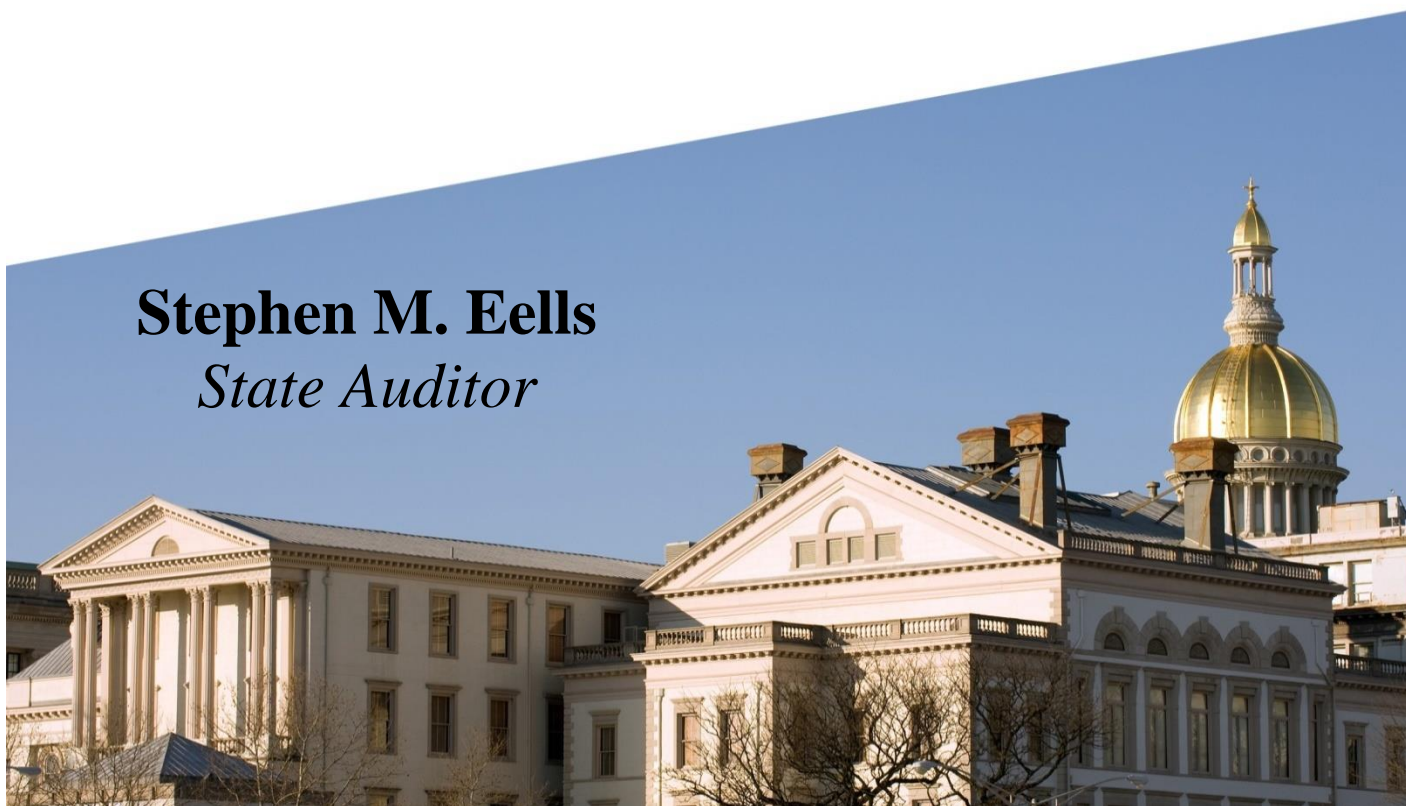


New Jersey Legislature
★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

New Jersey Board of Public Utilities

July 1, 2017 to December 31, 2019

Stephen M. Eells
State Auditor



LEGISLATIVE SERVICES COMMISSION

SENATE

Christopher J. Connors
Kristin M. Corrado
Nia H. Gill
Linda R. Greenstein
Thomas H. Kean, Jr.
Joseph Pennacchio
Stephen M. Sweeney
Loretta Weinberg

GENERAL ASSEMBLY

Jon M. Bramnick
John J. Burzichelli
Craig J. Coughlin
John DiMaio
Louis D. Greenwald
Nancy F. Munoz
Verlina Reynolds-Jackson
Harold J. Wirths



NEW JERSEY STATE LEGISLATURE
★ *Office of* LEGISLATIVE SERVICES ★

OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN ST. • P.O. BOX 067 • TRENTON, NJ 08625-0067
www.njleg.state.nj.us

OFFICE OF THE
STATE AUDITOR
609-847-3470
Fax 609-633-0834

Stephen M. Eells
State Auditor

David J. Kaschak
Assistant State Auditor

Thomas Troutman
Assistant State Auditor

The Honorable Philip D. Murphy
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

Ms. Peri A. Horowitz
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the New Jersey Board of Public Utilities for the period of July 1, 2017 to December 31, 2019. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
August 20, 2020

Table of Contents

Scope.....	1
Objectives	1
Methodology	1
Conclusions.....	2
Background	2
Findings and Recommendations	
Time Reporting	3
One-Call Penalty Receivables.....	4
Management Audits: Gas and Electric Utilities.....	5
Clean Energy Program	6
Federal Pipeline Safety Program	6
Internal Controls	7
Auditee Response.....	9

Scope

We have completed an audit of the Board of Public Utilities (Board) for the period July 1, 2017 through December 31, 2019. Our audit included financial activities accounted for in the state's General Fund, the Clean Energy Fund (CEF) and the Universal Service Fund (USF). In fiscal year 2019, 47 percent of CEF expenditures were administered by a contracted service organization. We therefore, limited our scope to the invoices billed and paid to the service contractor.

Annual expenditures averaged \$574.3 million, and revenue averaged \$598.0 million during fiscal years 2018 and 2019. Revenue and expenditures are presented in the following summary:

Fund Name	Average Annual Revenue (in millions)	Average Annual Expenditures (in millions)
General Fund	\$ 49.10	\$ 85.40
Clean Energy Fund	345.00	290.00
Universal Service Fund	203.90	198.90
Total	\$ 598.00	\$ 574.30

Objectives

The objectives of our audit were to determine whether financial transactions were related to the Board's programs, were reasonable, and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, and circulars promulgated by the Department of the Treasury. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also read budget messages, reviewed financial trends, and interviewed Board personnel to obtain an understanding of the programs and their internal controls.

We assessed the reliability of the One-Call penalty receivable/payment data by performing testing, reviewing existing information about the data and the system from which the data was produced and interviewing Board officials knowledgeable about the data. Due to data entry errors and omissions found during testing, we determined the data was not sufficiently reliable and is further addressed as a finding in this report.

A non-statistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally and randomly selected for testing.

Conclusions

We found the financial transactions included in our testing were related to the Board's programs, were reasonable, and were recorded properly in the accounting systems except for One-Call penalty receivables and revenue and expenditures for the Federal Pipeline Safety Program. In making this determination, we noted deficiencies related to time reporting, management audits, System and Organization Controls (SOC) reporting, and internal control weaknesses meriting management's attention.

Background

The prime responsibility of the Board is to oversee regulated utilities, which provide critical services such as natural gas, electricity, water, telecommunications and cable television. Enabling legislation requires the Board to ensure safe, adequate, and proper utility services at reasonable rates for customers in New Jersey. The Board is responsible for managing the Clean Energy Program (CEP) and through the CEF, promoting energy efficient programs and the development of clean, renewable sources of energy. Another responsibility of the Board is the collection of USF revenues which help make energy bills more affordable for low income families. The New Jersey Department of Community Affairs administers the USF program.

Time Reporting

Not all Board employees submitted their timesheets timely.

Timesheets

During calendar year 2018, the Board's payroll totaled \$18.5 million for approximately 221 employees. For proper internal controls, in order to substantiate employee earnings, all employee bi-weekly timesheets should be electronically submitted and approved by each employee's supervisor utilizing the Electronic Cost Accounting & Timesheet System (eCATS) prior to the issuance of the payroll. The Board passes these payroll costs to utility companies through general assessments which are ultimately passed on to the ratepayers. It is the responsibility of the employee's supervisor to ensure all timesheets are completed. However, if an employee's timesheet is not completed (not submitted and approved), an employee is paid the full 10 days regardless, by default. As depicted in the chart below, our timesheet analysis of 13 consecutive bi-weekly pay periods disclosed, on average, 95 employees (44 percent), who collected a total of 218 paychecks, did not submit completed timesheets timely. There is a risk that the longer timesheets are not completed, actual leave days taken by employees may not be recorded and employees may be paid for time not worked. We noted one employee whose timesheets were not completed timely for pay periods 4/27/2018 through 12/7/2018 and were submitted up to five months late. They were eventually approved by a supervisor as many as 10 months late, and we noted no leave time was taken. We noted an improvement for the last pay period of 2018 when the default rate decreased to 25 percent. Completed timesheets are due by year-end in order to obtain the subsequent year's annual leave entitlements.

Pay Period Ending	Number of Paychecks	Timesheets Not Completed	Percentage of Timesheets Not Completed
10/12/2018	216	112	52%
10/26/2018	217	117	54%
11/9/2018	220	88	40%
11/23/2018	221	93	42%
12/7/2018	221	113	51%
12/21/2018	221	54	25%
1/4/2019	220	88	40%
1/18/2019	219	81	37%
2/1/2019	218	117	54%
2/15/2019	217	91	42%
3/1/2019	215	114	53%
3/15/2019	215	78	36%
3/29/2019	214	94	44%
Averages	218	95	44%

Recommendation

We recommend all supervisors enforce timely timesheet submission from all employees by each payroll cut-off date.



One-Call Penalty Receivables

The Board's fiscal unit does not maintain proper control over accounts receivables or follow-up with delinquent violators.

The Board's Division of Reliability & Security (DRS) enforces the provisions of the Underground Facility Protection Act, also known as the One-Call Program. Generally, One-Call penalties are assessed to excavators and utility companies for mark-out utility violations. Penalty revenues were \$1.874 million in Fiscal Year 2019. As depicted in the following chart, the penalty receivables as of July 15, 2019 totaled \$1.886 million representing 674 open cases.

Summary of Penalty Receivables as of 7/15/2019		
Year	Number of Cases	Amount
2014	11	\$ 33,000
2015	26	62,000
2016	62	176,000
2017	104	302,000
2018	270	772,500
2019	201	540,000
Total	674	\$ 1,885,500

We noted there was a lack of segregation of duties at the DRS. Utilizing the system, the DRS entered penalty receivables and posted cash receipts to each penalty receivable. Furthermore, actual checks deposited by the Board's fiscal unit were not reconciled to the cash receipt postings. In May 2019, the Board's fiscal unit started segregating the duties by entering cash receipts directly into the system. In addition, there is no aging receivable report that would aid management in measuring the collection efforts of delinquent penalties. In our sample of open and closed penalty cases from January 2017 thru July 15, 2019, we noted the following.

Open Cases

In our random sample of 20 open receivable cases, five should have been closed and posted as paid or retracted. The remaining 15 open cases are still delinquent, and the Board did not issue a Final Order of Penalty Assessment (FOPA) as required by N.J.A.C. 14:2-6.6. Furthermore, those remaining 15 delinquent cases could not be transferred to the Department of the Treasury, Division of Revenue and Enterprise Services (DORES) for further collections as per Treasury Circular No. 13-11-OMB because each did not have an issued FOPA.

Closed Cases

There were 206 closed cases totaling \$588,000, each having an open penalty balance. We randomly tested 10 closed cases with open balances. Of the 10 cases, eight violators properly paid the penalty and two cases were retracted; however, there were no payment or retracted postings recorded. The DRS staff did not always apply payment to a receivable account; however, the DRS staff would at least close each account.

Recommendation

We recommend the Board's fiscal unit continue posting cash receipts and provide a monthly aging receivable report to Board management. We also recommend DRS correct errors for open and closed cases. We further recommend the Board issue FOPAs to delinquent violators and when applicable, transfer the delinquent penalty debt to DORES.



Management Audits: Gas and Electric Utilities

The Board's audit division did not conduct some audits of gas & electric utilities timely as required by N.J.S.A. 48:2-16.4.

In accordance with N.J.S.A. 48:2-16.4, management audits of gas and electric utilities "shall be conducted at least once every 3 years, except where the Board finds that an audit is unnecessary. In no event, however, shall an audit be conducted less than once every 6 years. All expenses of the audits shall be borne by the affected utilities".

The Board's audit division did not have reasonable and acceptable justification including supporting documentation of why audits may be deemed "unnecessary". Based on our review of the division's cycle of scheduled audits of the eight regulated gas and electric utilities, three did not have audits conducted within the maximum statutory limit. These three audits were conducted between two to four years after the six-year limit.

Recommendation

We recommend that the Board's audit division conduct audits of gas and electric utilities as required by N.J.S.A. 48:2-16.4.



Clean Energy Program

The Board did not enforce the contract provision requiring completion of the annual SOC report timely.

During fiscal years 2018 and 2019, the Board paid a contracted service organization to administer the CEP rebates and clean energy projects averaging \$140 million (48 percent) of the total CEF expenditures of \$290 million annually. The Board did not enforce the contract provision requiring an independent auditor to prepare an annual System and Organization Controls (SOC) report that provides an opinion on the contractor's internal controls placed into operation and tested for validation of operating effectiveness. The cost of the annual SOC report is borne by the CEP. The last SOC report for fiscal year 2016 was dated June 2018. Since several SOC reports were not completed, the Board is not able to adequately monitor its contracted service organization to determine whether essential internal controls are operating effectively. As of September 2019, the contractor hired a CPA firm to report on all three fiscal years: 2017, 2018, and 2019 concurrently for \$210,000.

Recommendation

The Board should enforce the provision of the contract requiring the contractor to submit its annual SOC report timely.



Federal Pipeline Safety Program

The Board's fiscal unit does not maintain proper accounting of the Federal Pipeline Safety Program.

The Board's fiscal unit does not comply with Treasury Circular No. 05-02-OMB related to the timeliness and accountability of federal funds transacted in the state's accounting system. In our review of the Federal Pipeline Program, we noted omitted transactions for salary expenses and revenue transaction entries relating to drawdown receipts. All transactions should be prepared and recorded in the state's accounting system timely.

Salary Expenses

Salary expenses are not allocated from state accounts to the federal account properly. The most recent recording of salary expenses was transacted in August 2017 for budget fiscal year 2016 in the amount of \$689,000. In addition, federal reimbursement cost reports from budget fiscal years 2016 through 2019, which included salary expenses, were not reconciled to the expenses reported in the state's accounting system.

Cash Drawdowns

Annually, the DRS prepares the federal cost reimbursement report and the electronic cash drawdown of federal funds. When a cash drawdown is received by the bank and confirmed by the Board's fiscal unit, the revenue (cash receipt) transaction should be recorded promptly in the state's accounting system.

We found five omitted revenue transactions where drawdowns were recorded as many as 46 months after being deposited. In October 2019, these omitted revenue transactions were discovered and communicated to the Board's fiscal unit and were subsequently recorded.

Summary of Omitted Cash Receipt Transactions				
Budget Fiscal Year	Deposit Date	Revenue Transaction Date	Number of Months Delayed in Processing	Deposit Amount
2015	12/3/2015	10/3/2019	46	\$448,000
2015	5/9/2016	10/30/2019	41	\$378,000
2017	9/17/2017	10/23/2019	25	\$240,000
2017	4/13/2018	10/23/2019	18	\$415,000
2018	5/10/2019	10/23/2019	5	\$748,553

Recommendation

We recommend the Board's fiscal unit properly record all federal fund expenses to comply with Treasury Circular No. 05-02-OMB and reconcile related federal reimbursement cost reports to the state's accounting system. In addition, revenue transactions associated with cash drawdowns should be prepared and recorded in the state's accounting system timely.



Internal Controls

The Board's fiscal unit needs to strengthen internal controls.

The Board's management is responsible for establishing and maintaining internal controls that safeguard assets from loss and unauthorized use. Segregation of duties, the proper recording and maintenance of accounting transactions, and documented internal accounting policies are necessary to assure the proper use of financial resources. The failure to maintain adequate internal controls may result in unauthorized transactions, improper recordkeeping, fraud, and/or misappropriation of funds. We identified the following internal control weaknesses over purchasing, bank deposits, and internal accounting policies.

Spending Authorization Request

Before placing a purchase order for goods or to obtain services, pre-authorization must be obtained utilizing a Spending Authorization Request (SAR) form. In the general fund population, we tested a random sample of 21 transactions totaling \$187,983 and a judgmental sample of 25 transactions (based on vendor) totaling \$398,175. Of the combined sample of 46 transactions totaling \$586,158, we identified 7 transactions (15 percent error rate: 1 and 6 transactions respectively for the random and judgmental sample) that contained no evidence of the SAR form.

Purchase (P-Card) & Travel Card Transactions

The Board expended approximately \$114,025 in P-Card and Travel Card disbursements in fiscal years 2018 and 2019. According to Treasury Circular Nos. 17-07-DPP and 14-03-DPP, the cardholder is responsible for maintaining a transaction log including card receipts and supporting documentation for all card purchases. Card receipts should be forwarded to the Board's fiscal unit to validate card purchases. We reviewed bank card statements from October 2017 through September 2019 and judgmentally selected a sample of 26 high risk and unusual vendor transactions totaling \$15,810. We found 8 (31 percent) did not have card receipts and supporting documentation. Some of the unsupported transactions included purchases from Amazon, Michael's, and Primo Hoagies.

Untimely Deposits

From July 2017 through September 2018, a judgmental sample (based on dollar amounts) of 29 cash receipts transactions totaling \$5.8 million were tested for timely bank deposits in accordance with Treasury Circular No. 12-02-OMB. We found 49 of 102 checks were deposited untimely from 2 to 9 business days after receipt. Since the Board's fiscal unit transacted its first remote deposit utilizing a remote deposit-scanning machine in May 2019, we attempted to determine if there was an improvement over timely deposits. We judgmentally (based on dollar amounts under \$10,000) selected 10 checks totaling \$16,500 and found no improvement over timely deposits. Of those 10 checks selected, 8 were deposited an average of 5 days late.

Internal Accounting Policies

The Board's fiscal unit does not have formalized internal accounting policies and procedures, including policies on SARs, card purchases, and timely deposits. The absence of documented internal accounting policies diminishes the Board's ability to detect and correct errors.

Recommendation

We recommend the Board strengthen internal controls over purchasing by obtaining completed SARs prior to purchase and by obtaining receipts for P-Card and Travel Card purchases. Cash receipts should be deposited the same day as received. Lastly, the Board's fiscal unit should implement formal written internal accounting policies and procedures.





PHIL MURPHY
GOVERNOR

SHEILA OLIVER
LT. GOVERNOR

State of New Jersey
BOARD OF PUBLIC UTILITIES
44 South Clinton Avenue
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/
(609)777-3300

Joseph L. Fiordaliso
President

Mary-Anna Holden
Commissioner

Dianne Solomon
Commissioner

Upendra Chivukula
Commissioner

Bob Gordon
Commissioner

August 13, 2020

David J. Kaschak
Assistant State Auditor
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Kaschak,

On July 29, 2020 New Jersey Board of Public Utilities (the Board) received a confidential draft copy of the Office of the State Auditor's report dated the same day and titled, "New Jersey Board of Public Utilities" for the period July 1, 2017 to December 31, 2019" (the Report).

The Report address six (6) areas of Board operations. Please accept the Board's below comments to each area of the Report.

I. Time Reporting

The Board acknowledges the Report's recommendation that supervisors enforce timely submission of eCATS timesheet entry from all employees by each payroll cut-off date.

To that end, the Board's Division of Administration is presently performing activities that include, but are not limited to, the following:

1. Determining a format for standardized Policies & Procedures (P&P), enterprise-wide and accessible via the Board's intranet site to Board staff;
2. Drafting a P&P for time reporting within the eCATS system that identifies and requires elements including, but not limited to:
 - a. deadlines for employee submission;
 - b. deadlines for supervisor review of employee submissions;
 - c. incorporating the timely submission of employee entry within eCATS in all employees Performance Assessment Review (PAR) process;
 - d. aligns the supervisor review of an employee's eCATS with each Board division's organizational chart;
 - e. addresses use of surrogates;
 - f. sets forth a protocol for communicating when an employee's submission is missing, late, incorrect; and

- g. developing a protocol for communicating when a supervisor's review and approval is missing, late, or incorrect;
3. Establishing internal controls for the monitoring of timeliness of employee submission and supervisor review; and
4. Tracking compliance of established standards on bi-weekly basis for reporting and review division compliance in monthly Directors meeting.

II. **One-Call Penalty Receivables**

The Board acknowledges the Report's finding and the recommendation that the Board's fiscal unit continue posting cash receipts and provide a monthly aging receivable report to Board management.

The Board's fiscal group will be working with the Board's Division of Reliability & Security (DR&S) to ensure that DR&S corrects errors for open and closed cases. This includes review of the how the Infoshare system may be used and/or modified to ensure monitoring of the open and aging cases and that cases are being analyzed as to completeness and timeliness on a monthly basis. DR&S will be recommending that the Board issue FOPAs to delinquent violators and when applicable, transfer the delinquent penalty debt to the Department of the Treasury's Division of Revenue & Enterprise Services.

III. **Management Audits: Gas and Electric Utilities**

The Board acknowledges the Report's finding and the recommendation that the Board's Division of Audits (Audits) conduct audits of gas and electric utilities as required by N.J.S.A. 48:2-16.4.

Audits will work to:

1. Create a P&P for audits of gas and electric utilities that identifies and requires elements including but not limited to:
 - a. A set schedule for legislatively mandated gas and electric audits;
 - b. Criteria for reasonable and acceptable justification exceptions including what supporting documentation is required in cases where an audit may be deemed "unnecessary", delayed, or combined with other types of audits;
 - c. A set schedule for non-legislatively required management water audits, other ordered focused audits and financial audits and assess the impact on the schedule for legislatively mandated audits;
2. Establish internal controls for the tracking of audit scheduling, collection of completed audits, use of exceptions (including supporting rationale) to mandated audit scheduling; and
3. Track compliance of established standards on an annual basis for reporting and review division compliance on an annual basis.

IV. **Clean Energy Program: Annual SOC Audits**

The Board acknowledges the Report's finding and the recommendation that the Board should enforce the provision that an SOC audit be performed annually as stipulated in State Contract A40225. The fiscal group will be meeting with the State Contract Manager, other Clean Energy Program staff, and the contractor (TRC Environmental Services, Inc.) to:

1. Review overall State requirements for annual SOC audits and the contract requirements of State Contract A40225;
2. Identify and set the tentative schedule for mandated audit;
3. Consider ramifications of Contractor non-compliance; and
4. Establish internal controls for the collection of completed audits reporting and review of completed SOC audits.

V. **Federal Pipeline Safety Program**

The Board acknowledges the Report's finding and the recommendation that the Board's fiscal group properly record all federal fund expenses to comply with Treasury Circular 05-02-OMB and reconciles

related federal reimbursement cost reports to the State's accounting system and that revenue transactions associated with cash drawdowns be prepared and recorded within the accounting system on a timely basis.

Budget & Finance to meet with Reliability & Security to:

1. Create a P&P that clearly sets forth the process;
2. Review existing internal controls for the tracking of required fiscal and reporting actions;
3. Established a process for the correct and timely allocation of salary expenses from State accounts to federal accounts; and
4. Track compliance of staff with the established controls on a quarterly basis.

VI. **Internal Controls**

The Board's fiscal group recognizes the need for P&Ps for a number of fiscal operations in order to maintain proper internal controls.

Spending Authorization Requests (SARs)

1. Create a P&P on SARs that identifies and requires elements including but not limited to:
 - a. Sets for the process for submitting a SAR as the first step in all procurements and identifies a chain of approval; and
 - b. Clearly identifies SAR sections required to be completed before submission to the fiscal group;
2. Review and refine internal controls for the electronic tracking of SARs;
3. Identify and track relevant variables such as timeliness, dollar value, and method of procurement for reporting on a scheduled basis.

Procurement and Corporate Cards (Cards)

1. Create a P&P on Card usage that identifies allowable usage of Cards in accordance with relevant Treasury Circular Letters 17-07-DPP and 14-03-DPP and contains elements including but not limited to:
 - a. Allowable use and pricing ceilings for purchases on respective cards; and
 - b. sets forth requirements on required supporting documentation, e.g., SAR and receipts;
2. Review and refine internal controls for the tracking of Card-related SARs and receipts;
3. Track compliance with established standards for reporting on a monthly basis.

Untimely Deposits

The fiscal group will assess the feasibility of developing either an Excel workbook or the acquisition of a commercial-off-the-shelf software such as Quickbooks to ensure monitoring of incoming cash receipt transactions across Board programs to ensure timely deposits in accordance with Treasury Circular 12-02-OMB.

The Board thanks the Office of the State Auditor for its studied observations and finding and considers this response an opportunity to demonstrate its commitment towards continuous quality improvement on its stewardship of publicly funded dollars.

Respectfully,



Joseph L. Fiordaliso, President

cc: Christine Sadovy, Chief of Staff
Jonathan Wallace, Acting Chief Fiscal Officer