

STATE OF CONNECTICUT

**AUDITORS' REPORT
CONNECTICUT SITING COUNCIL
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

Table of Contents

INTRODUCTION	1
COMMENTS	1
Foreword.....	1
Siting Council Members	2
Significant New Legislation	3
Résumé of Operations.....	3
CONDITION OF RECORDS	6
Late Deposits, Reporting, and Internal Control over Receipts	6
Accounts Receivable.....	7
No Statutory Authority to Impose Penalties on Late Payments	8
Internal Control over Expenditures.....	8
RECOMMENDATIONS	10
CERTIFICATION	12
CONCLUSION	14

November 12, 2004

**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

We have examined the financial records of the Connecticut Siting Council for the fiscal years ended June 30, 2002 and 2003. This report on that examination consists of the following Comments, Recommendations and Certification.

Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies including the Connecticut Siting Council. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations and contracts and evaluating the internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Connecticut Siting Council (Siting Council) operates primarily under Title 16, Chapter 277a and several sections of Title 22a of the General Statutes and is within the Department of Public Utility Control (DPUC). A chairperson, who is appointed by the Governor, heads the Siting Council, as provided for in Section 16-50j, subsection (e), of the General Statutes. The chief administrative officer of the Siting Council is the executive director, who is appointed in accordance with Section 16-50j, subsection (g), of the General Statutes.

Statutory responsibilities of the Siting Council include site regulation of electric generating facilities and substations of utilities and large private power producers, fuel and electric transmission lines, community antenna television towers, cellular telephone towers and telecommunication towers owned or operated by the State or public service companies (Chapter 277a); hazardous waste management facilities (Chapter 445); a low level radioactive waste management facility (Chapter 446a) and ash residue management facilities (Chapter 446d and 446e). Section 16-50aa of the General Statutes authorizes the Siting Council to regulate the

Auditors of Public Accounts

shared use of existing telecommunication towers to avoid the proliferation of unnecessary tower structures.

The Siting Council's primary mission is to provide a regulatory process for balancing the need for adequate and reliable public utility services with the need to protect the environment and ecology of the State, and to regulate siting of hazardous waste and low-level radioactive waste facilities in order to protect the health and safety of Connecticut citizens.

The Siting Council reviews and acts on applications for approval of sites for construction, operation, and maintenance of facilities for electric generation and transmission, fuel transmission, telecommunications, hazardous waste management, low-level radioactive waste management, and ash residue management.

The workload activity of the Siting Council has been increasing steadily over the last several fiscal years. According to the Siting Council, the number of public hearing sessions increased from 16 in fiscal year 1999-2000 to 45 in both fiscal years 2001-2002 and 2002-2003. Other activities of the Siting Council have also increased, including petitions for declaratory rulings, dockets files, administrative filings, and public proceedings. In all, the Council reports having conducted 420 activities in fiscal year 2002-2003, up from 265 in fiscal year 1999-2000, an increase of 58 percent over that period.

Siting Council Members:

Pursuant to Section 16-50j, subsections (b) through (d), of the General Statutes, the Siting Council may consist of between nine and thirteen duly appointed members depending on the type of proceedings being heard. Members of the Siting Council as of June 30, 2003, were as follows:

Permanent Members:

Pamela B. Katz, Chairman
Philip T. Ashton
James J. Murphy Jr.
Colin C. Tait, Esq.
Edward S. Wilensky
Daniel P. Lynch
Brian O'Neill

Former Chairman Mortimer Gelston retired on February 6, 2003, after serving over 29 years on the Council, the last 13 years as Chairman.

Additional Members for Energy and Telecommunications Matters (as of June 30, 2003):

Commissioner of Environmental Protection:
Arthur J. Rocque, Jr.,
Chairperson, Public Utilities Control Authority:
Donald W. Downes

Additional Members for Hazardous Waste, Low Level Radioactive Waste and Ash Residue Disposal Matters (as of June 30, 2003):

Commissioner of Public Health:

Joxel Garcia, M.D.

Commissioner of Public Safety:

Arthur L. Spada

In addition, in proceedings concerning Hazardous Waste and Low Level Radioactive Waste matters, the Council will also include four ad hoc members, three of whom shall be electors from the municipality in which a proposed facility is to be located and one elector from a neighboring municipality likely to be most affected by the proposed facility.

Joel M. Rinebold served as Executive Director of the Siting Council until his resignation on November 29, 2001. S. Derek Phelps was appointed Executive Director on December 24, 2001, and served in that capacity throughout the audited period.

Significant New Legislation:

Significant new legislation affecting the Siting Council during the audited period included the following:

- Public Act 02-95 requires the Siting Council to request, within 15 days of the Act's passage, that the Federal Energy Regulatory Commission (FERC) not approve any new electric power line, gas pipeline, or telecommunications crossing until a comprehensive environmental assessment is complete and that FERC avoid any environmental damage to the Sound to the greatest extent possible by considering the assessment's recommendations when licensing a project.

- Public Act 03-148 extends until June 3, 2004, a moratorium on State agency consideration or final decision on any electric power line, gas pipeline, or telecommunications crossing of Long Island Sound.

RÉSUMÉ OF OPERATIONS:

The operations of the Siting Council are accounted for within the Siting Council Fund. Receipts consisted primarily of administrative assessments placed directly on applicable energy, telecommunications and hazardous waste industries, and recoveries of expenditures from applicants for costs incurred in conducting Siting hearings and proceedings. A comparative summary of Siting Council Fund receipts for the fiscal years ended June 30, 2002 and 2003, as compared to the prior fiscal year is presented as follows:

	Fiscal Year Ended June 30,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual Assessments:			
Energy Industry	\$373,245	\$311,977	\$332,082
Communications Services Industry	260,980	369,763	723,328
Hazardous Waste Industry	7,697		
Recoveries of Expenditures:			
Communications Services Industry	236,067	352,062	345,191
Electric Industry	112,969	226,298	92,859
Hazardous Waste Industry	1,675		
Miscellaneous recoveries	2,317	1,836	1,064
Refunds of Expenditures	<u>1,562</u>	<u>100</u>	<u>—</u>
Total Receipts	<u>\$996,512</u>	<u>\$1,262,036</u>	<u>\$1,494,524</u>

The Communications Services' annual assessments increased significantly during the fiscal year ended June 30, 2003 due to the combination of an increase in the fiscal year 2002-2003 budget and an increase in the apportionment percentage applied to the communications industry from 62 percent to 70 percent. Hazardous waste companies were not assessed during the audited period. There has been no work performed for the hazardous waste industry since fiscal year ended June 30, 2000, therefore no assessments were charged during the audited period.

The amounts of the annual assessments will fluctuate between the energy industry and the communication industry based on the amount of time spent by the Siting Council on each industry's dockets and petitions in the prior year and in accordance with the assessment guidelines set forth in Section 16-50v of the General Statutes. The large variance in the recoveries of expenditures in each year is the result of differences in the number of dockets and petitions filed by each industry during each year and the actual expenses and corresponding reimbursements related to each case.

The available cash balance in the Connecticut Siting Council Fund was \$415,847 as of June 30, 2003.

A summary of the Siting Council Fund expenditures for the fiscal years ended June 30, 2002 and 2003, as compared to June 30, 2001, follows:

	Fiscal Year Ended June 30,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Personal services	\$457,408	\$528,010	\$500,319
Contractual services	293,668	434,614	466,386
Commodities	9,619	8,317	10,008
Revenue refunds	1,508	0	0
Sundry charges	286,939	402,077	338,453
Equipment	<u>2,513</u>	<u>9,067</u>	<u>8,048</u>
Total Expenditures	<u>\$1,051,655</u>	<u>\$1,382,085</u>	<u>\$1,323,214</u>

Expenditures increased 31 percent in fiscal year 2001-2002 over 2000-2001 levels primarily due to large increases in the contractual services and sundry charges categories. Contractual services for printing and binding services increased almost \$98,000 over 2000-2001 levels and fees for non-professional services increased by over \$29,000. Sundry services increased by over \$115,000 due to increases in indirect overhead and employee fringe benefit costs.

Expenditures decreased four percent in fiscal year 2002-2003 over 2001-2002 levels and primarily reflects reduced expenditures in personal services and sundry charges due to lower staffing levels. As of June 30, 2003, authorized full-time positions of the Siting Council totaled nine, down by two positions from June 30, 2002, a reduction of about eighteen percent in the full-time workforce of the Siting Council.

CONDITION OF RECORDS

Our audit of the Connecticut Siting Council's records disclosed the following areas requiring improvement:

Late Deposits, Reporting, and Internal Control over Receipts:

Criteria: Section 4-32 of the General Statutes requires each State agency to deposit and account for revenues \$500 or greater, within 24 hours of receipt, unless an exception is granted by the Treasurer. The State Accounting Manual requires all receipts be entered into a receipts journal.

Condition: Our review of receipts revealed that 18 receipts, totaling \$35,598, were not deposited within the required time period for fiscal years 2002 and 2003. Specifically, for fiscal year 2002, one receipt of \$500 was deposited two days late, and 11 receipts totaling \$6,354 were deposited one day late. For fiscal year 2003, one receipt of \$500 was deposited seven days late, one receipt of \$500 was deposited six days late, one receipt of \$500 was deposited two days late and three receipts totaling \$27,244 were deposited one day late.

We also found sixty receipts, totaling \$245,862 that were deposited but not accounted for in a timely manner. CO-39's were not prepared for any receipts from January 27, 2003 to April 3, 2003; therefore, these receipts were not accounted for as required by statute.

Our review also revealed that ten checks, totaling \$6,680 were deposited but not entered into the receipts journal as required by the State Accounting Manual.

Cause: The cause of the late deposits and checks not entered into the receipts journal was not determined. The cause of the late accounting of receipts was due to a lack of adequate training.

Effect: Receipts were not accounted for and deposited in a timely manner as required by Section 4-32 of the General Statutes. Delays in depositing compromise physical controls over undeposited checks. Poor controls over receipts journal increases risk of loss.

Recommendation: The Siting Council should account for and deposit receipts in accordance with Section 4-32 of the General Statutes and the State Accounting Manual. (See Recommendation 1.)

Agency Response: “The Council is in agreement with the finding of the Auditors of Public Accounts that receipts should be deposited and recorded pursuant to Section 4-32 of the General Statutes.

This matter has been the subject of previous Auditors’ Reports. As has been explained previously, it is occasionally difficult for the Council to fully satisfy the provisions of this Section, given that the Council is staffed with minimal personnel trained and authorized to receive and process receivables.

In 2002, the Council sought a waiver to the 24-hour rule concerning deposits in order to address this concern. The Treasurer’s Office acted favorably on this request; however that waiver expired on June 30, 2003. The Council will renew this request.”

Accounts Receivable:

Background: The Siting Council assesses energy and telecommunications providers for the anticipated expenses of the agency. Section 16-50v of the General Statutes requires energy company assessments to be paid in three installments and telecommunication assessments to be paid quarterly. In addition to these assessments, the Council bills individual companies for specific work performed throughout the year to cover costs directly related to a docket or petition filed by that company.

Criteria: Internal control procedures over accounts receivable require that account balances be maintained for all companies billed.

Condition: In our test of assessments we found that one quarterly assessment payment in the amount of \$8,717 was incorrectly applied to two quarters. We found 12 invoices totaling \$6,668 that remain outstanding after 12 to 24 months. Individual account balances are not maintained and determining the outstanding amounts requires a review of all the billing records from each billing period.

Cause: The accounts receivable system does not incorporate the proper controls to provide reasonable assurance that all payments are properly billed and posted.

Effect: Payments are being incorrectly applied in some instances, not collected or collected past the due date without any late penalties assessed. The current accounts receivable system does not provide timely information about outstanding balances.

Recommendation: The Siting Council should strengthen the controls over the accounts receivable system. (See Recommendation 2.)

Agency Response: “The Council is in agreement with the finding of the Auditors of Public Accounts that the Council should strengthen controls over the accounts receivable system. To that end, the Council has adopted a new software system, Bill Central, which is a comprehensive time billing system designed to facilitate timely invoicing, manage billing operations, and audit accounting activities.”

No Statutory Authority to Impose Penalties on Late Payments:

Criteria: Good business practices require an assessment of penalties for late payment of amounts due.

Condition: We found of 92 assessments tested, 58 assessments totaling \$978,401, were not paid on time. The overdue periods ranged from one month to over 18 months late.

Cause: The Siting Council has no policy on assessment of penalties on late payments due to a lack of statutory authority to impose penalties.

Effect: Without a policy on late payments, companies are less likely to remit amounts owed by the due date, resulting in an increase in the administrative burden in collecting overdue amounts and the loss of interest income.

Recommendation: The Siting Council should seek legislative approval to charge penalties on overdue amounts. (See Recommendation 3.)

Agency Response: “The Council is in agreement with the finding of the Auditor of Public Accounts concerning late payments. There is no such policy in place because there is no statutory authority to assess penalties for late payments.

The Council will take the Auditors’ recommendation to seek legislative approval to charge penalties for overdue amounts under advisement.”

Internal Controls over Expenditures:

Criteria: Good internal controls over expenditures and the State Accounting Manual require that goods or services received be properly documented as to receipt.

Condition: Our test of fifty expenditures revealed that 16 expenditures, or 32 percent, and totaling \$8,925, were not signed as to “commodities received or services rendered” on the CO-17 invoices. Twelve of the invoices were from the 2001-2002 fiscal year and four were from the 2002-2003 fiscal year.

Cause: The cause was not determined.

Effect: Without proper documentation of receipts of goods or services, there is no written verification that the goods or services were actually received.

Recommendation: The Siting Council should review internal controls over expenditures to ensure that all goods and services are properly documented as to receipt. (See Recommendation 4.)

Agency Response: “The Council is in agreement with the finding of the Auditors of Public Accounts concerning Internal Controls over Expenditures. Specifically, good internal controls and the State Accounting Manual require that goods or services received be properly documented as to receipt.

The Council better understands the processes called for in this regard. Presently, the staff ensures that the CO-17 invoices, including the portion entitled “commodities received or services rendered” is properly signed by appropriate staff when appropriate. (Under Core-CT, special attention is given to ensuring that vouchers are properly completed.)”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The opinion of the Attorney General should be requested with respect to the Siting Council's interpretation of Section 16-50j, subsection (f), of the General Statutes allowing per diem payments to exceed \$12,000.

An opinion of the Attorney General, dated August 30, 2002, was received and stated that the \$12,000 annual cap applies only to compensation for hearings and is not a cap on total compensation. Accordingly, this recommendation is not being repeated.

- The Siting Council should deposit and record receipts in compliance with Section 4-32 of the General Statutes.

This recommendation has been repeated.

- The Siting Council should be consistent in its handling of annual assessments and should initiate regulations addressing the assessment process and the use of surplus revenues.

The Siting Council applied a new policy with respect to surplus revenues that was consistently applied during the audited period. This recommendation is not being repeated.

Current Audit Recommendations:

- 1. The Siting Council should account for and deposit receipts in compliance with Section 4-32 of the General Statutes and the State Accounting Manual.**

Comments:

Our review of receipts revealed that 18 receipts, totaling \$35,598, were not deposited within the required time period for fiscal years 2001-2002 and 2002-2003. We also found sixty receipts, totaling \$245,862, that were deposited but not accounted for in a timely manner. CO-39's were not prepared for any receipts from January 27, 2003 to April 3, 2003; therefore, these receipts were not accounted for as required by statute. Our review also revealed that ten checks, totaling \$6,680, were deposited but not entered into the receipts journal as required by the State Accounting Manual.

2. The Siting Council should strengthen the controls over the accounts receivable system.

Comments:

We found in our test of assessments that one quarterly assessment payment in the amount of \$8,717 was incorrectly applied to two quarters. We found 12 invoices totaling \$6,668 that remain outstanding after 12 to 24 months. Individual account balances are not maintained and determining the outstanding amounts requires a review of all the billing records from each billing period.

3. The Siting Council should seek legislative approval to charge penalties on overdue amounts.

Comments:

We found 58 of 92 assessments tested, totaling \$978,401, were not paid on time, ranging from one month to over 18 months late.

4. The Siting Council should review internal control over expenditures to ensure that all goods and services are properly documented as to receipt.

Comments:

Our test of fifty expenditures revealed that 16 expenditures, or 32 percent, totaling \$8,925, were not signed as to “commodities received or services rendered” on the CO-17 invoices.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Connecticut Siting Council for the fiscal years ended June 30, 2002 and 2003. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations and contracts, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations and contracts applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Connecticut Siting Council for the fiscal years ended June 30, 2002 and 2003, are included as part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Connecticut Siting Council complied in all material or significant respects with the provisions of certain laws, regulations and contracts and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of test to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations and contracts applicable to the Connecticut Siting Council is the responsibility of the Connecticut Siting Council's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, and contracts, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2002 and 2003, we performed tests of its compliance with certain provisions of laws, regulations, and contracts. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our test disclosed no instances of noncompliance that are required to be reported herein under auditing standards generally accepted in the United States of America.

We did, however, note certain immaterial or less than significant instances of noncompliance that we have disclosed in the "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Connecticut Siting Council is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations and contracts applicable of the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Connecticut Siting Council's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations and contracts, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations and contracts. We believe the following findings represent reportable conditions: the lack of timely deposits and inadequate controls over receipts and expenditures.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations and contracts or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that the reportable conditions described above are not material or significant weaknesses.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesy extended to our representatives by the Connecticut Siting Council during this examination.

Gary P. Kriscenski
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts