DCA-6). DCA declined to schedule the requested discussion on the topic of subgrantee administrative costs.

After completing the Process Narrative, Silverpoint submitted the document to DCA to confirm that it accurately reflected the agency’s processes. DCA offered no changes.⁸²

2. Pre-Testing Observations Regarding DCA Administrative Processes

Overall, DCA has established a functioning administrative framework supported by multiple levels of review and coordination with the Board, Treasury, and external stakeholders. During our review, Silverpoint identified several areas where formalization, documentation, and monitoring could be enhanced to strengthen transparency, consistency, and overall control effectiveness. While there are no fundamental breakdowns in controls, addressing these areas would strengthen transparency and auditability, consistency of execution, risk management and oversight capabilities, and long-term sustainability of program operations. We discuss these areas in more detail below.

Control Environment and Process Documentation

As explained above, DCA’s administrative processes are largely institutional and experience-driven, with limited formal documentation of end-to-end workflows, control points, and responsibilities. While processes appear to be functioning, the absence of formal documentation can lead to issues including inconsistent execution across personnel, increased reliance on key individuals, challenges in onboarding and training new staff, and limited transparency for external stakeholders. Moreover, without documentation, it is impossible to know if processes are improving or deteriorating.

To strengthen consistency, improve knowledge transfer, and enhance overall control visibility, DCA should develop formal process documentation, including the following: end-to-end process flow diagrams; defined roles and responsibilities across Program, Fiscal Division, Procurement, and Treasury; and key control points and approval requirements.

Payroll Allocation Methodology and Cost Attribution

Personnel costs are allocated between the USF and HEA programs using a fixed allocation methodology (40%/60% in FY22 and 48%/52% in FY23 and FY24), which is applied consistently across staff. However, allocation is not based on actual time worked by program, rather agency staff members record time in accordance with the prescribed ratio rather than by measured activity. This allocation methodology has not been formally reassessed in recent years. The approach relies on a standardized assumption rather than direct evidence of program-specific work. As a result, it may reduce the precision of cost attribution, limit transparency into how personnel costs align with actual program activity and increase reliance on unsupported allocation assumptions. This allocation methodology is not limited to payroll alone. Similar allocation-based approaches are used in other administrative cost categories which further supports Silverpoint’s recommendation that DCA consider making improvements in this area.

To improve transparency and supportability of personnel cost allocations, DCA should consider the following measures:

⁸² Response to Data Request DCA-36.

- Conduct periodic reassessment of the allocation methodology
- Evaluate whether allocation assumptions remain appropriate based on current program activity
- Enhance documentation supporting the rationale and continued use of the methodology.

Monitoring and Oversight of Key Cost Components

While DCA has established processes for managing major cost categories (e.g., IBM, subgrantees), certain aspects of monitoring and independent verification are limited. Our key observations in this area include the following:

- IBM Costs - Monitoring is primarily performed at an aggregate budget level, with limited visibility into initiative-level cost tracking and variance analysis
- Subgrantee Oversight - Some monitoring processes exist today but the independence and structure of review layers could be expanded and formalized.

The issue here is lack of visibility and program manager oversight. These limitations may result in reduced ability to proactively detect errors or inconsistencies, a lack of detailed visibility into performance and cost drivers, and increased reliance on reactive mechanisms (e.g., complaints or periodic reviews). DCA should consider enhancing monitoring by:

- Strengthening initiative-level cost tracking and variance analysis for IBM and IT expenditures
- Further formalizing subgrantee monitoring and review structures, including documentation of independent review activities.

Budgeting and Financial Management Practices

Budget development is structured and incorporates multiple inputs (e.g., historical trends, program needs, vendor proposals). However, the use of formal variance analysis in budget development appears limited. DCA indicated that prior-year variances are not systematically incorporated into subsequent budget assumptions. This may lead to repeated over- or under-estimation in certain cost categories, reduced ability to refine budget accuracy over time, and a limited feedback loop between actual performance and future planning.

DCA should consider incorporating formal variance analysis into the budgeting process, including the following:

- Periodic review of budget-to-actual results by category
- Documentation of significant variances and underlying drivers
- Integration of variance insights into future budget assumptions.

Process Formalization and Control Execution

DCA's administrative processes include multiple layers of review across all functions—Program, Fiscal Division, Procurement, and Treasury. However, several control activities are informally executed or not consistently documented, examples of which include the following:

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- Management approvals often only documented through email correspondence
- Limited formal documentation of reconciliation review procedures
- No standardized exception tracking or resolution framework for invoice or processing issues
- Segregation of duties that exist operationally but that are not formally documented as a structured control framework.

These factors may result in a reduced audit trail and/or lack of evidentiary support for key control activities, inconsistent execution of controls across transactions or periods, and a limited ability to demonstrate control effectiveness to external stakeholders. DCA should consider strengthening control execution by the following measures:

- Standardizing documentation of approvals and key control activities
- Formalizing reconciliation review procedures and evidence retention
- Implementing a structured exception tracking and resolution process
- Clearly documenting segregation of duties across organizational functions.

C. Comparison of Budgeted and Actual Administrative Expenses

1. DCA Budgeted and Actual Expenditures

The scope of work for this audit included a comparison of forecasted USF budget expenditures to final administrative costs to determine whether forecasts are developed using reasonable methods. Across the three-year audit period, DCA consistently operated below the Board-approved administrative budget, with forecasts that were reasonable in the aggregate and subject to structured governance review at both the budget-approval and reimbursement stages. Charges are routinely examined by Staff leading up to the Board’s annual budget Order and again prior to the Order approving actual expenditures. DCA budgeted and actual expenditures for the USF program for the three years under review are summarized in the next table.⁸³

⁸³ August 2021, August 2022, and September 2023 Orders Approving Budget and August 2023 Order, June 2024, and July 2025 Orders Approving DCA Administrative Expenses.



**DCA Budgeted Versus Actual Expenditures – USF Only
Fiscal Years 2022 through 2024**

	FY 2022		FY 2023		FY 2024	
(July-June Fiscal Year)	Budget	Actual	Budget	Actual	Budget	Actual
Personnel & fringe	\$862,194	\$669,807	\$1,709,552	\$853,757	\$1,428,627	\$1,001,647
Consultants/Prof. fees	\$772,198	\$289,376	\$1,517,339	\$1,637,114	\$3,525,399	\$3,417,941
Materials/Supplies	\$49,200	\$23,442	\$59,040	\$0	\$59,040	\$0
Other	\$411,287	\$308,232	\$386,855	\$202,455	\$301,551	\$140,702
Equipment	\$100,000	\$0	\$72,000	\$0	\$48,000	\$0
DCA Subtotal	\$2,194,879	\$1,290,857	\$3,744,786	\$2,693,326	\$5,362,617	\$4,560,290
CWAs	\$227,200	\$194,919	\$227,200	\$227,200	\$227,200	\$53,971
CBOs	\$5,582,934	\$5,471,262	\$5,903,048	\$5,637,514	\$5,854,552	\$5,854,554
Subgrantee Subtotal	\$5,810,134	\$5,666,181	\$6,130,248	\$5,864,714	\$6,081,752	\$5,908,525
Ordered Adjustments				(\$289,147)		\$92,519
Total Expenses	\$8,005,013	\$6,957,038	\$9,875,034	\$8,268,893	\$11,444,369	\$10,561,334

Over the three fiscal year period, Board-approved administrative budgets totaled approximately \$29.3 million, while authorized actual expenditures totaled approximately \$25.8 million. DCA’s actual expenditures ranged from \$1.0 to \$1.5 million under budget. The significant variance between budgeted and actual personnel costs in FY23 was largely attributable to a decision to early terminate approximately 30 temporary positions that had been budgeted for the full year.⁸⁴

The cumulative underbudget variance is roughly \$3.5 million, or 11.9% of the approved budget in aggregate. DCA operated under budget in each of the three years, with category-level overspending limited to FY23 consultant and professional fees. The cumulative under-budget outcome reflects conservative budgeting in several categories, disciplined execution against the approved spending envelope, and effective reconciliation of encumbrance cancellations and adjustments at fiscal year-end. While operating below budget does not mitigate the need for accurate allocation and documentation at the transaction level, it does reflect a prudent posture toward the Board-approved spending level and supports the conclusion that DCA’s forecasts are developed using reasonable methods.

The largest component of DCA administrative expenses, roughly 70%, is associated with payments to subgrantees—Community-Based Organizations (CBOs) and County Welfare Agencies (CWAs). These expenses remained relatively flat over the three-year period. The largest increase in actual (and budgeted) expenses occurred in consultant and professional fees, principally

⁸⁴ Interview DCA-4.



to IBM and the NJ 211 service. The agency’s IT budget has been impacted primarily due to programming changes necessitated by recent Board Orders. The budget and road map for IT spending is developed with input from key stakeholders including utilities and Staff.⁸⁵

D. Testing and Validation of Adherence to Control Procedures

1. Development of the Testing Plan

Silverpoint conducted a working session with DCA and OHEA personnel to discuss the availability, structure, and completeness of disbursement data that would be needed to establish a reconciled transaction population for audit sampling. Our objective was to identify reports that would capture 100% of administrative disbursements, tie those expenses to final reported administrative costs, and align them with year-end reconciliations. We subsequently asked DCA to provide the relevant disbursement reports for actual expenditures approved in the Board’s August 2023, June 2024, and July 2025 Orders, from which the audit team could select sample items for testing.⁸⁶

Silverpoint developed a consolidated internal control matrix mapping more than thirty control activities across five control categories: Governance and Authorization; Funding and Budgetary; Transaction-Level; Monitoring and Reconciliation; and System-Based. Sixteen of these were identified as Key Controls (KC-01 through KC-16) for transaction-level testing; these are summarized on the next table. The six process cycles shown are those identified in the Process Narrative.

Key Control Areas Operating Test Plan

Control ID	Cycle	Control Name	Testing Objective	Testing Procedure
KC-01	1	BPU Board Budget Approval	Confirm administrative spending is authorized	Inspect and evaluate Board Orders for each fiscal year
KC-02	1	Internal Budget Review & Approval	Confirm internal review occurred prior to submission	Inspect and evaluate emails, tracked changes, or version history
KC-03	1	USF/HEA Allocation Methodology	Confirm allocation ratio is correctly applied	Recalculate allocation using participation data
KC-04	2	Pre-Obligation Funding Confirmation	Confirm funding is validated before commitment	Trace requisition to funding approval and accounting string
KC-05	2	Procurement Method Determination	Confirm proper procurement method used	Inspect and evaluate contract type vs policy/threshold
KC-06	2,3,5,6	PO-Based Encumbrance Ceiling	Confirm invoices do not exceed authorized PO	Compare and validate invoice amounts to PO ceiling
KC-07	3,5	Program-Level Invoice Review	Confirm services were reviewed before payment	Inspect and evaluate signed/approved invoices prior to processing

⁸⁵ Interview DCA-6.

⁸⁶ Data Request DCA-40.



KC-08	3	Fiscal PO Match & Coding Validation	Confirm proper coding and PO match	Inspect and evaluate system approval and coding validation
KC-09	3,4	Treasury Disbursement Segregation	Confirm payments executed by Treasury	Trace payment to Treasury system record
KC-10	4	July Fiscal Year-End Snapshot	Confirm completeness of year-end reporting	Inspect and evaluate July snapshot report and supporting data
KC-11	4	April Reconciliation	Confirm final reconciliation performed	Inspect and evaluate reconciliation schedules and adjustments
KC-12	5	PCR Approval for IT Changes	Confirm IT changes are formally approved	Trace IT initiatives to approved PCR
KC-13	5	IT SOW Capacity Ceiling	Confirm IT costs remain within approved limits	Compare and validate cumulative invoices to SOW ceiling
KC-14	6	Subgrantee Admin Cost Cap	Confirm admin cost limits enforced	Compare and validate reimbursement to contract limits
KC-15	6	CBO FSR Documentation Review	Confirm reimbursements are supported	Inspect and evaluate FSR package and supporting documents
KC-16	6	Structured Advance Controls	Confirm advance payments within limits	Compare and validate advance to contract threshold (~30%)

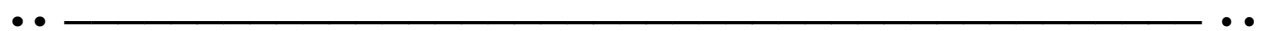
KC-01 through KC-16 address risks including unauthorized spending, misallocation, unsupported payments, budget overruns, and reconciliation misstatements. These key controls were supplemented in our testing by additional procedures focused on indirect cost rates as well as payroll-related analytical reviews. Payroll testing was subject to certain limitations due to the absence of detailed employee-level time allocation records for FY22 and FY23, which reduced our ability to fully assess how payroll costs were distributed across activities.

Silverpoint ultimately selected a total of 32 primary samples for testing across the three fiscal year period totaling costs of \$6.5 million. The major expenditure categories, sample distribution across the audit period, dollar amounts, and applicable process cycles are summarized in the next table.

Summary of Primary Samples

Category	FY22	FY23	FY24	Items	Total Amount	Process Cycle(s)
Non-payroll operating (excl. IT & grants)	4	7	3	14	\$1,978,175	Cycles 2–3
IT / IBM / Software	0	1	4	5	\$1,538,255	Cycle 5
Subgrantee / CBO payments	6	4	3	13	\$2,962,276	Cycle 6
Total – Primary Samples	10	12	10	32	\$6,478,722	Cycles 2–6

The sample represented approximately 30% of cumulative DCA direct administrative costs and about 18% of cumulative subgrantee costs. High-risk categories—including IT expenditures, NJ 211 charges, and inter-agency allocations—were intentionally oversampled. Testing covered



authorization, reasonableness, and documentation of costs which were traced from obligation through payment and posting. Where transaction-level documentation was incomplete, analytical procedures were performed to assess allocation consistency, budget-to-actual variances, indirect cost rate application, and payroll allocation patterns. Silverpoint was able to complete testing on 31 samples without exception. For one sample item related to NJ 211 services, the absence of complete supporting documentation limited the extent of testing that could be performed.

Limitations in Testing Scope

Limitations in testing scope at the close of fieldwork were specific, contained, and do not alter the overall conclusions presented in this report. These limitations reflect instances where complete supporting documentation was not available to fully verify certain transactions. The following items represent the areas where testing could not be completed in full:

- One transaction associated with the NJ 211 engagement could not be fully supported with third-party vendor documentation. Specifically, the \$1,099,479 FY24 NJ 211 USF reclassification posting was confirmed through system records but is not supported by USF-level vendor invoices. The FY24 USF share was established through year-end budget-based reclassification rather than through invoice-level allocation. Vendor invoices for the underlying NJ 211 services are held at the HEA program level. This limitation is addressed in Finding 2 (Budget-Based Allocation).
- Employee-level pay period detail and personnel allocation records were not available to support recalculation of payroll allocations. While total USF personnel costs of \$1.26 million across FY22 and FY23 were confirmed through Treasury records, the allocation of those costs across programs could not be independently verified at the employee level. Payroll testing for FY24 was completed without exception.

3. Identified Areas of Effective Control

Before turning to areas of recommended enhancement, Silverpoint notes four areas of the control environment that are well-designed and that operated effectively across the audit period. These establish that the concerns discussed later in this section are localized to DCA’s internal administrative processes rather than across the USF governance framework.

Board-level Governance

The Board’s governance framework for USF administrative costs is well-designed and consistently executed across all three fiscal years reviewed. Annual administrative budgets were formally approved through Board Orders; actual expenditures were reviewed, reconciled to Treasury records, and authorized for reimbursement through a second Order; and all Orders included explicit “subject to audit” language. Reconciliation differences were limited to normal accrual timing variances and adequately explained. The Cycle 1 and Cycle 4 controls tested in this engagement operated as designed throughout the audit period.

Subgrantee Governance

Controls governing payments to CBOs and CWAs are well-established, consistently applied, and operating effectively. Documentation was complete for all thirteen tested subgrantee samples;

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grant agreements, Financial Status Reports, and payment amounts matched exactly; the full SAGE⁸⁷ lifecycle (including the five-step Treasury approval and payment confirmation) was evidenced throughout; dual DCA approvals were evidenced for all disbursements; and the structured advance threshold of 35% was consistently observed. Subgrantee governance represents the strongest control area in the audit, with no exceptions identified.

IT Governance

Testing of IT governance controls (KC-12 IT Change Management and KC-13 IT SOW Capacity Ceiling) was completed across all five IT samples. The framework included comprehensive Statements of Work (SOWs) defining scope, deliverables, and capacity ceilings; a formal project change request process; initiative-level tracking via a project management tool; and clear delineation of roles between DCA, IBM, and Insight Public Sector.⁸⁸ IBM services are procured through the State’s competitively-awarded IT master contract—they are not sole-source or directly negotiated by DCA—and tested invoices billed at the State-contract rate invoiced exactly to the SOW ceiling of \$3,151,618.92.

While IBM vendor invoices are reviewed and approved at the State contract level, the allocation of IBM costs to USF is not recorded through direct invoice-to-program coding. Instead, USF charges are recorded through journal entry reclassifications based on an allocation methodology applied to total contract costs. This distinction is central to the allocation-related findings discussed below and does not affect the effectiveness of vendor procurement or invoice approval controls.

IBM Costs

The scope of the audit included a review of the purpose, necessity, and cost effectiveness of annual IBM IT costs included in the USF budget. Silverpoint’s objective was to evaluate the design and operating effectiveness of DCA’s management process for determining purpose, necessity, and cost effectiveness—and not to substitute our judgment for management’s business decisions about which IBM services to procure. On that basis, Silverpoint concluded that DCA’s process operates effectively. This conclusion rests on three observable controls, each examined during fieldwork—annual consultative scoping, competitive procurement through the State contract, and invoice review and approval controls.

First, DCA’s IBM scope of work is developed annually through a consultative process with agency personnel and contractors and other stakeholders including Board Staff, resulting in a SOW tied to identified, program-driven needs rather than vendor-originated additions. As such, purpose and necessity are established by program owners before services are procured. IT initiatives are formalized via Project Change Requests that are reviewed and approved by DCA management before inclusion in the administrative budget submitted to the Board. Next, IBM services are procured through the State’s competitively awarded IT master contract and are not sole-sourced or directly negotiated by DCA. Hourly rates are a product of the State’s procurement process, so a best-value presumption applies because the pricing framework has already survived a competitive selection at the State level. Third, invoices are reviewed against the SOW, and hours

⁸⁷ SAGE, which stands for System for Administering Grants Electronically, is DCA’s grant management system.

⁸⁸ Insight is a third-party contractor for the State that is responsible for reviewing and approving IBM invoices.



and rates are verified against the contract, before approval for payment.⁸⁹ Budget monitoring by DCA takes place at the SOW level, with initiative-level tracking by IBM in its Azure DevOps project management tool.

Fiscal Discipline

As discussed previously in Section IV.C.1, across the audit period, DCA consistently operated below the Board-approved administrative budget, resulting in cumulative underbudget spending of approximately \$3.5 million, or 11.9% of the approved budget. Budgeting was conservative for several cost categories; category-level overspending was limited; and encumbrance cancellations and adjustments at fiscal year-end were effectively reconciled. Operating below budget does not mitigate the need for accurate allocation and documentation at the transaction level, but it reflects a prudent posture toward the Board-approved spending cap.

4. Principal Findings and Observations Requiring Improvement

Silverpoint evaluated findings against three factors: (1) ratepayer impact, including both quantified over-allocation and the systemic or one-time nature of the condition; (2) control design and operating effectiveness, including whether the condition reflects a pattern across the sampled population or a single instance; and (3) potential for systemic recurrence, including whether the condition would continue to accrue absent remediation. Items meeting two or more of these factors with quantifiable ratepayer exposure were classified as Findings. Items raised for management attention on a single-instance basis or without quantifiable exposure were classified as Observations.

Silverpoint’s testing identified three findings and two engagement-specific observations, summarized in the following table.

⁸⁹ Silverpoint tested \$1.089 million in IBM invoices and identified no exceptions regarding approvals or correct application of rates. Total FY23 invoices tied exactly to the SOW ceiling (\$3,151,618.92), which encompasses combined services supporting both USF and HEA. The tested \$1.089 million reflects the USF-allocated share of these combined services.



Post-Testing Findings and Observations

Finding (F) or Observation (O)	Title	Risk	Key Condition
F1	DCA Lacks Adequate Support for USF Allocation Rates Applied Across the Audit Period	High	40% applied in FY22, 48% in FY23–FY24. The only support is a 2016 caseload analysis showing 42% that supports none of the applied rates.
F2	Budget-Based Allocation Produces USF Charges Disconnected from Actuals	Medium	Three allocation variants across the non-CBO population; budget-based variant applied to three samples – one IBM charge, one monitoring charge, and the FY24 NJ 211 reclassification (\$1,099,479).
F3	Program Manager Lacks Visibility into Major Cost Categories Charged to USF (Cross-Cutting)	High	Structural root cause, underlying F1, F3, and F4. No single DCA role accountable for charges flowing to USF.
O5	NJ 211 FY24 Purchase Order Close-Out Sequence (Sept 2024)	Medium	Written fiscal question on PO/invoice mismatch did not receive written resolution; Fiscal closed PO on verbal vendor confirmation.
O6	NJ 211 FY24 Engagement Origination Without Authorized PO	Medium	~4.5 months of services before Master PO finalized; Treasury unauthorized-waiver determination; DCA self-certified “unauthorized confirming waiver” box.

Silverpoint discusses the details supporting these findings and observations more fully in Appendix F.

5. Cross-Cutting Governance Conditions Identified During Testing

During the earlier phase of this audit, Silverpoint identified five process-related observations requiring improvement, which are discussed in Section IV.B.2. During subsequent transaction testing, the audit team identified an additional cross-cutting governance condition that ties several of the above observations together and warranted being reported at the finding, rather than observation, level. In particular, the USF program manager does not have visibility into several categories of cost that are charged to the USF account, and no single DCA role is formally accountable for the accuracy, completeness, and authorization of charges flowing to USF. More specifically:

- Payroll allocations are applied at the personnel-detail level using the fixed 48%/52% ratio and flow through to USF postings without being routed to the program manager for review.

Employee-specific percentages that deviate from this ratio for certain personnel are applied without program manager visibility.

- Journal-entry reclassifications—including the NJ 211 USF reclassification, the IBM budget-based reclassification, and period-end true-ups routed through expenditure modifications—are posted to the USF account without program manager review or approval.
- Inter-agency charges—New Jersey Office of Information Technology (OIT), Printshop, Postage, central telephone, and procurement assessment—are allocated to USF based on schedules prepared by the billing agency, with the program manager reviewing the schedules but not always the underlying cost pools.
- For certain state-allocated charges, notably the OIT pool, it was not clear from the evidence provided whether DCA itself receives the underlying vendor invoices or only the agency-prepared allocation schedule.

To improve these issues, DCA should consider implementing the following measures:

- Assign a single senior role accountable for all charges flowing to the USF account across the four categories above (payroll allocations, journal-entry reclassifications, inter-agency charges, and state-allocated charges)
- Provide the USF program manager with visibility into payroll allocations including the list of personnel to whom non-standard percentages are applied
- Require program manager review and approval of all journal-entry reclassifications affecting the USF account prior to posting
- For each inter-agency charge category, document the composition of the cost pool, allocation methodology, re-computation frequency, and evidence reviewed before the charge is accepted
- For state-allocated charges, obtain and retain the underlying vendor invoices supporting the billing-agency schedule for each billing period.

E. Summary of Conclusions and Recommendations

Silverpoint examined DCA’s administrative cost governance processes, including budget development, cost allocation, procurement, payment processing, reconciliation, and oversight of IT contractors and subgrantees. The team assessed the rigors of internal controls and developed and executed a risk-based testing plan to validate the organization’s adherence to those controls. We evaluated differences between budgeted and actual expenditures during the audit period and the effectiveness of DCA’s management process for IBM IT costs. Our conclusions and recommendations on these topics follow.

Budgeted versus Actual Administrative Expenses and IBM Costs

Silverpoint compared forecasted USF budget expenditures to final administrative costs over the three-year audit period. The agency consistently operated below the Board-approved administrative budgets, which were developed using reasonable methods. Silverpoint also reviewed the purpose, necessity, and cost effectiveness of annual IBM IT costs included in the USF budget. We found that DCA's management process for these costs operated effectively and rests on three observable controls—annual consultative scoping, competitive procurement through the State contract, and invoice review and approval controls.

Deficiencies in Documentation

In our view, state agencies should have clearly documented financial and administrative policies, procedures, and internal controls to ensure fiscal accountability, compliance, and transparency. Documentation should cover such topics as budgeting, procurement, contracting, payment processing, segregation of duties, and cost allocation. While DCA appears to have established operational processes and multiple layers of review, it has little formal documentation. Process understanding is primarily conveyed through institutional knowledge and established practice, and administrative workflows rely on informal practices, staff experience, and embedded State system controls rather than on consolidated standard operating procedures. As such, the audit team needed to construct a detailed process narrative to confirm our factual understanding of the agency's administrative procedures and control architecture before we could evaluate or test them.

To strengthen consistency and enhance overall control visibility, DCA should develop formal policy, procedure, and controls documentation that includes defined roles and responsibilities across all program, fiscal, procurement and treasury functions, key control points and approval requirements, and definition of end-to-end process flows.

Allocation of Shared Administrative Costs between USF and HEA

During FY22, DCA allocated 40% of shared administrative costs to the USF program and 60% to HEA. For FY23 and FY24 that rate changed to 48%/52%. DCA offered no support for any of these allocation rates nor for the increase of the USF share from 40% to 48%. The only available documentation we received was for the derivation of an allocation rate of 42%/58% in 2016 that was based on an analysis of caseloads. It is our understanding that during the audit period the USF allocation percentage was the subject of discussions between DCA and Staff before the administrative budget was submitted to the Board. It is troublesome that the basis for the allocation rates in those years was not documented. The impact of the allocation rate on total USF expenses is significant and should be made explicit. For the purpose of transparency, Silverpoint recommends that allocation factors such as updated caseload analysis be documented for all shared cost categories and included as required support for the annual USF administrative budget filing.

Adequacy of Governance and Controls

Based on our validation and testing work, Silverpoint concluded that the USF program operates within a well-established and effective external governance framework. Board budget approval, staff-level oversight, Treasury reconciliation, and formal reimbursement authorization each functioned as intended throughout the audit period. Board-level governance, subgrantee governance, IT governance, and fiscal discipline are well-designed and operate effectively. We

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did, however, identify areas for improvement that should be addressed to strength those controls. In particular, no single DCA role is formally accountable for the accuracy, completeness, and authorization of charges flowing to the USF program. Also, the USF program manager does not have adequate visibility into four specific categories of costs that are charged to the USF account—non-standard payroll allocations, journal entry reclassifications, inter-agency charges, and state-allocated charges. We recommend DCA implement the following measures to address these issues:

- Assign a single senior role accountable for all charges flowing to the USF account across the four categories of cost
- Provide the USF program manager with visibility into payroll allocation of employee costs by means other than the established USF/HEA allocation percentage including the list of personnel to whom non-standard percentages are applied
- Require program manager review and approval of all journal-entry reclassifications affecting the USF account prior to posting
- For inter-agency charges, document the composition of the cost pool, allocation methodology, re-computation frequency, and evidence reviewed before acceptance.
- For state-allocated charges, obtain and retain the underlying vendor invoices supporting billing-agency schedules for each billing period.

Improvements in Administrative Procedures

Although Silverpoint found no fundamental breakdown in controls, we did identify opportunities for process improvement through formalized process and control execution. For example, management approvals are often only documented through email correspondence, and there is no standardized exception tracking or resolution framework for invoice or processing issues. Silverpoint recommends that DCA implement the following suggested improvements:

- Improve program manager monitoring and oversight by strengthening initiative-level cost tracking and variance analysis for IBM and IT expenditures and formal monitoring and review of subgrantees
- Incorporate formal variance analysis into budgeting processes including periodic review of budget-to-actual results by category, documenting significant variances and underlying drivers, and integrating variance insights into future budget assumptions
- Strengthen control execution by standardizing documentation approvals and key control activities, formalize reconciliation reviews and evidence retention, implement a structured exception tracking and resolution process, and clearly document segregation of duties.

Silverpoint also identified opportunities for improvement through formalized process and control execution. While DCA’s administrative processes include multiple layers of review across all functions, certain activities are informally executed or not consistently documented. For example, management approvals are often only documented through email correspondence, and there is no standardized exception tracking or resolution framework for invoice or processing issues. Such factors may result in a reduced audit trail and/or lack of evidentiary support for key control activities, inconsistent execution of controls across transactions or periods, and a limited ability to

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demonstrate control effectiveness to external stakeholders. DCA should consider the following measures to strengthen control execution that include the following:

- Standardizing documentation of approvals and key control activities
- Formalizing reconciliation review procedures and evidence retention
- Implementing a structured exception tracking and resolution process
- Clearly documenting segregation of duties across organizational functions.

Appendices

Appendix A

Synopsis of Utility Compilation Processes for USF Spreadsheet Data Fields

Gas State Received \$ vs Cost	
Amount Received from Treasury	<ul style="list-style-type: none"> ETG, NJNG, PSE&G, and SJG create a journal entry for deferred USF costs based on the email from BPU Staff on amounts to be received from Treasury; utilities reconcile the general ledger (G/L) figure to cash when received
USF Benefit Expenditures by Month	<ul style="list-style-type: none"> ETG and SJG extract and total the dollar value of credits awarded in the month from the Customer Care & Billing (CC&B) system based on the date of the adjustment NJNG extracts a total amount of benefit expenditures from the JDEdwards system for each month PSE&G extracts a total amount from the G/L, as the credits issued to gas customers post to the G/L during the month
Fresh Start Benefit Expenditures by Month	<ul style="list-style-type: none"> ETG and SJG derive the total amount of credits issued in the month from the CC&B system NJNG extracts a total amount of benefit expenditures from the JDEdwards system for each month PSE&G extracts total credits by month for all customers combined from the G/L and apportions 64% electric/36% gas based on the historical percentage write-offs between gas and electric customers
Monthly Admin Costs	<ul style="list-style-type: none"> Expenditures are reported by SJG; discussed in Report Section II.E.
Electric State Received \$ vs Cost	
Amount Received from Treasury	<ul style="list-style-type: none"> ACE, PSE&G, and RECO create a journal entry for deferred USF costs based on the email from BPU Staff and reconcile the G/L figure to cash when received JCP&L records a journal entry to G/L when the deposit received from Treasury
USF Benefit Expenditures by Month	<ul style="list-style-type: none"> ACE and JCP&L extract amounts from the G/L, as the credits issued to electric customers post to the G/L during the month PSE&G uses the SAP billing system to extract information on the dollar value of credits given to customers based on billing data and then calculates a total RECO uses the CC&B system to obtain a report of credits awarded during the billing month
Fresh Start Benefit Expenditures by Month	<ul style="list-style-type: none"> ACE and JCP&L extract amounts from the G/L, as credits issued to customers post to the G/L during the month PSE&G extracts total credits by month for all customers combined from the G/L and apportions 64% electric/36% gas based on the historical percentage write-offs between gas and electric customers RECO uses the CC&B system to obtain a report of credits awarded during the billing month
Monthly Admin Costs	<ul style="list-style-type: none"> Expenditures are reported by RECO; discussed in Report Section II.E.

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Electric Payments to State	
Jurisdictional Volumes (utilized to calculate USF collected from customers)	<ul style="list-style-type: none"> • ACE uses volumes from a SAP Billing subledger report • JCP&L uses volumes from the Report of Electric Sales, which extracts data from customer billing records • PSE&G uses the SAP billing system to determine total kWh billed during the month • RECO extracts billed kWh volumes on all customers from the billing system, excluding wholesale and transmission-level accounts
Gas Payments to State	
Jurisdictional Volumes (utilized to calculate USF collected from customers)	<ul style="list-style-type: none"> • ETG and SJG extract sales from the CC&B system for all applicable rate classes and customers • NJNG extracts sales volume information from the JDEdwards system • PSE&G uses SAP billing to determine total therms billed during the month
Money Transferred State / Summary Admin	
Actuals April/May- September	<ul style="list-style-type: none"> • Same as Amount Received from Treasury
Admin Costs by Month	<ul style="list-style-type: none"> • Expenditures are reported by RECO and SJG; discussed in Report Section II.E.
Transfer Remittance Gas / Transfer Remittance Electric	
Actual Gas Remittances	<ul style="list-style-type: none"> • The USF portion of remittances is the same as gas payments above • ETG and SJG extract the amount of Lifeline credits for the month from the CC&B system based on the date of the adjustment • NJNG extracts volume sales from the JDEdwards system to facilitate calculating Lifeline amounts collected from customers • PSE&G develops an internal invoice for Lifeline remittances to support the volume times tariff rate calculation for gas
Actual Electric Remittances	<ul style="list-style-type: none"> • For ACE, PSE&G, and RECO, the USF portion of remittances is the same as electric payments above • ACE extracts the amounts from G/L accounts for Lifeline, as the credits issued to customers post to the G/L during the month • PSE&G develops an internal invoice for Lifeline remittances to support the volume times tariff rate calculation for electric • RECO uses information from revenue reporting to develop a G/L book entry for Lifeline alone • JCP&L extracts the amounts from its billing system identified as USF and Lifeline revenues billed to customers during a given month
Lifeline Allocation	
Electric Jurisdictional Operating Revenue Apportioned	<ul style="list-style-type: none"> • ACE uses GAAP revenue as reported to the SEC less alternative revenue program revenues, opt out fees, and net energy metering/community solar credits • JCP&L uses electric operating revenues from FERC Form 1 (line 10) which excludes sales for resale

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	<ul style="list-style-type: none"> • PSE&G reports all electric operating revenue from SAP G/L with no exclusions noted • RECO uses FERC Form 1 data with no specific exclusions
Gas Jurisdictional Operation Revenue Apportioned	<ul style="list-style-type: none"> • ETG uses total operating revenues from the annual report to the BPU excluding LCAPP revenue, with data from the CC&B and accounting systems • NJNG uses revenue data from the annual report to the BPU, excluding off system and other non-jurisdictional sales • PSE&G reports all gas operating revenue from SAP G/L with no specific exclusions noted • SJG uses jurisdictional revenues from the G/L less non-jurisdictional gas revenue and capacity release and storage revenues
Projected Sales	
Gas Therms by Month	<ul style="list-style-type: none"> • Volume sales from gas utility forecasts; discussed in Report Section II.D.
MWHs by Month	<ul style="list-style-type: none"> • Volume sales from electric utility forecasts; discussed in Report Section II.D.

Source: Responses to Data Request ACE-9, Data Request ETG-9, Data Request JCP&L-9, Data Request NJNG-7, Data Request PSE&G-22, Data Request SJG-12, and Data Request RECO-17. Supplemental responses to Data Request ACE-9, Data Request ETG-9, Data Request JCP&L-9, Data Request PSE&G-22, Data Request SJG-12.

Appendix B - Synopsis of Utility Forecasting Processes

NJNG Forecasting Process Overview⁹⁰

Forecast

The five-year forecast for the fiscal year is generally completed by early summer; the forecasting process is led by Financial Planning & Analysis.

Customer Classes

Principal classes include residential heating and non-heating, large and small general service, and customers in other tariff classes (e.g., firm and interruptible commercial and industrial transportation, CNG, gas-powered vehicles, distributed generation and qualifying electric generation) as these customers pay SBC. Special contract and other off-tariff sales are excluded.

Sales/Demand Forecasting

Customer meter forecasts are prepared by marketing. Models use three years of customer billing information to derive baseload and heat load rates for each customer group that reflect energy efficiency and conservation improvements to date. Baseload and heat load rates for projected customer counts are used to calculate projected demand assuming normal weather. Larger industrial customers are analyzed individually to develop an average usage rate for the forecast.

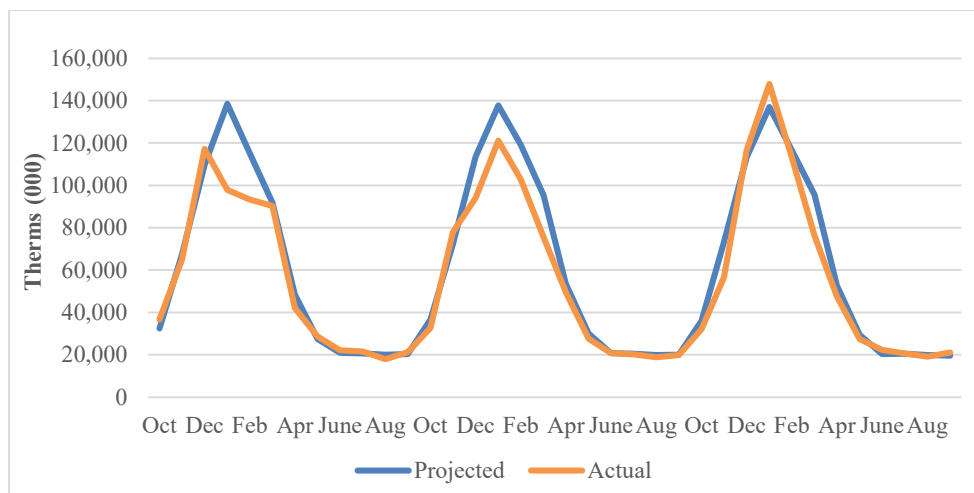
Weather Normalization

NJNG uses 20 years of data from three weather stations (Philadelphia airport, Newark, Atlantic City); 24 hours of daily data are averaged, then used to derive monthly averages.

Controls/Approval

Internal review by Regulatory, Gas Supply, and Customer Service but no formal approval process.

**NJNG Projected versus Actual Volume Sales
October 2022 through September 2024**



⁹⁰ Interview NJNG-1 and Interview NJNG-4. Projected and actual volume sales data from Data Request NJNG-3.

ETG Forecasting Process Overview⁹¹

Forecast

The ten-year forecast is generally completed by late spring; the forecasting process is led by Gas Supply.

Customer Classes

Principal classes include heating and non-heating residential, commercial, and industrial plus large volume customers. LCAPP sales are excluded as are unbilled sales.

Sales/Demand Forecasting

Harbourfront Group uses econometric models to derive customer growth by class and baseload and heat load rates for six heating and non-heating categories of residential, small commercial, and large commercial classes, currently using seven years of actual data. Historical data has been somewhat limited in recent years, primarily due to reclassification of customer classes following ETG's acquisition by SJG. ETG utilizes Harbourfront's model results to calculate projected sales volume assuming normal weather. Larger industrial customers are analyzed individually to develop an average usage rate for the forecast.

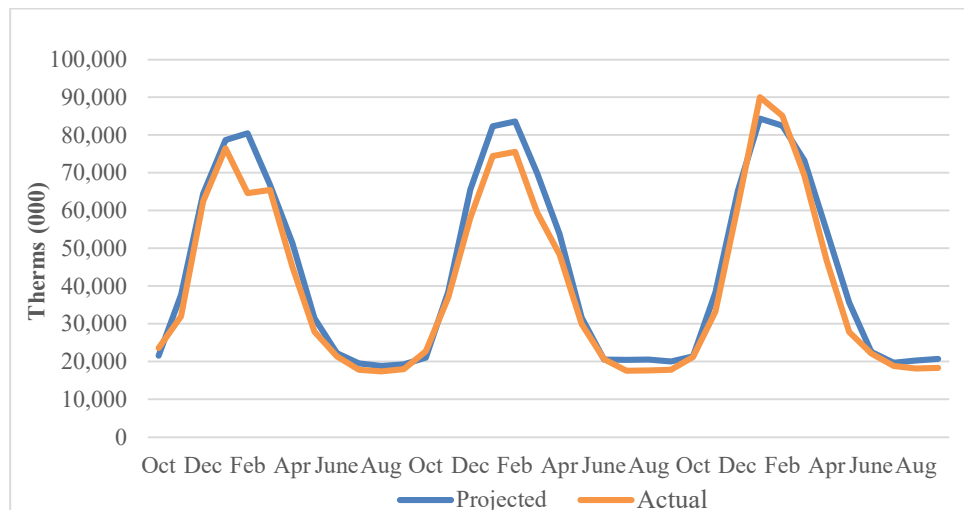
Weather Normalization

ETG uses 10 years of data from the Newark weather station for normalization; 24 hours of daily data are averaged, then used to derive monthly and period averages.

Controls/Approval

Internal review and vetting by relevant departments although no formal approval process.

**ETG Projected versus Actual Volume Sales
October 2022 through September 2024**



⁹¹ Interview SJG-ETG-1 and Interview ETG-4. Projected and actual sales data from Data Request ETG-4.

SJG Forecasting Process Overview⁹²

Forecast

The ten-year forecast is generally completed by late spring; the process is led by Gas Supply.

Customer Classes

Principal classes include heating and non-heating residential, commercial, and industrial plus large volume customers. LCAPP sales are excluded, as are unbilled sales.

Sales/Demand Forecasting

Harbourfront Group uses econometric models to derive customer growth by class and baseload and heat load rates for eight heating and non-heating categories of residential, commercial, and industrial classes using ten years of actual data. Baseload and heat load rates for projected customer counts are used to calculate projected sendout assuming normal weather, which is converted to sales volume. Large industrial customers are analyzed individually given disparate characteristics.

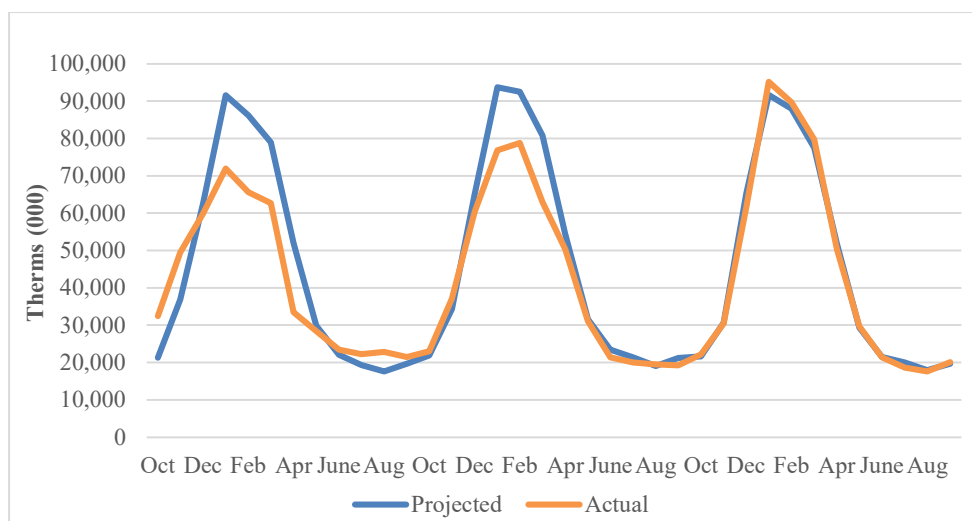
Weather Normalization

Harbourfront uses 20 years of data from two stations (Philadelphia airport and Atlantic City) for normalization; 24 hours of daily data are averaged, then used to derive monthly averages.

Controls/Approval

Internal review by Gas Supply and Rates; no formal approval although Rates okays final version.

**SJG Projected versus Actual Volume Sales
October 2022 through September 2024⁹³**



⁹² Interview SJG-ETG-1, Interview SJG-5, and response to Data Request SJG-2. Projected and actual sales data from Data Request SJG-4.

⁹³ When asked about the larger disparity between forecasted and actual sales in 2022/2023, SJG indicated that both had reflected the effects of covid.

PSE&G Gas Forecasting Process Overview⁹⁴

Forecast

The ten-year corporate energy forecast is generally completed by year end; the forecasting process is led by Sales and Revenue Forecasting.

Customer Classes

Principal classes include heating and non-heating residential, commercial, and industrial plus large volume customers.

Sales/Demand Forecasting

PSE&G econometric models derive retail sales volume forecasts using between three and twelve years of usage history.⁹⁵ These models derive customer growth and baseload and heat load rates for individual customer subgroups. Baseload and heat load rates and customer counts are used to calculate projected sendout assuming normal weather, which is then converted to billed sales.

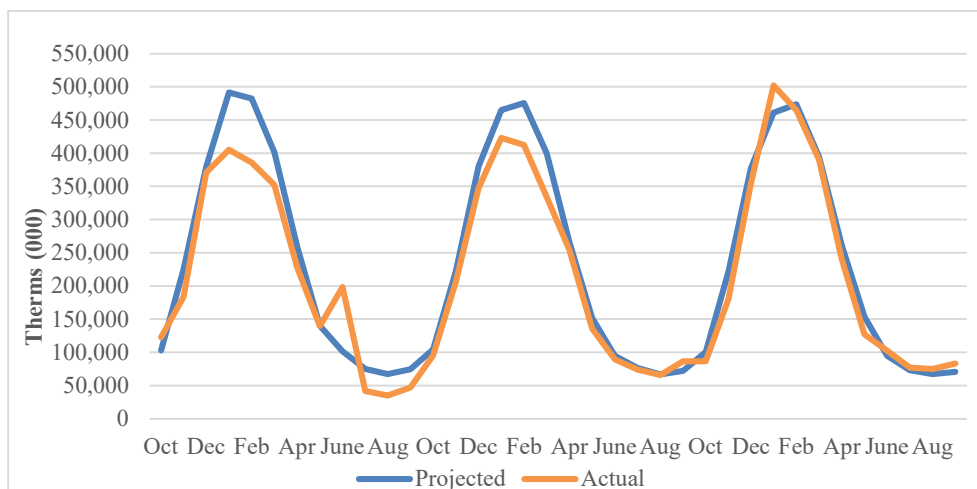
Weather Normalization

PSE&G uses 20 years of data from the Newark weather station for normalization; 24 hours of daily data are averaged, then used to derive monthly averages.

Controls/Approval

Internal review by Sales & Revenue Forecasting and Finance; results presented to PSE&G Board before official.

**PSE&G Gas Projected versus Actual Volume Sales
October 2022 through September 2024⁹⁶**



⁹⁴ Interview PSE&G-1, Interview PSE&G-4, and response to Data Request PSE&G-4. Projected and actual sales data from Data Request PSE&G-17.

⁹⁵ PSE&G had less data after it reclassified a significant number of residential customers from non-heating to heating.

⁹⁶ When asked about the June-September 2023 anomalous data, PSE&G indicated it had overstated the volume of a large customer by 104 million therms in June and offset one-third of that amount in reported sales for the next three months.

PSE&G Electric Forecasting Process Overview⁹⁷

Forecast

The ten-year corporate energy forecast is generally completed by year end; the forecasting process is led by Sales & Revenue Forecasting.

Customer Classes

Principal classes include residential, commercial, and industrial plus large volume customers.

Sales/Demand Forecasting

PSE&G econometric models derive retail sales volume forecasts for individual customer subgroups using between eight and twelve years of usage history. Key inputs include factors such as demographic and economic data, fuel prices, energy efficiency, and normal weather assumptions including a temperature-humidity index. Models reflect assumptions about such factors as EV adoption, solar usage, and mandated usage reduction programs.

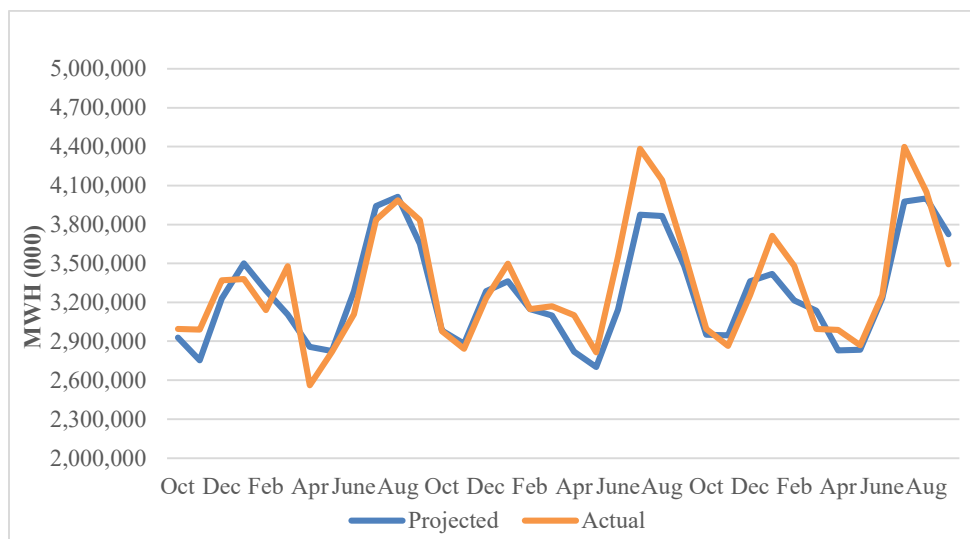
Weather Normalization

PSE&G uses 20 years of data from the Newark weather station for normalization; 24 hours of daily data are averaged, then used to derive monthly averages.

Controls/Approval

Internal review by Sales & Revenue Forecasting and Finance; results presented to PSE&G Board before official.

PSE&G Electric Projected versus Actual Volume Sales October 2022 through September 2024⁹⁸



⁹⁷ Interview PSE&G-1, Interview PSE&G-4, and response to Data Request PSE&G-4. Projected and actual sales data from Data Request PSE&G-17.

⁹⁸ When asked about the sharp drop in sales in April 2023, PSE&G noted that much of that month was unusually hot.

RECO Forecasting Process Overview⁹⁹

Forecast

The ten-year forecast is generally completed by the third quarter; the forecasting process is led by Electric Volume Forecasting, a CEI shared services group.

Customer Classes

Tariff classes are grouped as residential, primary, secondary, and streetlighting for modeling.

Sales/Demand Forecasting

Econometric models are used to derive a volume forecast for customer groups using at least twenty years of usage history. Model inputs include Moody's economic data, electricity prices, customer counts, and weather assumptions. Out-of-model adjustments are applied to reflect assumptions about factors such as additional solar, incremental EVs, electrification, and energy efficiency.

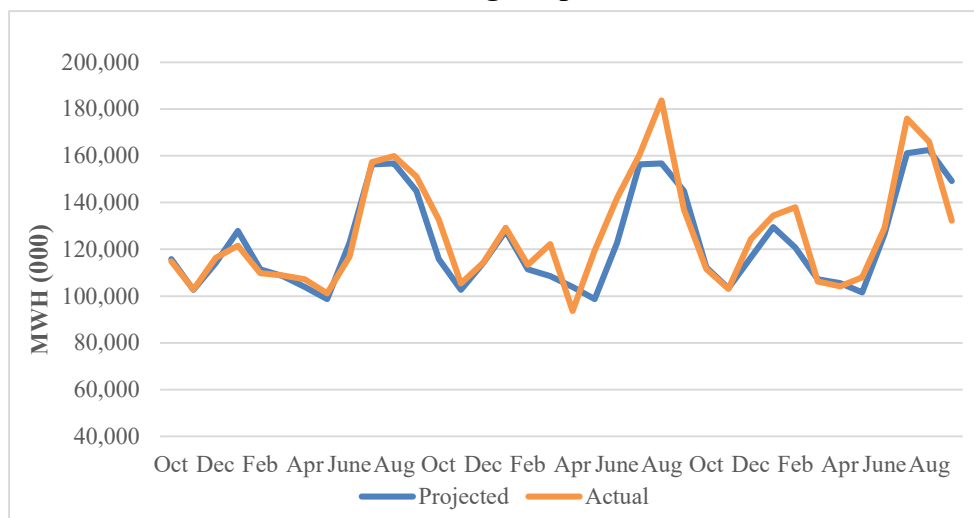
Weather Normalization

RECO uses 10 years of Central Park station data for normalization;¹⁰⁰ 24 hours of daily data are averaged and used to derive monthly averages. Smoothing may be used to mitigate volatility. The forecast is then adjusted to reflect corporate assumptions about the effects of climate change.

Controls/Approval

Internal review including Energy Management and Finance groups although no formal approval.

**RECO Projected versus Actual Volume Sales
October 2022 through September 2024¹⁰¹**



⁹⁹ Interview RECO-1, Interview RECO-5 and response to Data Request RECO-3. Projected and actual sales data from Data Request RECO-5.

¹⁰⁰ The New York Department of Public Service prefers ten years and CEI uses that approach across its footprint.

¹⁰¹ RECO's forecast in the 2023/24 USF filing was the same as 2022/23 due to a clerical error not caught during review.

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JCP&L Forecasting Process Overview¹⁰²

Forecast

The thirty-year monthly forecast is completed in the spring and updated in the fall; the forecasting process is led by the FirstEnergy Load Forecasting group, with one person dedicated to JCP&L.

Customer Classes

Principal classes include residential, commercial, industrial, and public street/highway.

Sales/Demand Forecasting

Itron forecasting software is used to facilitate regression modeling using roughly ten years of monthly usage history. Model inputs include assumptions about end use of electricity for heating and cooling, energy prices, saturation levels, and economic factors. Out-of-model adjustments include those for net metering, energy efficiency, EV penetration, and changes to large customers.

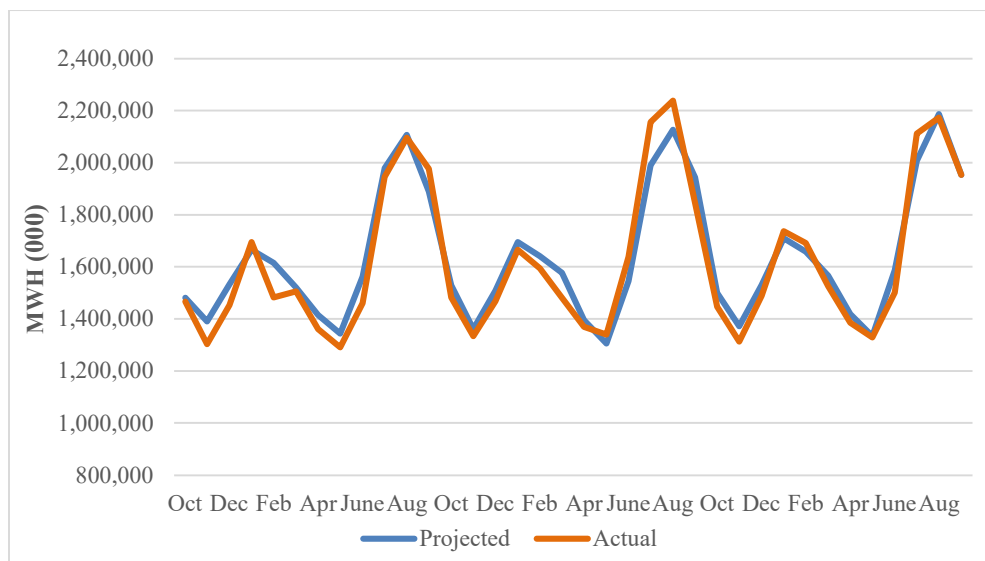
Weather Normalization

JCP&L uses 20 years of data from two stations (Newark and Atlantic City), with weighting based on customers in each portion of its territory, for normalization; 24 hours of daily data are averaged and used to derive the average degree day forecast.

Controls/Approval

Reviewed by executive leadership with informal sign-off at the local utility level.

**JCP&L Projected versus Actual Volume Sales
October 2022 through September 2024**



¹⁰² Interview JCP&L-1, Interview JCP&L-4 and response to Data Request JCP&L-3. Projected and actual sales data from Data Request JCP&L-5.

ACE Forecasting Process Overview¹⁰³

Forecast

The five-year forecast completed in the spring and updated in the fall; the forecasting process is led by the Load Planning group at Pepco Holding Inc. (PHI).

Customer Classes

Tarriff rate classes are grouped into four major categories of residential, small commercial and industrial, large commercial and industrial, and street lighting.

Sales/Demand Forecasting

Iron forecasting software is used to facilitate regression modeling of four principal groups using ten to fifteen years of historical billing data. Model inputs include economic factors and assumptions about solar adoption and energy efficiency, Out-of-model adjustments are applied to reflect assumptions about electrification, incremental EVs, and large load projects.

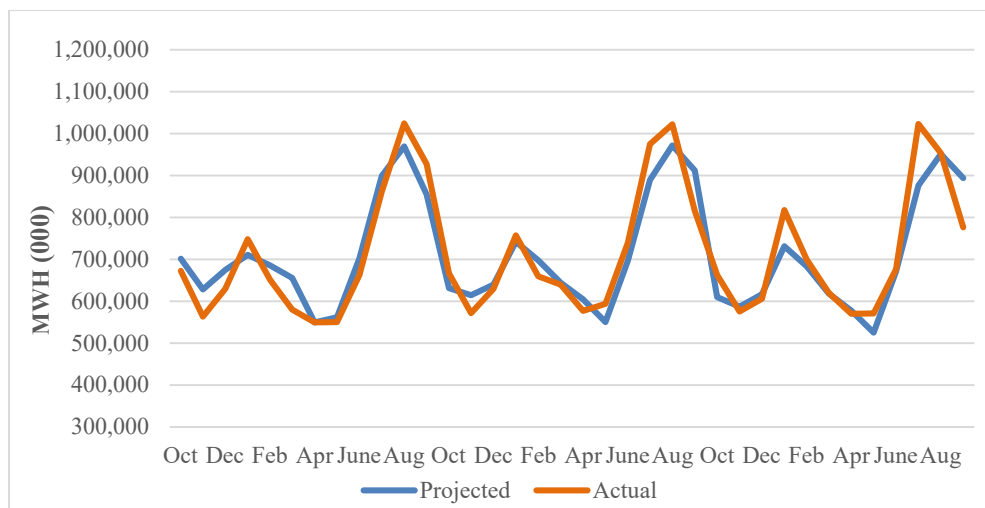
Weather Normalization

ACE uses 30 years of Atlantic City station data for normalization; 24 hours of daily data are averaged, then used to derive monthly and period averages.

Controls/Approval

Presented to the Exelon Senior Manager of Forecasting, then to the PHI CFO for final sign-off.

**ACE Projected versus Actual Volume Sales
October 2022 through September 2024¹⁰⁴**



¹⁰³ Interview ACE-1 and Interview ACE-4. Projected and actual sales data from Data Request ACE-5.

¹⁰⁴ When asked about the larger disparity between forecasted and actual sales in much of 2022/2023, ACE stated it was still trying to reflect covid effects around that time and results proved to be erratic.

Appendix C

Review of Utility Administrative Expenses

Silverpoint reviewed SJG and RECO deferred utility administrative expenses included in USF annual combined filings during the three program years in scope. We examined the nature and purpose of these charges to ensure consistency with the language of the Board's 2010 order and tested a sample of charges to assess the effectiveness of internal controls.

SJG

In each of the three USF combined filings under review, SJG requested recovery of administrative expenses deferred from the prior program year; these costs are summarized on the next table.¹⁰⁵

SJG Administrative Expenses

Period Charges Incurred	Postage	Carrying Costs	Total	Amt in Board Order
July 2021 – June 2022	\$4,711	\$30	\$4,711	\$4,640
July 2022 – June 2023	\$13,463	\$0	\$13,463	\$13,464
July 2023 – June 2024	\$35,369	\$0	\$35,369	\$35,369

Postage charges during the first period were for printing and mailing of USF/Fresh Start welcome letters. The following year, SJG began sending USF expiration letters to customers in month eleven reminding them to reapply for benefits. In the third period, postage charges were printing and mailing costs for with seven types of USF/Fresh Start letters, including those newly required under the 2023 Order.¹⁰⁶ The company did not seek recovery for email and social media costs associated with additional outreach to Fresh Start participants in months six and twelve. While SJG believes such costs would be recoverable under the 2010 Order, it has no way to readily track these charges as applying specifically to Fresh Start versus other customer related issues.¹⁰⁷

SJG postage charges were based on detailed monthly invoices from the company's bill printing contractor. The Customer Operations group maintains a spreadsheet to track the portion of each vendor bill that pertains to USF/Fresh start letters. Each quarter, the group prepares a journal entry to move these charges from a general O&M expense account to a specific USF/Fresh Start expense account. This approach would exclude these USF/Fresh Start expenses from the Customer Operations group's test year cost of service used to set base rates.

As part of our testing and validation work, Silverpoint reviewed the company's supporting documentation for five individual charges; results are summarized on the next table.¹⁰⁸

¹⁰⁵ Responses to Data Request PSE&G-9, Data Request PSE&G-10, and Data Request PSE&G-11.

¹⁰⁶ These include USF welcome, portability, and expiration letters, and Fresh Start welcome, reminder, final payment, and congratulations letters.

¹⁰⁷ SJG Interview #3; responses to Data Request SJG-9 and Data Request SJG-10.

¹⁰⁸ SJG Interview #3 and responses to Data Request SJG-9 and Data Request SJG-11.

Testing - SJG Administrative Charges

	Postage	Carrying Costs	Notes
<i>July 2021 - June 2022</i>			
Apr. 2022	\$3,261	\$6	Postage charges verified; carrying costs included in error
<i>July 2022 - June 2023</i>			
July 2022	\$4,774		Error in tracking spreadsheet resulted in \$186 overcharge
<i>July 2023 - June 2024</i>			
Dec. 2023	\$11,836		Postage charges verified
Mar. 2024	\$8,355		Postage charges verified

By way of summary, SJG mistakenly included a total of \$30 in carrying charges in the administrative expense claimed in the 2022/23 combined filing. SJG overstated its administrative expenses by \$186 in the 2023/24 combined filing.

RECO

In each of the three USF combined filings under review, RECO requested recovery of administrative expenses deferred from the prior program year; these costs are summarized on the next table.¹⁰⁹

RECO Administrative Expenses

USF Program Year	Advertising	Postage	Total	Amt in Board Order
July 2021 – June 2022	\$1,238	\$1,571	\$2,809	\$2,809
July 2022 – June 2023	\$988	\$2,304	\$3,292	\$3,293
July 2023 – June 2024		\$856	\$856	\$857

RECO’s postage costs through the end of 2023 were based on the actual cost to mail each USF and Fresh Start letter. During that time, these letters were done manually as the utility did not have a large number of customers on these programs.¹¹⁰ These costs originated with the utility’s internal mailroom, which charged this postage to a specific POET and task number assigned for capturing USF-related expenses.¹¹¹ RECO ceased including postage in its administrative costs in late 2023 during the utility’s transition from its legacy billing system to Oracle CC&B. The manual process to calculate and allocate these was deprioritized and temporarily suspended.¹¹²

Advertising costs during the first two periods were associated with email and social media services provided by outside vendors. Such costs are managed by a shared services group, Corporate

¹⁰⁹ Responses to Data Request PSE&G-9, Data Request PSE&G-10, and Data Request PSE&G-11.

¹¹⁰ The new billing system automated a portion of these letters, but some are still done manually.

¹¹¹ POET is an Oracle subledger string used to categorize expenses for projects consisting of Project, Organization, Expenditure Type and Task.

¹¹² Response to Data Request RECO-13. RECO expects to resume calculating and including applicable postage costs in administrative expenses for the 2026 combined filing.



Communications. The emails and social media boosts were used to provide information to customers about USF and HEA funds that may be available to them for utility assistance. At that time, the company apparently concluded that the intent of the 2010 Order was to allow deferral for the cost of sending communications to customers and was therefore not limited to only letters. RECO ceased including advertising costs in deferred administrative costs after June 2023 as a result of a change in policy. Responsibility for USF-related administrative charges was moved to a newly established Energy Affordability team, which now believes that only postage is eligible for inclusion in such charges.¹¹³

All accounting transactions for the USF administrative costs are handled through balance sheets accounts. This approach keeps regulatory balances separate from traditional customer service-related O&M spending so that they would not be included in the cost of service used to set base rates.¹¹⁴

As part of our testing and validation work, Silverpoint reviewed the company’s supporting documentation for five individual charges; results are summarized on the next table.¹¹⁵

Testing - RECO Administrative Charges

	Advertising	Postage	Notes
<i>July 2021 - June 2022</i>			
Nov. 2021	\$500		AP/invoice charge verified
Jan. 2022		\$222	Pitney Bowes charge through Facilities Services verified
<i>July 2022 - June 2023</i>			
July 2022	\$500	\$819	AP/invoice charge verified; Pitney Bowes charge verified
<i>July 2023 - June 2024</i>			
Nov. 2023		\$256	Pitney Bowes charge through Facilities Services verified

By way of summary, RECO successfully verified the charges with detailed balance sheet accounting entries.

¹¹³ RECO Interview #3 and responses to Data Request RECO-12 and Data Request RECO-14.

¹¹⁴ Response to Data Request RECO-15.

¹¹⁵ RECO Interview #3 and responses to Data Request RECO-11.

Appendix D

DCA USF and Fresh Start Related Data Processing

USF and HEA Program Data Processes

DCA's Universal Service Fund/Home Energy Assistance (USF/HEA) data processing system is an integrated set of batch, database, and web-service components that support the intake and adjudication of HEA, USF, Emergency, and Recertification program applications. It also supports the transmission of eligibility and benefit data to utilities, the receipt and processing of utility responses, and maintenance of portability and Fresh Start eligibility data.

The system's core components are built on Microsoft Power Apps and Dataverse, which underpin both the public-facing portal and the internal model-driven application used by DCA adjudicators. These applications are designed to manage the lifecycle of benefit applications from submission to final adjudication. The applicant portal offers a user-friendly interface where the public can submit applications for assistance. This portal allows users to upload necessary documents and track the status of their applications. The adjudication function is used internally by DCA personnel to review and process benefit applications. It also enables adjudicators to create applications on behalf of applicants, ensuring flexibility and support for all users.¹¹⁶

The main data warehouse for benefit programs is referred to as Lakehouse. Lakehouse stores information from applications submitted through the public portal. It also stores information from state agencies that qualify residents enrolled in other benefit programs like Lifeline and the Supplemental Nutrition Assistance Program (SNAP). In particular, the Department of Human Services (DHS) Division of Family Development provides data from its Family Assistance Management Information System (FAMIS) on active SNAP cases that are loaded into Lakehouse. The DHS Division of Aging Services also loads its active Pharmaceutical Assistance to the Aged & Disabled (PAAD) cases into Lakehouse.¹¹⁷

DCA sends information related to the USF and HEA programs to utilities via the State's MoveIt portal in a "Send" file every Friday. Each utility's information technology (IT) system and/or customer information system processes information in DCA Send files within days of receipt, and in turn transmits information back to DCA the following Thursday in a "Receive" file. Records in the Receive file contain the original data fields sent from DCA with additional information added by the utility as applicable. A flow diagram illustrating the general data exchange between DCA and a utility, beginning with an HEA record through the processing of USF benefits, is included on the last page of this appendix.

DCA exchanges different types of HEA and USF related records with the utilities, each of which is meant to accomplish a specific purpose (e.g., to request energy burden information) and which is identified by a distinct header code. A list of these record types, header codes, and their purpose is summarized on the next table.¹¹⁸

¹¹⁶ Architectural Description Document provided in response to Data Request DCA-4.

¹¹⁷ Architectural Description Document provided in response to Data Request DCA-4.

¹¹⁸ Material provided for DCA Interview #7.

Record Type	Header Code/Action	Purpose/Creation Trigger
HEA	BENE	Generated when HEA benefit status is New or Active and eligible for payment
HEA	COOL	Generated during cooling assistance processing
HEA	EMER	Generated for emergency HEA benefits
HEA	SUPP	Generated for supplemental HEA payments
HEA	UNKWN	Generated when the utility account or company is unknown
HEA	PORT	Generated when the customer ports utilities
USF	APP	Generated to request energy burden from utilities
USF	BENE	Generated when USF benefit is calculated and payable
USF	RECAL	Generated when energy burden or account data causes recalculation
USF	UNKWN	Generated when the utility account or company is unknown
USF	PORT	Generated during portability events
USF	CLOSE	Generated when the benefit or account is closed

After a utility brings the weekly Send file data into its system, certain automated processes take place. For example, when a USF APP record is received, the utility system will attempt to match the record to a specific customer using the customer account number. Utility systems are able to successfully match most APP records that are received. If not, a manual exception process is triggered at most utilities.¹¹⁹

If the utility can match a USF APP record, it calculates an energy burden for the customer based on one year of bills at his or her premises. The utility transmits the energy burden information to DCA in the following Thursday's Receive file. DCA can then calculate the USF benefit based on a number of factors that include annual household income and other HEA and Lifeline benefits received. DCA returns a USF BENE record with the customer's annual USF benefit amount, generally in the next day's Send file. After the utility applies the USF credit on the customer's account, it will relay the credit date back to DCA in next Thursday's Receive file.

Unknown Records

In most instances, DCA is able to determine the utility to which a specific benefit application applies and can direct the relevant record to that company in its weekly Send file. When an eligible application containing address information is present, but the utility name or the account number is either missing or unverifiable, DCA will create a record with an UNKWN header code. There are two categories of UNKWN records. The first is those for which the utility is known but the account number does not match DCA's files. Those records can be directed to a specific utility.

¹¹⁹ ACE does not use a manual exception process to investigate USF APP records that cannot be automatically matched. Unmatched records are simply not returned to DCA in ACE's Receive file (Interview ACE-2).



The second type of unknown records is those without a utility code. Those records are sent to all utilities in the hopes that one can identify and claim the customer so processing can continue.

Many of the UNKWN records are created at the beginning of the benefit season when DCA processes large numbers of records uploaded from other agencies (e.g., DHS SNAP recipients). These records often lack complete information such as customer account numbers or utility identifiers. DCA adjudicators cannot correct these records since no customer documents are provided by those agencies.¹²⁰ When the utilities receive UNKWN records, their systems attempt to match them using certain fields such as name, address, or social security number. If a match is made, the utility adds missing information, calculates an energy burden, and returns the application record in the next Receive file. Most utilities do not return UNKNWN records back to DCA in their Receive file unless they can match and claim the customer application.

Fresh Start Database API

Under the original 2004 Order, Fresh Start was a once-in-a-lifetime opportunity for arrearage forgiveness. With the 2021 Order, customers could qualify for benefits regardless of past participation. The Board's 2023 Order changed eligibility criteria for Fresh Start to once every five years, starting with the 2024/2025 program year. DCA was tasked with creating a Database Application Programming Interface (API) that would enable utilities to determine if and when its customer had previously received Fresh Start from another utility.¹²¹ To create the initial database, utilities provided DCA with historical information on customer Fresh Start enrollments over the past five years, including program start date and fuel type (gas, electricity, or both).

In order to keep the database up to date and useful, utilities provide DCA with Fresh Start enrollment dates on an ongoing basis. Some utilities use the weekly Receive file to provide information on new Fresh Start enrollments. Others transfer enrollment information through the API inquiry function.¹²² According to DCA, ongoing submission of information by the utilities is discretionary, not mandatory, so this data repository may not necessarily be complete.¹²³

The Fresh Start inquiry function allows utilities to search for its customers by various data fields including social security number (SSN), address, phone number, and email address. The process for finding a match varies by utility.¹²⁴ Both DCA and the utilities recognize that this inquiry function is not foolproof. It is possible that a utility will not find a match even though the customer received Fresh Start within the past five years. Some utilities have fewer data fields to search with, particularly when they do not retain customer SSNs.¹²⁵ Spelling differences in addresses, for example, can also prevent a match. If a utility cannot locate a match in the database, the standard protocol is to assume the customer did not participate in Fresh Start within the last five years.

¹²⁰ Applications that come in from utilities, community-based organizations, or the customer portal come with attached documentation that would allow DCA to reach out to the customer if a utility were not identified

¹²¹ A database API enables efficient communications between software applications and the database, allowing applications to request and manipulate data residing in the database through a standardized interface.

¹²² Interview NJNG-2, Interview RECO-2, Interview ACE-2, and Interview ETG-SJG-2.

¹²³ Interview DCA-2.

¹²⁴ Interview DCA-3.

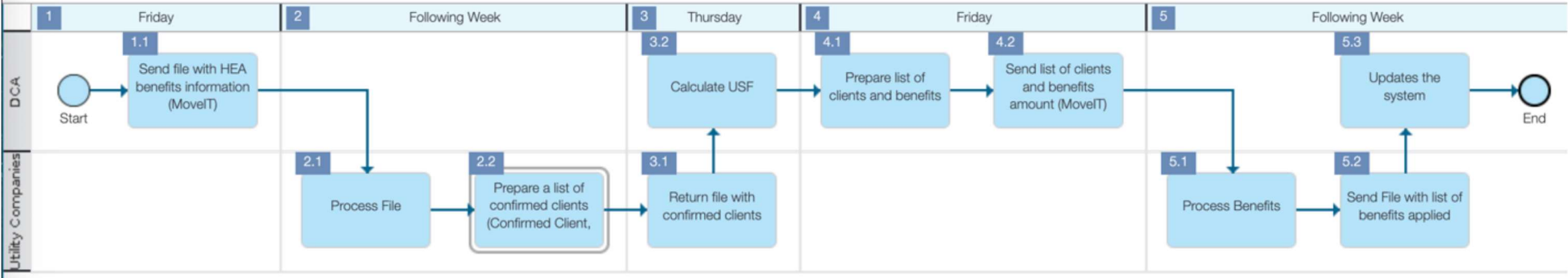
¹²⁵ Not all utilities retain social security numbers in their systems. Those that do not, like PSE&G, are not able to utilize that field to match an unknown record (Interview PSE&G-2).



If a match is found, the DCA inquiry returns information that allows the utility to determine whether the customer had been enrolled in Fresh Start within five years of the current potential enrollment, i.e., the date of the USF BENE record. The inquiry returns dates as well as indicators that denote that, within the last five years, either (a) the customer had received Fresh Start for both electric and gas, (b) the customer received Fresh Start for just electric, (c) the customer received Fresh Start for just gas, and (d) the customer received Fresh Start for neither electric nor gas and is eligible for both. Silverpoint was unable to obtain more in-depth information about the logic and processing used within this DCA function to ascertain whether it is consistent with Board Orders.¹²⁶

¹²⁶ Silverpoint requested a follow-up interview with DCA on this and other data processing issues, but the agency declined.

DCA Weekly Data Transfer Process with Utilities



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Appendix E

Administrative Cost Governance Process Narrative

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[Note: Process Narrative pagination suppressed for the purpose of inclusion as an appendix]

Administrative Cost Governance Process Narrative

Executive Overview

This document provides a consolidated narrative of the administrative cost lifecycle for the Universal Service Fund (USF) program managed by the Department of Community Affairs (DCA), Office of Home Energy Assistance (OHEA). Its purpose is to present a clear, end-to-end view of administrative budgeting, procurement, payment, reconciliation, IT governance, and subgrantee oversight.

The process descriptions were developed through structured interviews, system walkthroughs, document requests, and review of supporting artifacts provided by DCA and the New Jersey Board of Public Utilities (BPU). DCA noted that many administrative workflows operate through established practice, institutional knowledge, and embedded State system controls rather than through consolidated Standard Operating Procedures (SOPs). Accordingly, this document synthesizes information from multiple sources into a unified, cross-functional representation of current operations.

The narratives reflect analysis of Board Orders, contract amendments, allocation methodologies, monitoring tools, and fiscal documentation, complemented by interviews with program, fiscal, procurement, IT, and monitoring personnel. In areas where complete end-to-end SOPs were not available, process descriptions are based on management representations corroborated by available transactional evidence.

The administrative control architecture reflects a layered governance model consisting of (1) operational execution, (2) fiscal validation, (3) centralized financial processing, (4) staff-level oversight, and (5) statutory Board authorization, with independent disbursement execution by Treasury. These layers are designed to function collectively to preserve structural separation between initiation, authorization, recording, and payment execution.

This document is intended solely to confirm factual understanding of existing processes. It does not constitute audit findings, identify control gaps, or present evaluative conclusions.

1. Enterprise Administrative Cost Framework

The USF administrative lifecycle operates across six integrated process cycles:

1. Administrative Budget Development & Cost Allocation
2. Procurement & Obligation Establishment
3. Invoice Processing & Payment

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4. Treasury Posting & Fiscal Year-End Reconciliation
5. IT / IBM Governance & Budget-to-Payment Oversight
6. Subgrantee (CBO & CWA) Administrative Cost Governance

Across all cycles, spending authority is governed by layered internal and external controls, including:

- Formal Board Orders issued by the BPU Board establishing budget and reimbursement authority
- Pre-obligation funding validation
- Purchase Order encumbrance controls in NJSTART
- Fiscal coding and PO-to-invoice validation
- eFARS approval workflow routing
- Centralized disbursement execution by Treasury
- Annual reconciliation between DCA records, Treasury postings, and BPU governance oversight

A foundational control principle across all cycles is:

Initiation ≠ Authorization ≠ Payment Execution

In other words, no single function initiates, approves, and disburses funds.

2. Distinction Between DCA Fiscal Functions

For clarity, two distinct fiscal functions within DCA are referenced throughout this document.

1. Fiscal Division (Program-Aligned Fiscal Unit)

The Fiscal Division operates in alignment with program management and functions as an extension of operational oversight. Responsibilities include:

- Assigning accounting strings
- Validating funding availability prior to obligation
- Supporting budget consolidation and allocation application

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- Performing PO-to-invoice match validation
- Preparing reconciliation schedules and financial reporting packages

This unit provides preventive and detective fiscal validation prior to centralized financial processing.

2. Fiscal Department (Office of the CFO)

The Fiscal Department operates within the Office of the Chief Financial Officer and performs centralized financial processing functions, including:

- Coordination of Purchase Order issuance (with Procurement)
- Invoice workflow routing and payment processing
- Financial system posting
- Coordination with Treasury for disbursement execution

The separation between Fiscal Division and Fiscal Department provides structural segregation between funding validation and centralized payment processing.

3. Distinction Between BPU Staff and BPU Board

The Memorandum of Understanding between DCA and the New Jersey Board of Public Utilities (BPU) establishes distinct governance roles.

BPU Board – Statutory Governing Authority

The BPU Board:

- Holds statutory authority over the USF program
- Issues formal Board Orders
- Approves administrative budgets
- Authorizes reimbursement to Treasury
- Approves program modifications requiring regulatory action

Spending authority and reimbursement authority are formalized only through Board action.

BPU Staff – Operational Oversight & Monitoring

BPU Staff, including the Division of Audit and Division of Customer Assistance:

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- Review financial and performance reports submitted by DCA
- Monitor quarterly and annual expenditure reporting
- Participate in monthly and quarterly oversight meetings
- Receive subgrantee monitoring reports and audit materials
- Request additional reporting under the MOU

BPU Staff perform monitoring, analytical, and oversight functions, and do not issue Board Orders or exercise statutory approval authority.

This distinction is reflected throughout the lifecycle narratives, particularly in budget approval and year-end reimbursement processes.

4. Scope Clarification – Treasury Functions

The New Jersey Department of Treasury is depicted in this document as a centralized disbursement authority responsible for payment execution and appropriation alignment within State financial systems.

The internal organizational structure, segregation of duties, and system-level controls within Treasury were outside the scope of this engagement. Accordingly, Treasury is represented at the interface level (receipt of authorized payment and execution of disbursement) rather than at an internal operational detail level.

No conclusions are drawn regarding Treasury internal control design or operating effectiveness.

Cycle 1 – Administrative Budget Development & Cost Allocation

1. Overview

DCA, Office of Home Energy Assistance (OHEA), develops the Universal Service Fund (USF) administrative budget annually through a structured process involving program management, fiscal oversight, Human Resources (HR), procurement, and Board of Public Utilities (BPU) governance review.

The process was described during Interview #2 and Interview #4 and aligns with the scope outlined in the engagement agenda. The budget includes:

- Personnel and fringe

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- Consultants / Professional Services (including IBM)
- Materials & Supplies
- Equipment
- Other administrative costs
- Subgrantee administrative costs (CBOs and CWAs)

DCA described an annual administrative budgeting process that begins early in the calendar year and culminates in formal Board approval prior to, or shortly after, the start of the State fiscal year (July 1). Historically, Board Orders approving the USF administrative budget have been issued between August and October, following submission during the late spring or early summer.

The budgeting process is led by the Office of Home Energy Assistance (OHEA), under the direction of Fidel Ekhelar (Program Manager), and involves coordination with DCA Fiscal (including Rosaura Collazo, Safiyah Abdus-Salaam), DCA IT leadership (including John Harrison), senior management (including Sheri Malnak-Renn), and BPU stakeholders (including Division of Audit and Division of Customer Assistance Program Staff).

DCA indicated that the administrative budget is not substantively complete until procurement-dependent elements (e.g., waiver approvals, RFP awards, IBM PCR approvals, and related purchase orders) are sufficiently developed to support the cost assumptions submitted to the BPU.

2. Purpose

This document summarizes our understanding of the Administrative Budget Development lifecycle based on interviews, document review, and system walkthroughs.

It is intended for factual confirmation prior to transaction testing and does not represent audit findings.

3. Lifecycle Step Table — Administrative Budget Development

Step	Activity	Primary Owner	Supporting Roles	System / Artifact	Control Output
1	Review prior-year actuals & encumbrances	Program (Fidel)	Fiscal Division (Rosaura)	NJCFS, NJSTART reports	Baseline cost anchor
2	Identify operational needs	Program	IT, HR	Planning worksheets	Documented assumptions

Step	Activity	Primary Owner	Supporting Roles	System / Artifact	Control Output
3	Develop personnel projections	HR	Program, Fiscal Division	HRIS, salary schedules	Approved salary & fringe model
4	Develop IT PCR & SOW	IT (John H.), IBM	Program, Mgmt	PCR docs, Road Map	Defined IT scope & cost ceiling
5	Develop subgrantee budget	Program	BPU, Fiscal Division	ACS data, RFP model	Allocation model & targets
6	Apply HEA/USF split (52/48)	Program + Fiscal Division	—	Allocation schedule	Allocated cost schedule
7	Consolidate draft budget	Program	Fiscal Division	Budget package	Draft administrative budget
8	Senior Management approval	Sheri	Program	Approval memo/email	Internal authorization
9	Submit to BPU	Mgmt	—	Board submission package	Governance review trigger
10	BPU Board Order approval	BPU Board	Staff	Board Order	Spending authority
11	Load budget in system	Fiscal Department	IT	NJCFS/NJSTART	System-based authority

For FY2023, the program office explained that the variance between budgeted and actual personnel costs resulted from the release of approximately thirty temporary staff in October 2023 who had originally been budgeted for the full fiscal year. As a result, actual personnel expenditures were lower than budgeted projections. Updated actual tracking schedules were prepared to reflect this staffing change.

4. Process Narrative (Tied to Step Table 1–11)

(Step 1) - The administrative budget development process begins with Program leadership conducting a structured review of prior-year actual expenditures and open encumbrances using NJCFS and NJSTART reports. This review establishes a historical baseline and identifies structural changes such as expiring contracts, vacancy trends, or planned program expansions.

(Step 2) - Following baseline review, Program identifies operational needs across all administrative cost categories including personnel, IT services, consultants, equipment, and subgrantee costs. These needs are documented in planning worksheets that serve as the foundational assumptions for the upcoming fiscal year.

(Step 3) - Personnel projections are developed by HR using Civil Service salary schedules and Treasury-issued fringe rates. HR provides validated compensation assumptions, which are confirmed by the Fiscal Division (program-aligned fiscal unit) for funding alignment prior to consolidation

(Step 4) - IT administrative costs are formalized through the Project Change Request (PCR) process. IBM, in coordination with IT leadership and Program, develops a Road Map and Statement of Work (SOW) defining scope, labor categories, approved rates, estimated hours, and aggregate cost ceiling. Management approval of the PCR is required prior to inclusion in the draft budget.

(Step 5) - Subgrantee administrative costs are developed using either historical production models or ACS-based household projections. Award targets are calculated and anticipated federal funding levels are incorporated into the model.

(Step 6) - Shared administrative costs are allocated between HEA and USF using the 52% / 48% allocation formula. This allocation is applied consistently across cost categories. Administrative cost allocations are supported by allocation workbooks and actual cost tracking schedules; however, formal documentation describing the underlying allocation methodology and periodic reassessment of allocation percentages was not provided in narrative policy form.

(Step 7) - Program consolidates all cost components into a draft administrative budget,

(Step 8) – The consolidated budget undergoes Senior Management review and approval.

(Step 9) - Once internally approved, the budget is formally submitted to BPU Staff (Division of Audit / oversight units) for analytical review prior to formal presentation to the Board. BPU Staff review is advisory and analytical in nature; statutory spending authority is conferred only upon issuance of the formal Board Order.

(Step 10) - Spending authority is not established until the BPU issues a formal Board Order.

(Step 11) - Following Board approval, Fiscal loads the approved budget into the State financial system, operationalizing authority for encumbrance and obligation.

5. Key Control Touchpoints



Control ID	Control Activity	Type	Owner	Frequency	Risk Mitigated
BD-01	Prior-year baseline review	Preventive	Program/Fiscal	Annual	Arbitrary budget inflation
BD-02	HR salary schedule validation	Preventive	HR	Annual	Misstated personnel costs
BD-03	PCR approval before inclusion	Preventive	IT/Mgmt	Per initiative	Unauthorized IT scope
BD-04	Allocation formula application (52/48)	Preventive	Program/Fiscal Division	Annual	Misallocation between programs
BD-05	Senior Mgmt approval prior to submission	Governance	Mgmt	Annual	Unauthorized submission
BD-06	BPU Board Order approval	Governance	BPU Board	Annual	Spending without authority

6. Segregation of Duties (SoD)– Budget Phase

Function	Program	HR	IT	Fiscal Division	Fiscal Dept	Mgmt	BPU Staff	BPU Board
Develop budget assumptions	✓	✓	✓	●	×	×	×	×
Apply allocation formula (52/48)	✓	×	×	✓	×	×	×	×
Technical validation of cost inputs	●	✓	✓	✓	×	×	×	×
Approve internal budget submission	×	×	×	×	×	▲	×	×
Review draft budget	×	×	×	×	×	×	●	×
Issue Board Order (spending authority)	×	×	×	×	×	×	×	▲

Function	Program	HR	IT	Fiscal Division	Fiscal Dept	Mgmt	BPU Staff	BPU Board
Load budget into system	×	×	×	×	✓	×	×	×

a. Segregation of Duties Legend

- ✓ **Primary Responsibility** – Role performs or directly executes the activity.
- **Participatory / Supporting Role** – Role contributes input, performs review, or provides validation but does not hold final approval authority.
- ▲ **Formal Approval Authority** – Role has authority required to advance the process.
- ✗ **No Direct Involvement** – Role does not participate in execution or approval.
- **System-Enforced Control** – Control is enforced automatically through system configuration (e.g., encumbrance ceilings, workflow routing).

The SoD matrices reflect functional process roles based on interview representations. They do not represent system access rights, privilege configurations, or override capabilities within NJSTART, NJCFS, eFARS, or SAGE.

Cycle 2 and 3 – Procurement → Payment Lifecycle

1. Overview

The Department’s procurement and payment activities follow a structured, policy-driven lifecycle aligned with State procurement requirements. The process incorporates purchase-order-based encumbrance controls, multi-level invoice review, and final disbursement by the State Treasury. Each step includes defined responsibilities and segregation-of-duties checkpoints to ensure fiscal integrity, transparency, and compliance.

2. Purpose

This document summarizes our understanding of the Procurement to Payment lifecycle based on interviews, document review, and system walkthroughs.

It is intended for factual confirmation prior to transaction testing and does not represent audit findings.



3. Cycle 2 – Procurement & Obligation

3a. Cycle 2 – Step Table

Step	Activity	Owner	System	Control Output
1	Identify operational need	Program	Internal memo	Requisition trigger
2	Confirm funding availability	Fiscal Division	NJCFS	Funding certification
3	Submit General Purchase Requisition	Program	NJSTART	Workflow initiation
4	Determine procurement method	Procurement (with Fiscal Department coordination where required)	NJSTART	Approved method
5	Waiver approval (if required)	Treasury	Waiver Module	External authorization
6	Issue Purchase Order	Fiscal Dept/ Procurement	NJSTART	Encumbrance established
7	Encumbrance enforcement	System	NJSTART	Spending ceiling enforced

Encumbrance = legal spending cap

3b. Cycle 2 – Process Narrative (Tied to Step Table 1–7)

(Step 1) - The procurement lifecycle begins when Program identifies an operational need and prepares a General Purchase Requisition. Purchase initiation is documented through a General Purchase Request Form, which includes requestor certification, supervisory approval, fiscal coding validation, and Division Director approval prior to obligation.

(Step 2) - Prior to obligation, Fiscal Division confirms funding availability within NJCFS, ensuring sufficient budget authority exists.

(Step 3) - Program submits the requisition in NJSTART, triggering Procurement review.

(Step 4) - Procurement determines the appropriate procurement vehicle, which may include a State contract, competitive solicitation, or waiver-based procurement.

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(Step 5) - Where required, Treasury reviews and approves waiver requests via the NJSTART Waiver Module, providing external oversight. When procurements are executed through a waiver of advertising, the Division follows statutory exceptions pursuant to N.J.S.A. 52:34-9 and 52:34-10. Waiver requests require pre-approval from the Division of Purchase and Property (DPP) and submission of a complete waiver package including statutory justification, competition documentation where required, vendor certifications, and designation of a State Contract Manager. Agencies are prohibited from directing vendors to begin work prior to formal approval absent authorized confirming waiver procedures.

(Step 6) - Upon approval of the procurement method, Procurement (PO issuance) in coordination with Fiscal Department (system processing) issues a Purchase Order in NJSTART.

(Step 7) - The system automatically records an encumbrance, which establishes a legally enforceable spending ceiling equal to the approved PO amount. The encumbrance functions as a preventive control, prohibiting disbursement beyond authorized limits.

3c. Cycle 2 – Key Controls – Procurement

Control ID	Control Activity	Type	Owner	Risk Mitigated
PR-01	Pre-obligation funding confirmation	Preventive	Fiscal	Over-obligation
PR-02	Procurement method compliance	Preventive	Procurement	Non-compliant contracting
PR-03	Treasury waiver review	Governance	Treasury	Unauthorized sole-source
PR-04	PO encumbrance control	System Preventive	NJSTART	Spending beyond ceiling

3d. Cycle 2 – Segregation of Duties Matrix – Procurement

Function	Program	Fiscal Division	Fiscal Dept/ Procurement	Management	BPU	Treasury
Identify operational need	✓	✗	✗	✗	✗	✗

Function	Program	Fiscal Division	Fiscal Dept/ Procurement	Management	BPU	Treasury
Assign Accounting String/ Funding validation	×	✓	×	×	×	×
Determine procurement method	×	●	✓	×	×	×
Waiver approval (if required)	×	×	×	×	×	▲
Issue Purchase Order	×	×	✓	×	×	×
Encumbrance enforcement	●	●	●	●	●	●

Funding confirmation reflects the fiscal team’s validation prior to procurement issuance. Procurement retains authority to issue Purchase Orders. Encumbrance controls are system-enforced and prevent spending beyond authorized limits. Treasury involvement occurs at waiver approval stage when applicable.

4. Cycle 3 – Invoice Processing & Payment

4a. Cycle 3 – Lifecycle Step Table

Step	Activity	Owner	System	Control Output
1	Receive invoice	Program/AP	AP intake	Invoice log
2	Verify service delivery	Program	Contract docs	Performance validation
3	PO-to-invoice match	Fiscal Division	NJSTART	Quantity & rate validation
4	Coding review	Fiscal Division	NJCFS	Proper classification
5	Workflow approval	Fiscal Department	eFARS	Audit trail
6	Execute payment	Treasury	NJCFS	Independent disbursement

4b. Cycle 3 – Invoice Processing & Payment Narrative (Tied to Step Table 1–6)

(Step 1) - Upon receipt of goods or services, vendors submit invoices to DCA, which are logged via AP intake procedures.

(Step 2) - Program performs service verification, confirming that deliverables align with contract scope and performance expectations.

(Step 3) – Fiscal Division performs a PO-to-invoice match in NJSTART, validating:

- Approved rates
- Quantities or hours
- Remaining encumbrance balance

(Step 4) – Fiscal Division also performs coding review to ensure correct program classification and allowability.

(Step 5) - Invoices are routed through eFARS by the Fiscal Department (CFO organization), creating an electronic approval trail.

(Step 6) - Final payment is executed by Treasury in NJCFS, providing structural segregation between approval and disbursement functions. Treasury’s independent execution of payment provides structural separation between approval and disbursement.

4c. Cycle 3 – Key Controls – Payment

Control ID	Control Activity	Type	Owner	Risk Mitigated
PY-01	Service verification	Operational	Program	Payment for undelivered service
PY-02	PO match validation	Detective	Fiscal	Overbilling
PY-03	eFARS workflow	Preventive	System	Unauthorized payment
PY-04	Treasury execution	Governance	Treasury	Cash misappropriation

4d. Cycle 3 – Segregation of Duties Matrix – Invoice Processing & Payment

Function	Program	IT	Insight	Fiscal Division	Fiscal Dept/ Procurement	BPU	Treasury
Verify service delivery	✓	●	●	×	×	×	×



Function	Program	IT	Insight	Fiscal Division	Fiscal Dept/ Procurement	BPU	Treasury
Validate invoice accuracy	✓	●	✓	●	×	×	×
Perform PO-to-invoice match	×	×	×	✓	×	×	×
Approve workflow (eFARS)	●	●	×	●	✓	×	×
Execute payment	×	×	×	×	×	×	▲

Program and Fiscal both participate in layered review activities. This represents cumulative validation rather than fully independent approval hierarchies.

Final cash disbursement authority resides exclusively with State Treasury, providing structural separation between approval and payment execution.

Cycle 4 – Treasury & Reconciliation Framework

1. Overview

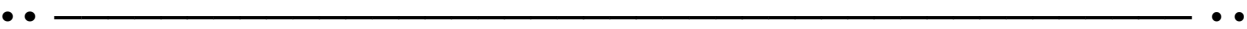
Annual reconciliation schedules are prepared to align DCA recorded administrative expenditures with Treasury-paid amounts and BPU reimbursement calculations. Discussions identified timing-related differences between (1) DCA recorded expenditures and commitments, (2) Treasury disbursements, and (3) amounts reimbursed via June Board Orders. A consolidated documented reconciliation methodology narrative describing standard reconciling items was not provided during walkthrough.

The reconciliation process operates through three coordinated checkpoints—July fiscal year-end snapshot, April commitment finalization, and the June BPU Board Order reimbursement. Together, these controls provide accuracy, transparency, and external governance oversight.

2. Purpose

This document summarizes our understanding of the Treasury Posting and Reconciliation process based on interviews, document review, and system walkthroughs.

It is intended for factual confirmation prior to transaction testing and does not represent audit findings.



3. Lifecycle Step Table – TREASURY & YEAR-END RECONCILIATION

Step	Activity	Owner	System	Control Output
1	July Snapshot (actuals + encumbrances)	Fiscal	NJCFS	Baseline reconciliation
2	April PO commitment review	Fiscal	NJSTART	Valid obligation list
3	Close outdated encumbrances	Fiscal/Procurement	NJSTART	Clean commitment balance
4	Submit reconciliation to BPU Staff (Division of Audit)	Fiscal	Reconciliation worksheet	Governance review
5	Issue June Board Order	BPU Board	Board Order	Reimbursement authority
6	Treasury executes reimbursement	Treasury	NJCFS	Settlement

4. Process Narrative (Tied to Step Table 1–6)

(Step 1) - At fiscal year-end, Fiscal Division captures a July Snapshot reflecting total actual expenditures and open encumbrances.

(Step 2) - In April of the subsequent year, Fiscal Division conducts a comprehensive review of open Purchase Orders.

(Step 3) - Encumbrances that are no longer valid are closed in NJSTART, ensuring commitment balances reflect legitimate obligations.

(Step 4) - Fiscal Division prepares a reconciliation worksheet summarizing actual expenditures and valid commitments, which is submitted to BPU Staff (Division of Audit) for review prior to Board reimbursement action.

(Step 5) - Following validation, BPU Board issues a June Board Order authorizing reimbursement to Treasury.

(Step 6) - Treasury executes reimbursement adjustments in NJCFS, aligning administrative funding with validated expenditures and commitments.



This three-phase structure is designed to align DCA internal records, Treasury postings, and BPU governance oversight.

5. Key Control Touchpoints – Controls – Reconciliation

Control ID	Control Activity	Type	Owner	Risk Mitigated
RC-01	Encumbrance validation	Detective	Fiscal	Overstated liabilities
RC-02	Dual reconciliation (DCA vs Treasury)	Detective	Fiscal/BPU	Misalignment
RC-03	Board reimbursement approval	Governance	BPU Board	Unauthorized settlement

6. Segregation of Duties – Treasury & Year-End Reconciliation

Function	Program	Fiscal Division	Fiscal Dept/ Procurement	Mgmt	BPU Staff	BPU Board	Treasury
Prepare reconciliation schedule	●	✓	●	×	×	×	×
Validate encumbrances	×	✓	●	×	×	×	×
Review reconciliation	×	●	×	×	●	×	×
Issue reimbursement order	×	×	×	×	×	▲	×
Execute reimbursement	×	×	×	×	×	×	▲

Reconciliation preparation and review are distributed between Fiscal and BPU. Treasury independently executes reimbursement adjustments.

Cycle 5 – IT / IBM Governance

1. Overview



DCA maintains a structured governance framework for IBM and other IT-related administrative costs supporting the USF/HEA programs. IT administrative spend is planned, budgeted, procured, monitored, and reconciled through a combination of:

- Project Change Requests (PCRs)
- Annual Statements of Work (SOWs)
- Purchase Orders under State contract vehicles.
- Capacity-based budget ceilings
- Operational monitoring using Azure DevOps
- Multi-step invoice review prior to Treasury payment

The annual IBM SOW is the foundational financial and operational control document. It defines the scope of work (maintenance and enhancements), role-based labor categories, approved hourly rates, estimated capacity (hours), and the aggregate annual budget ceiling.

Per Interview #6 materials, IT initiatives are formalized via PCRs that are reviewed and approved by DCA management before inclusion in the administrative budget submitted to BPU.

2. Purpose

This document summarizes our understanding of the IT/IBM Budget to Payment lifecycle based on interviews, document review, and system walkthroughs.

It is intended for factual confirmation prior to transaction testing and does not represent audit findings.

3. Lifecycle Step Table / IBM GOVERNANCE

Step	Activity	Owner	Artifact	Control Output
1	Gather IT requirements	IBM/Program	Road Map	Documented needs
2	Draft PCR & SOW	IBM	PCR/SOW	Scope & cost ceiling
3	Management approval	Mgmt	Approval memo	Authorized inclusion
4	Procurement via waiver/contract	Procurement/Treasury	NJSTART	Approved vehicle

Step	Activity	Owner	Artifact	Control Output
5	Issue PO	Procurement	NJSTART	Encumbrance ceiling
6	Track initiatives	IBM	Azure DevOps	Operational visibility
7	Invoice review (Program + Insight + IT)	Program/Insight/IT	Invoice file	Multi-layer review
8	Fiscal PO match	Fiscal Division	NJSTART	Rate & hour validation
9	Treasury disbursement	Treasury	NJCFS	Independent payment

4. Process Narrative (Tied to Step Table 1–9)

(Step 1) - IT needs are identified collaboratively by IBM, Program, IT leadership, and stakeholders. IBM prepares a Road Map capturing enhancements, maintenance, and new initiatives.

(Step 2) - IBM drafts a PCR and annual SOW, defining scope, labor categories, rates, estimated hours, and aggregate budget ceiling.

(Step 3) - Inclusion within the annual administrative budget becomes legally effective only upon issuance of the BPU Board’s annual budget Order. Where scope or funding adjustments occur mid-year, authority is reflected through approved PCR amendments and, where required, associated Board Orders.

(Step 4) - IT submits a General Purchase Requisition.

(Step 5) - Procurement determines contract vehicle, typically via State master contract and waiver authorization.

(Step 6) - A Purchase Order is issued and encumbrance recorded, enforcing the SOW ceiling.

(Step 7) - IBM tracks initiative progress in Azure DevOps. DCA receives status updates and monitor’s progress.

(Step 8) - If costs exceed SOW capacity, a new PCR is required. PCR documentation reviewed demonstrates formal amendment processes with approval signatures; clarification was requested regarding whether certain PCRs represented routine scope adjustments or absorption of new initiatives within existing ceiling amounts.



(Step 9) - Invoices are submitted and undergo multi-layer review prior to payment, including Program review, Insight intermediary validation, IT approval, Fiscal Division PO performs PO-to-invoice match validation prior to routing to the Fiscal Department for workflow processing, and Treasury disbursement.

Note that documentation provided governing IBM scope approvals addressed PCR and SOW modifications; however, formal documentation explicitly defining Insight’s monthly invoice approval authority and DCA IT sign-off authority beyond email approval chains was not provided.

Governance documentation provided indicates monitoring occurs at the Statement of Work (SOW) capacity level. Documentation evidencing formal initiative-level baseline budgets or variance tracking by individual initiative was not provided in the materials reviewed.

5. Key Control Touchpoints – Controls – IT/IBM

Control ID	Control Activity	Type	Owner	Risk Mitigated
IT-01	PCR authorization	Preventive	Mgmt	Scope creep
IT-02	SOW ceiling enforcement	Preventive	System	Budget overrun
IT-03	Azure tracking	Operational	IBM/IT	Undetected delays
IT-04	Multi-layer invoice review	Detective	Program/Insight	Unsupported billing

6. Segregation of Duties – IT / IBM Governance

Function	Program	IT	IBM	Fiscal Division	Fiscal Dept/ Procurement	Management	BPU Staff	Treasury
Develop IT requirements	✓	✓	✓	✗	✗	✗	✗	✗
Draft PCR & SOW	●	✓	✓	✗	✗	✗	✗	✗
Approve PCR inclusion	✗	●	✗	✗	✗	▲	●	✗
Issue IT PO	✗	✗	✗	✗	✓	✗	✗	✗

Function	Program	IT	IBM	Fiscal Division	Fiscal Dept/ Procurement	Management	BPU Staff	Treasury
Track initiative progress	●	✓	✓	×	×	×	×	×
Review IT invoices	✓	✓	●	✓	×	×	×	×
Execute payment	×	×	×	×	×	×	×	▲

IT governance involves collaborative planning between Program, IT, and IBM. Cost monitoring is performed at the aggregate SOW ceiling level based on documentation provided.

Multi-layer invoice review represents layered validation rather than structurally independent approval tiers. Treasury retains exclusive payment authority.

Cycle 6 - Subgrantee (CBO and CWA) Administrative Cost Governance Model

1. Overview

DCA maintains a structured, compliance-driven framework for administrative costs related to subgrantees—Community-Based Organizations (CBOs) and County Welfare Agencies (CWAs). The governance model covers planning, award, procurement/contracting, advances, reimbursement, monitoring, and close-out, with controls designed to ensure allowability, transparency, and fiscal discipline.

Formula-based award development (historical production metrics and/or ACS-base methodology tied to eligible households and anticipated federal funding).

Annual RFP process (for CBOs) with published evaluation criteria and administrative cost caps.

Structured advance and reimbursement controls tied to documented spend (FSR-based).

Multi-layer review prior to payment and ongoing monitoring with corrective action procedures.

Close-out reconciliation and recapture of unused funds through Treasury.

2. Purpose

This document summarizes our understanding of the Subgrantee (CBO and CWA) Budget to Payment lifecycle based on interviews, document review, and system walkthroughs.

It is intended for factual confirmation prior to transaction testing and does not represent audit findings.

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3. Lifecycle Step Table – Subgrantee Governance

Step	Activity	Owner	System	Control Output
1	Develop allocation methodology	Program	ACS model	Target awards
2	Issue RFP (CBOs)	Procurement	RFP docs	Competitive selection
3	Execute contracts	Contract Unit	NJSTART	Encumbrance ceiling
4	Issue advance ($\leq 35\%$)	Fiscal Division	Contract terms	Controlled disbursement
5	Receive FSR	Subgrantee	SAGE	Cost documentation
6	Multi-layer review	Program/Contract/Fiscal Division/BPU Staff	SAGE	Reimbursement validation
7	Monitoring visits	Program/BPU Staff	Monitoring reports	Performance oversight
8	Close-out & recapture	Fiscal Division/Treasury	NJCFS	Unused funds recaptured

4. Process Narrative (Tied to Step Table 1–8)

(Step 1) - Subgrantee administrative costs begin with development of allocation methodology, historically based on production metrics and more recently incorporating ACS data.

(Step 2) - For CBOs, DCA issues an annual competitive RFP. Proposals are evaluated by DCA and BPU participants.

(Step 3) - Awards are incorporated into contracts and encumbered in NJSTART. Subgrantee reimbursement is capped by approved award ceilings.

(Step 4) - Subgrantees may request structured advances not exceeding 35% of award, subject to spend-down requirements.

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Advance disbursement processing is coordinated by the Fiscal Department following Fiscal Division validation of eligibility and contract terms.

Final advance disbursement is executed by Treasury following centralized payment processing.

(Step 5) - Subgrantees submit Financial Status Reports (FSRs) via SAGE, including supporting documentation.

(Step 6) - FSRs undergo layered review consisting of (i) Programmatic compliance validation, (ii) Contract Unit documentation review, (iii) Fiscal Division allowability validation, and (iv) BPU Staff monitoring oversight.

(Step 7) - Monitoring activities include internal visits and periodic external audit. Field monitoring is documented using structured monitoring templates that identify agency personnel interviewed, corrective actions suggested and required follow-up visits.

(Step 8) - At close-out, unused funds are identified. Awards are amended downward as necessary, and unused funds are recaptured via Treasury. Grant amendments are executed through formal amendment letters with updated Agreement Data Sheets and revised budget sections, including defined liquidation deadlines.

5. Key Control Touchpoints – Subgrantee

Control ID	Control Activity	Type	Owner	Risk Mitigated
SG-01	Competitive RFP	Governance	Procurement	Non-compliant awards
SG-02	Award ceiling enforcement	Preventive	System	Overpayment
SG-03	FSR documentation review	Detective	Fiscal Division	Unsupported reimbursement
SG-04	Monitoring & CAP	Operational	Program	Non-performance
SG-05	Treasury recapture	Governance	Treasury	Retained unused funds

6. Segregation of Duties – Subgrantee Governance (CBO & CWA)

Function	Program	Fiscal Dept/ Contract Unit	Fiscal Division	Management	BPU Staff	Treasury
Develop allocation model	✓	✗	●	✗	●	✗

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Function	Program	Fiscal Dept/ Contract Unit	Fiscal Division	Management	BPU Staff	Treasury
Issue RFP / execute contracts	●	✓	×	×	●	×
Approve contract award	×	●	×	▲	●	×
Authorize advance (validation) / Execute advance (disbursement)	×	×	✓	×	×	▲
Review FSR documentation	✓	✓	✓	×	×	×
Approve reimbursement	●	●	✓	×	×	×
Execute payment	×	×	×	×	×	▲
Recapture unused funds	×	×	●	×	●	▲

Reimbursement is capped at approved award ceilings and subject to multi-layer review. Advances are limited by contractual percentage thresholds and require documentation prior to additional disbursement.

Treasury executes final payments and recaptures.

Board action only where award modification or funding change requires formal Order.

The narratives presented reflect management representations corroborated by documentary evidence made available during the review. This engagement was conducted as a management process review and does not constitute an audit conducted in accordance with Government Auditing Standards. Accordingly, no assurance is expressed regarding the operating effectiveness of controls.

Appendix A – Enterprise Administrative Controls Matrix

Control Layer	Mechanism	Example
Preventive	Encumbrance ceilings	NJSTART PO cap
Operational	Service verification	Program review
Detective	Reconciliation	July & April review
Governance	Board Orders	BPU authorization
System-Enforced	Workflow approvals	eFARS routing

While operational controls appear to function in practice, documentation is dispersed across orders, forms, spreadsheets, and email correspondence rather than consolidated within comprehensive procedural manuals describing end-to-end workflows. Formalizing documented standard operating procedures could enhance continuity, clarity of roles, and governance resilience.

Appendix B – Detailed Enterprise Controls Matrix

Cycle	Control Type	Control Activity	Owner	Frequency	Risk Mitigated
Budget Development	Preventive	Prior-year baseline analysis	Program (with Fiscal Division support)	Annual	Misstated funding needs
Budget Development	Preventive	Personnel projections validation	HR	Annual	Compensation misstatement
Budget Development	Governance	Executive approval	Senior Mgmt	Annual	Unauthorized submission
Budget Development	Governance	BPU Board Order approval	BPU Board	Annual	Unauthorized spending authority
Procurement → Payment	Preventive	Funding confirmation	Fiscal Division	Per transaction	Over-obligation

Procurement → Payment	Preventive	PO encumbrance posting	Procurement (system- enforced in NJSTART)	Per PO	Budget overrun
Procurement → Payment	Operational	Service verification	Program	Per invoice	Undelivered services
Procurement → Payment	Detective	PO match validation	Fiscal Division	Per invoice	Overbilling
Treasury & Reconciliation	Detective	Encumbrance reconciliation	Fiscal Division	Annual	Overstated liabilities
Treasury & Reconciliation	Preventive	Treasury funding true-up	Treasury	Annual	Funding misalignment
Treasury & Reconciliation	Governance	Reimbursement authorization	BPU Board	Annual	Unauthorized settlements
IT Governance	Preventive	PCR authorization	Assistant Director / Management	Per initiative	Unauthorized scope
IT Governance	Preventive	SOW spending ceilings	Procurement	Per contract	Cost overruns
IT Governance	Operational	Initiative tracking	Vendor / IT	Ongoing	Scope creep
Subgrantee Governance	Preventive	Allocation methodology development (production metrics / ACS- based model)	Program	Annual	Arbitrary or inequitable award distribution
Subgrantee Governance	Governance	BPU Staff participation in RFP evaluation process	BPU Staff	Per award cycle	Insufficient external oversight
Subgrantee Governance	Preventive	Competitive RFP issuance (CBOs)	Procurement	Per award cycle	Non-compliant award process

Subgrantee Governance	Preventive	Contract execution & award ceiling establishment in NJSTART	Contract Unit / Procurement	Per award	Over-obligation beyond approved award
Subgrantee Governance	System Preventive	Encumbrance ceiling enforcement	NJSTART	Per contract	Payment exceeding award authorization
Subgrantee Governance	Preventive	Advance percentage limitation ($\leq 35\%$)	Program + Fiscal Division	Per advance request	Excessive upfront disbursement
Subgrantee Governance	Preventive	Spend-down validation prior to additional advance	Fiscal Division	Per advance request	Advance stacking without documentation
Subgrantee Governance	Operational	Programmatic FSR review (eligibility & performance alignment)	Program	Per FSR submission	Payment for non-programmatic costs
Subgrantee Governance	Detective	Documentation completeness review	Contract Unit	Per FSR submission	Incomplete reimbursement support
Subgrantee Governance	Detective	Allowability & coding validation	Fiscal Division	Per FSR submission	Unsupported or misclassified costs
Subgrantee Governance	Monitoring	External oversight participation in FSR review & monitoring	BPU Staff	Periodic / Annual	Undetected compliance risk
Subgrantee Governance	Operational	Monitoring visits & corrective action plan (CAP) tracking	Program	Periodic	Non-performance or repeat findings

Subgrantee Governance	Detective	Year-end reconciliation of award balance	Fiscal Division	Annual	Overstatement of liabilities
Subgrantee Governance	Governance	Award reduction / amendment execution (if required)	Management	As needed	Unauthorized continuation of funding
Subgrantee Governance	Preventive / Detective	Close-out reconciliation and identification of unused funds	Fiscal Division	Close-out	Retained unused funds
Subgrantee Governance	Governance	Treasury recapture of unused funds	Treasury	Close-out	Funds not returned to program
Subgrantee Governance	Governance	Board action where material funding modification required	BPU Board	As required	Program modification without statutory authority

Appendix C – Cross-Cycle Segregation of Duties Matrix

(Cycles 1–6 Integrated View)

This matrix reflects functional role alignment across the full administrative lifecycle. Roles are shown at the process-interaction level. Treasury internal segregation of duties is outside the scope of this engagement and is therefore represented as a single disbursement authority.

Role Columns

- Program (Fidel Ekhelar/ OHEA)
- Assistant Director (Sheri Malnak-Renn)
- Fiscal Division (Program-Aligned – Safiyah Abdus-Salaam)
- Fiscal Department (CFO – Central Processing)

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- Procurement
- BPU Staff (Division of Audit / DCA Oversight)
- BPU Board (Statutory Authority)
- Treasury (Disbursement Authority – Interface Level)
- Vendor / Subgrantee

Control Function	Program	Asst Dir	Fiscal Division	Fiscal Dept	Procurement	BPU Staff	BPU Board	Treasury	Vendor
Identify Operational Need	✓	●	×	×	×	●	×	×	×
Develop Budget Assumptions	✓	●	✓	×	×	●	×	×	×
Apply Allocation Formula (52/48)	✓	●	✓	×	×	×	×	×	×
Approve Internal Budget Submission	●	▲	●	×	×	×	×	×	×
Review Budget Submission	×	×	×	×	×	●	×	×	×
Issue Budget Board Order	×	×	×	×	×	×	▲	×	×
Assign Accounting String	×	×	✓	×	×	×	×	×	×
Confirm Funding Availability	×	×	✓	×	×	×	×	×	×
Determine Procurement Method	×	×	●	×	✓	×	×	×	×



Control Function	Program	Asst Dir	Fiscal Division	Fiscal Dept	Procurement	BPU Staff	BPU Board	Treasury	Vendor
Approve Waiver (if required)	×	×	×	×	○	×	×	▲ (Treasury / DPP)	×
Issue PO / Establish Encumbrance	×	×	○	○	✓	×	×	×	×
Deliver Goods/Services	×	×	×	×	×	×	×	×	✓
Verify Service Delivery	✓	○	×	×	×	×	×	×	×
Perform PO-to-Invoice Match	×	×	✓	×	×	×	×	×	×
Validate Coding Accuracy	×	×	✓	○	×	×	×	×	×
Route Invoice Workflow	×	×	○	✓	×	×	×	×	×
Execute Payment	×	×	×	×	×	×	×	▲	×
Prepare Reconciliation Schedule	○	×	✓	○	×	×	×	×	×
Review Reconciliation	×	×	○	×	×	○	×	×	×
Issue Reimbursement Board Order	×	×	×	×	×	×	▲	×	×
Execute Reimbursement	×	×	×	×	×	×	×	✓	×

Legend



- ✓ Primary Responsibility – Executes the activity.
- ● Participatory / Review Role – Provides review, validation, or analytical input.
- ▲ Formal Approval Authority – Holds statutory or delegated authority to advance the process.
- ✕ No Direct Role – No execution or approval responsibility.
- ● System-Enforced Control (not shown in matrix rows) – Automated control within State systems.

Structural Segregation Observed

Across the six cycles, structural separation exists between:

- Operational need identification and procurement authorization
- Procurement authorization and payment execution
- Programmatic review and fiscal validation
- Fiscal validation and cash disbursement
- Staff monitoring and statutory approval authority

No single role initiates, approves, and disburses funds.

Appendix D – Consolidated Internal Control Matrix

(Cross-Cycle Internal Control Framework – Cycles 1–6)

This matrix groups controls by objective and control layer across the six administrative lifecycle cycles. Roles are presented at the functional level. Treasury internal controls are outside the scope of this engagement and are reflected only at the disbursement interface level.

I. Governance & Authorization Controls

Control Objective	Control Activity	Cycle(s)	Control Type	Control Owner
Establish lawful administrative spending authority	Annual USF Administrative Budget Board Order	1	Governance	BPU Board
Provide staff-level governance review prior to Board action	Budget submission review and analysis	1	Monitoring	BPU Staff
Ensure internal budget authorization	Senior Management approval prior to submission	1	Preventive	Assistant Director
Ensure lawful procurement vehicle	Determination of procurement method (State contract / RFP / waiver)	2	Preventive	Procurement
Provide independent waiver oversight (if applicable)	Treasury / DPP waiver approval	2	Governance	Treasury / DPP
Authorize reimbursement settlement	June Reimbursement Board Order	4	Governance	BPU Board
Provide reconciliation oversight prior to Board action	Review of reconciliation schedules	4	Monitoring	BPU Staff
Authorize IT scope inclusion	PCR approval prior to SOW execution	5	Preventive	Assistant Director
Ensure competitive subgrantee awards	RFP evaluation and award process	6	Preventive	Procurement / Evaluation Committee
Approve material program modifications	Board action where required	6	Governance	BPU Board

II. Funding & Budgetary Controls



Control Objective	Control Activity	Cycle(s)	Control Type	Control Owner
Prevent unfunded commitments	Funding availability validation prior to obligation	2	Preventive	Fiscal Division
Enforce spending ceiling	PO encumbrance in NJSTART	2,3,5,6	System Preventive	Procurement (system-enforced in NJSTART)
Ensure correct program allocation	Application of 52% / 48% allocation formula	1	Preventive	Program + Fiscal Division
Prevent IT cost overruns	SOW annual capacity ceiling	5	Preventive	Procurement + Management
Limit subgrantee administrative exposure	Administrative cost caps within RFP/award	6	Preventive	Program
Limit advance exposure	Structured advance percentage cap ($\leq 35\%$)	6	Preventive	Program + Fiscal Division
Ensure budget posted accurately	Budget load into State accounting system	1	Preventive	Fiscal Department

III. Transaction-Level Controls

Control Objective	Control Activity	Cycle(s)	Control Type	Control Owner
Verify goods/services received	Program-level service verification	3,5	Operational	Program
Validate invoice against contract	PO-to-invoice match	3,5	Detective	Fiscal Division
Ensure accurate accounting classification	Coding review	3	Preventive	Fiscal Division (validation) + Fiscal Department (posting)
Enforce documented approval routing	eFARS workflow approval chain	3	System Preventive	Fiscal Department (routing coordination)

Control Objective	Control Activity	Cycle(s)	Control Type	Control Owner
Maintain segregation of cash handling	Independent disbursement execution	3	Preventive	Treasury
Validate subgrantee compliance	Programmatic FSR review	6	Operational	Program
Validate subgrantee cost allowability	Fiscal allowability review of FSR	6	Detective	Fiscal Division
Process reimbursement workflow	Centralized payment processing	3,6	Operational	Fiscal Department

IV. Monitoring & Reconciliation Controls

Control Objective	Control Activity	Cycle(s)	Control Type	Control Owner
Capture fiscal year-end position	July snapshot (actuals + encumbrances)	4	Detective	Fiscal Division
Validate outstanding commitments	April PO review & closure	4	Detective	Fiscal Division + Procurement
Align DCA and Treasury records	Reconciliation schedule preparation	4	Detective	Fiscal Division
Provide independent external oversight	Review of reconciliation by BPU Staff	4	Monitoring	BPU Staff
Formalize reimbursement authority	June Board Order reimbursement authorization	4	Governance	BPU Board
Monitor IT initiative progress	Azure DevOps tracking & status reporting	5	Operational	IT / Program
Monitor subgrantee performance	Monitoring visits & CAP tracking	6	Operational	Program

Control Objective	Control Activity	Cycle(s)	Control Type	Control Owner
Recapture unused funds	Close-out reconciliation & Treasury recapture	6	Detective / Preventive	Program + Treasury

V. System-Based Controls

System	Control Function	Cycle(s)
NJSTART	PO encumbrance ceiling enforcement	2,3,5,6
eFARS	Invoice workflow routing & approval trail	3
NJCFS / State Accounting	Budget load & appropriation alignment	1,4
Azure DevOps	IT initiative tracking	5
SAGE	Subgrantee FSR submission & documentation	6

Cross-Cycle Control Themes

Across all six cycles, recurring control pillars include:

- Separation between operational initiation and financial authorization
- Encumbrance-based spending ceilings
- Multi-layer invoice and reimbursement review
- Staff-level oversight distinct from statutory Board authority
- Centralized disbursement independent from program functions
- Year-end reconciliation prior to reimbursement authorization
- Formal change management via PCR for IT scope adjustments
- Administrative caps and advance spend-down safeguards for subgrantees

Structural Integrity Confirmed

Under this framework:

- Program does not disburse funds
- Fiscal Division does not execute payment
- Fiscal Department does not determine procurement method
- Procurement does not process payment
- BPU Staff do not issue Board Orders
- BPU Board does not perform operational monitoring
- Treasury does not approve budgets or contracts

This preserves functional segregation across initiation, authorization, processing, governance, and disbursement layers.

Appendix F

Detailed Discussion of DCA Audit Findings and Observations

Silverpoint evaluated findings against three factors: (1) ratepayer impact, including both quantified over-allocation and the systemic or one-time nature of the condition; (2) control design and operating effectiveness, including whether the condition reflects a pattern across the sampled population or a single instance; and (3) potential for systemic recurrence, including whether the condition would continue to accrue absent remediation. Items meeting two or more of these factors with quantifiable ratepayer exposure are classified as Findings. Items raised for management attention on a single-instance basis or without quantifiable exposure are classified as Observations.

Silverpoint identified three findings and two engagement-specific observations during testing, which are summarized in the following table. A more detailed discussion of each follows the table.

Post-Testing Findings and Observations

Finding (F) or Observation (O)	Title	Risk	Key Condition
F1	DCA Lacks Adequate Support for USF Allocation Rates Applied Across the Audit Period	High	40% applied in FY22, 48% in FY23–FY24. The only support is a 2016 caseload analysis showing 42%, which supports none of the applied rates.
F2	Budget-Based Allocation Produces USF Charges Disconnected from Actuals	Medium	Three allocation variants across non-CBO population; budget-based variant applied to three samples – one IBM charge, one monitoring charge, and the FY24 NJ 211 reclassification (\$1,099,479).
F3	Program Manager Lacks Visibility into Major Cost Categories Charged to USF (Cross-Cutting)	High	Structural root cause, underlying F1 and F2. No single DCA role accountable for charges flowing to USF.
O5	NJ 211 FY24 Purchase Order Close-Out Sequence (Sept 2024)	Medium	Written fiscal question on PO/invoice mismatch did not receive written resolution; Fiscal closed PO on verbal vendor confirmation.
O6	NJ 211 FY24 Engagement Origination Without Authorized PO	Medium	~4.5 months of services before Master PO finalized; Treasury unauthorized-waiver determination; DCA self-certified “unauthorized confirming waiver” box.

Finding 1 - Allocation Rate Support (High)

DCA applied a 40% USF/60% HEA allocation to shared administrative costs in FY22 and a 48% USF/52% HEA allocation in FY23 and FY24. The only documented support that DCA could provide during the audit was a 2016 DCA caseload analysis showing an allocation of 42% USF/58% HEA. That analysis is clearly out of date and supports neither the 40% FY22 rate nor the 48% FY23–FY24 rate. Similarly, no documentation was produced to explain the FY23 step-up from 40% to 48%. It is our understanding that during the audit period the USF allocation percentage was the subject of discussions between DCA and Staff before the administrative budget was submitted to the Board. It is troublesome, however, that the basis for the allocation rates in those years was not documented. The impact of the allocation rate on total USF expenses is quite significant. As such, the basis for the rate should be made explicit. An updated caseload analysis or similar allocation factor should be documented for all shared cost categories and included as part of the annual administrative budget filing.

Finding 2 - Budget-Based Allocation (Medium)

DCA applies three distinct allocation mechanisms across the non-CBO sample population. Two of the three tie the USF charge to actual expenditures—one at the point of invoice posting, and one at period-end on an aggregated basis. The third applies a budget-based allocation once per year from the annual budget-category worksheet, independent of actual invoice activity. The budget-based variant applies to three samples (one IBM charge, one monitoring charge, and one NJ 211 reclassification). For the monitoring sample, Silverpoint confirmed an overcharge of \$3,730 on a single-sample basis (\$24,600 budget-based versus \$20,870 on an actual-based re-computation). Similar direction and magnitude of overcharge may exist for the IBM and NJ 211 samples using the same mechanism but cannot be quantified absent NJ 211 vendor invoices and absent written true-up confirmation. DCA should confirm in writing whether a year-end true-up is performed to reconcile budget-based allocations to actual invoices, implement such a true-up if not already performed, reconcile differences for the audit period and adjust the USF account for any overcharge identified, and document the allocation methodology for each shared-cost category in a standing allocation memorandum.

Finding 3 — Program-Manager Visibility and Accountability, Cross-Cutting (High)

The USF program manager does not have visibility into several categories of cost that are charged to the USF account: payroll allocations at the personnel-detail tab level; journal-entry reclassifications (including the NJ 211 USF reclassification, the IBM budget-based reclassification, and period-end true-ups routed through expenditure modifications); inter-agency charges (OIT, Printshop, Postage, central telephone, procurement assessment); and state-allocated charges for which it is not clear whether DCA itself receives the underlying vendor invoices. The audit could not identify a single DCA role formally accountable for the accuracy, completeness, and authorization of charges flowing to USF across these categories. This finding does not carry a stand-alone quantified impact—its impact is the aggregate of Findings 1 and 2, for which it is the structural root cause. A single-point-in-time remediation of these findings will not prevent recurrence absent this underlying structural change. The required action is set forth in report Section IV.D.5.

Observation 5 - NJ 211 FY2024 Purchase Order Close-Out Sequence, September 2024

A documented email sequence in September–October 2024 records that DCA Fiscal identified an invoice/purchase-order mismatch on the NJ 211 FY24 engagement. Program staff pushed for purchase-order closure in advance of a federal monitoring deadline, and Fiscal closed the purchase order based on verbal vendor confirmation without a written resolution of the discrepancy. The applicable USF posting of \$1,099,479 is confirmed via the raw transaction history report. The close-out, while procedurally unusual, resulted in a successful posting. Management may wish to consider (1) producing the NJ 211 invoice identified as mismatching the FY24 encumbrance together with a brief reconciliation note, (2) formalizing an exception protocol for situations in which Fiscal review cannot be completed on the timetable required by external deadlines, and (3), for high-dollar NJ 211 reclassifications specifically, requiring that Program sign-off and Fiscal sign-off both be documented before purchase order close-out.

Observation 6 - NJ 211 FY2024 Engagement Origination Without Authorized PO

The documented engagement origination record for NJ 211 FY24 shows that services continued across the FY23–FY24 transition without an authorized purchase order in place. The FY23 NJ 211 contract expired on July 1, 2023 and services in the HEA, LIHWAP, Housing Preservation Program, and Call Center lines continued into FY2024. The Master Purchase Order was not finalized until November 16, 2023—approximately 4.5 months after the start of the fiscal year. In the intervening period, DCA Procurement issued a written warning that the necessary paperwork should have been submitted prior to the fiscal-year transition. Treasury determined the situation constituted an “unauthorized waiver,” and DCA itself subsequently checked the “unauthorized confirming waiver” box on the applicable State waiver form. All funding lines on the finalized Master Purchase Order were coded for HEA or a related State fund—no USF line appeared on the purchase order. The USF share accrued separately through the close-out sequence addressed in Observation 5.

USF ratepayer impact during the origination window is zero. The sole-source designation itself is not in dispute: NJ 211 Partnership has been the State-designated sole provider of 2-1-1 services since 2002 on a statutory basis. The issue is procurement timing, not procurement merit. Management may wish to consider (1) maintaining a calendar of sole-source vendor contract expiration dates with a documented 60- or 90-day advance procurement-handoff protocol, (2) pre-mapping State accounting strings at the point of waiver submission rather than at the point of purchase-order finalization, and (3) for vendors continuing service delivery at fiscal-year transition, requiring affirmative program-office confirmation by June 1 that procurement paperwork has been initiated.