

Financial-Related Audit

Public Utilities Commission
July 1, 1997, through December 31, 1999



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Report Summary

Financial-Related Audit Report

Public Utilities Commission

July 1, 1997, through December 31, 1999

Key Findings and Recommendations:

- The commission did not adequately control employee access to its docketing and assessment system used to bill utility companies for regulatory services. The commission assessed utility companies about \$4.2 million in fiscal year 1999. We found eight Public Utilities Commission employees with view only access to the system who were either no longer employed by the commission or were temporarily assigned to other agencies. The docketing and assessment system contains proprietary information on utility companies' annual revenues that should be secured from unauthorized access. We recommended that the commission establish procedures to grant and terminate employee access to ensure that only authorized employees have access to the system. The commission should also periodically monitor system access. (Finding 1, page 6)
- The commission did not have adequate controls in place over telephone assistance plan revenues to ensure that it collects the appropriate amount of receipts based on the number of access lines the telephone companies administer. The commission collected approximately \$2.1 million in telephone assistance plan receipts in fiscal year 1999. We recommended that the commission reconcile the number of telephone access lines reported by the Department of Commerce to the access lines reported by the telephone companies and follow-up on any material discrepancies. (Finding 2, page 8)

Other Key Audit Conclusions:

- The commission's payroll and other administrative expenditures were properly authorized and recorded in the state's accounting system. For the payroll and other administrative expenditure transactions tested, the commission complied with applicable finance-related legal provisions and collective bargaining agreements.

Agency Response:

- The Public Utilities Commission agreed with the audit findings and recommendations. In its written response, the commission outlined a corrective action plan to resolve the findings.

Public Utilities Commission

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Mike Willis	Auditor-in-Charge
Gena Hoffman	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Public Utilities Commission on July 14, 2000:

Burl Haar	Executive Secretary
Mary Jo Jasicki	Business Manager



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Public Utilities Commission

Mr. Burl Haar, Executive Secretary
Public Utilities Commission

We have audited financial activities of the Public Utilities Commission for the period July 1, 1997, through December 31, 1999. Our audit scope included telephone and utility assessments, telephone assistance plan and administrative hearing judges revenues and expenditures, and employee payroll and other administrative expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Public Utilities Commission complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the commission is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Public Utilities Commission. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 28, 2000.

/s/ James R. Nobles

/s/ Claudia J. Gudvangen

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 2, 2000

Report Signed On: July 25, 2000

Chapter 1. Introduction

The Public Utilities Commission is a regulatory agency with jurisdiction over Minnesota's electric, natural gas, and telecommunications utilities. The commission is made up of five commissioners appointed by the Governor, with the advice and consent of the Senate. Commissioners are appointed to six-year staggered terms. Burl Haar has served as the commission's executive secretary since 1993.

The commission is charged by state statute with the responsibility to maintain just and reasonable utility service rates and to prescribe rules and issue orders with respect to the control and conduct of the businesses within its jurisdiction. The commission's authority is derived from Minn. Stat. Chapters 216A and 237.

The Public Utilities Commission employs approximately 48 staff in the following divisions:

- The Energy Unit analyzes electrical and natural gas utility rates, service areas, and construction of power plants throughout the state.
- The Telecommunications Unit analyzes rates and service areas of the telecommunications utilities. The unit also administers the telephone assistance plan in the state.
- The Consumer Affairs Unit reviews consumer complaints in connection with energy and telecommunications utilities and answers consumer questions.
- The Legal Unit provides legal services to the commission in connection with its regulatory functions.
- The Accounting and Administrative Services Unit is responsible for safeguarding commission assets and processing revenues and expenditures as well as performing other administrative functions required by the commission.

The Public Utilities Commission receives the majority of its funding from state appropriations. The commission assesses utility companies for services it provides and deposits these revenues into the state's General Fund. Other significant sources of revenue include telephone surcharges paid by consumers for the telephone assistance plan and billings to utility companies for the services of the Office of Administrative Hearings. The commission pays the Office of Administrative Hearings for the costs associated with administrative hearings of public utility contested cases and bills the utility companies associated with each case to recover these costs. Table 1-1 shows the financial activity of the agency for the audit period.

Public Utilities Commission

Table 1-1
Sources and Uses of Funds

	Fiscal Year	Fiscal Year
	1998	1999
Sources:		
State Appropriations	\$3,530,000	\$3,589,000
Cancellations	<u>(9,473)</u>	<u>(12,328)</u>
Net Appropriations	\$3,520,527	\$3,576,672
Transfers In ⁽¹⁾	\$ 100,000	\$ 0
Telephone Assistance Plan Receipts	1,971,216	2,050,684
Administrative Law Judge Receipts	68,731	97,596
Investment Income	69,700	79,754
Other Receipts	11,481	31,896
Balance Forward In	<u>2,314,619</u>	<u>1,918,862</u>
Total Sources	<u>\$8,056,274</u>	<u>\$7,755,464</u>
Uses:		
Payroll	\$2,898,185	\$2,875,295
Rent	288,867	329,248
Travel and employee development	58,916	99,920
Supplies and equipment ⁽²⁾	44,724	285,728
Telephone Assistance Plan Expenditures	1,980,600	2,034,578
Professional Services ⁽³⁾	446,852	218,641
Other Expenditures	101,099	116,799
Balance Forward Out ⁽⁴⁾	<u>1,918,862</u>	<u>1,477,094</u>
Transfers Out ⁽⁵⁾	<u>318,169</u>	<u>318,161</u>
Total Uses	<u>\$8,056,274</u>	<u>\$7,755,464</u>

- (1) The amount transferred in was from the Department of Agriculture to fund the Ground Current Studies project.
- (2) Supplies and equipment expenditures increased in 1999 because of a large increase in purchases of computer hardware and software, communications equipment, and furniture.
- (3) Professional services include services provided by vendors and services provided by administrative hearing judges. Professional services decreased in 1999 due to a reduction in the use of the administrative hearing judges services due to a smaller caseload.
- (4) The majority of the balance forward out pertains to the telephone assistance plan which is accounted for in the Special Revenue Fund.
- (5) The amounts transferred out were to the Department of Human Services to fund its work on the telephone assistance plan.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1998 and 1999.

Chapter 2. Assessments

Chapter Conclusions

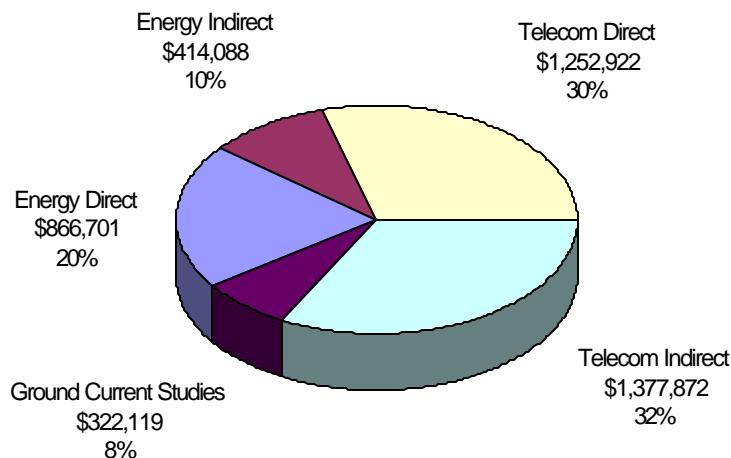
The Public Utilities Commission's internal controls provided reasonable assurance that assessment revenues were adequately safeguarded and properly recorded in the state's accounting system. For the items tested, the commission appropriately assessed and collected fees from the state's utility companies for services performed. However, the commission needs to improve controls over access to its assessment system.

The Public Utilities Commission has the responsibility of regulating energy and telephone utilities for compliance with state statutes as well as setting rates and service areas for these utilities. Minn. Stat. Chapters 216B and 237 authorize the commission to assess utility companies for the commission's costs in connection with the regulatory services that it performs.

The commission maintains expenditure records to identify both direct costs, which are charged to specific companies, and indirect costs, which are charged to all companies. The commission bases these billings on calculated costs of salaries, overhead, and other specific expenses that it incurs in performing its regulatory responsibilities. The commission collected assessments of approximately \$4.2 million in fiscal year 1999. Billings for assessments are incorporated into the Department of Commerce billing process. The commission recovers all costs with the exception of immaterial amounts that exceed the statutory limit that a particular company may be billed. Figure 2-1 shows the percentage of assessments by type for the year ended June 30, 1999.

Public Utilities Commission

Figure 2-1
Assessments by Type
Fiscal Year 1999



Source: Minnesota Accounting and Procurement System (MAPS).

Audit Objectives and Methodology

Our audit of assessment revenues focused on the following objectives:

- Did the commission assess fees for regulatory services in accordance with statutory requirements?
- Did the commission adequately safeguard and properly record assessment receipts in the accounting system?
- Did the commission comply with material finance-related legal provisions?

To answer these questions, we interviewed commission staff to gain an understanding of the internal control structure over the calculation and collection of utility company assessments. We analyzed and tested utility assessment transactions to verify that the proper fee amounts were collected and deposited. We analyzed direct overhead calculations and indirect assessment rates to ensure that appropriate fees were charged to the utility companies.

Conclusions

The Public Utilities Commission's internal controls over utility assessments provided reasonable assurance that assessment revenue was adequately safeguarded and properly recorded in the state's accounting system. For the items tested, the commission properly assessed utilities for

Public Utilities Commission

services performed, as required by statute. However, as reported in Finding 1, the commission needs to improve controls over access to the docketing and assessment system.

1. The commission did not adequately control employee access to the docketing and assessment system.

The commission did not ensure that employees' access to its Fox Pro docketing and assessment system was terminated when they left commission employment. The Department of Commerce administers the FoxPro docketing and assessment system. Commission staff members are granted update access to the system to input payroll and other costs incurred in their regulatory services. The commission billed these costs to utility companies. Assessments in fiscal year 1999 totaled \$4.2 million. Commission employees are also granted access to view information used in rate analysis. In our examination of the FoxPro system access log, we found that there were eight former commission employees with inquiry access to the system who were either no longer employed by the commission or were temporarily assigned to other agencies. We found that the commission had no formal procedure for terminating system access when employees leave the commission. The FoxPro system contains proprietary information on utility company annual revenues, which should be secured from unauthorized access.

Recommendations

- *The commission should establish procedures to grant and terminate employee access to the docketing and assessment system.*
- *The commission should periodically monitor system access to ensure that access is provided only to employees who need it to perform their job duties.*

Chapter 3. Telephone Assistance Plan and Administrative Hearing Judges Revenues and Expenditures

Chapter Conclusions

The Public Utilities Commission's internal controls provided reasonable assurance that the telephone assistance plan revenues and administrative hearing judges revenues were adequately safeguarded and properly recorded in the state's accounting system. For the items tested, the commission appropriately collected fees from the state's utility companies for services performed by the administrative hearing judges, as required by state statute. However, the commission needs to improve controls over ensuring that it collects the proper amounts of telephone surcharges from the state's telephone companies.

The commission's internal controls provided reasonable assurance that the telephone assistance plan and administrative hearing judge expenditures were properly authorized and recorded in the state's accounting system. For the items tested, program expenditures were made in accordance with applicable finance-related legal provisions.

Both the telephone assistance plan and administrative hearing judges programs are financed through dedicated receipts. The commission collects revenues from regulated utility companies to finance these programs. The telephone assistance plan revenues totaled approximately \$2.1 million in fiscal year 1999. Administrative hearing judge revenues from direct billings to utility companies totaled approximately \$98,000 in 1999.

The commission coordinates administration of the Minnesota Telephone Assistance Program (TAP). In 1987, the Legislature created TAP to be administered jointly by the commission and the Department of Human Services. The program has provided monthly credits to the telephone bills of low-income customers who are either disabled or over 64 years old. The credits are funded by a surcharge to all local telephone customers. The statute gives the commission the authority to set the credit level of participants and also the surcharge level assessed to customers. The credit cannot exceed any of the following: the federal matching assistance, 50 percent of the local exchange rate, or the surcharge amount funded. The surcharge cannot exceed ten cents per access line. The commission reviews these rates yearly.

The commission pays the Office of Administrative Hearings for the costs associated with administrative hearings of public utility contested cases. If the costs are related to specific telephone or utility companies, the commission then bills the appropriate company or companies for the expenses incurred. If the costs are related to all utility companies in an industry, they are

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billed out through the indirect assessment system. The commission received a one-time appropriation of \$85,000 as working capital for the administrative hearing judges program.

Audit Objectives and Methodology

Our audit of the telephone assistance plan revenues and administrative hearing judge revenues and expenditures focused on the following questions:

- Did the Public Utilities Commission collect fees for the telephone assistance plan and administrative hearing judges program in accordance with statutory requirements?
- Did the commission adequately safeguard and properly record its assessment receipts?
- Were the expenditures for these programs authorized and properly recorded on the state's accounting system?
- Were expenditures made in accordance with applicable finance-related legal provisions?

To answer these questions, we interviewed commission employees to gain an understanding of the internal control structure over the telephone assistance plan and administrative hearing judges revenues and expenditures. We selected samples of transactions to verify that the proper fees were collected and deposited. In addition, we performed sample testing to determine whether the commission authorized and properly recorded the program expenditures in the accounting system and if they complied with applicable financial-related legal provisions.

Conclusions

The commission designed controls to provide reasonable assurance that the telephone assistance program revenues and administrative hearing judges program revenues were adequately safeguarded and properly recorded in the state's accounting system. For the items tested, the commission properly assessed companies as required by statute. We also found that the commission authorized and properly recorded expenditures for the telephone assistance plan credits and administrative hearing judges costs in accordance with applicable finance-related legal provisions. However, as reported in Finding 2, the commission needs to improve controls to ensure the accuracy of telephone assistance plan revenues collected.

2. PRIOR AUDIT RECOMMENDATION PARTIALLY RESOLVED: The commission did not have adequate controls in place over telephone assistance plan revenue.

In our prior audit report, we recommended that the commission improve controls to ensure the accuracy of telephone assistance plan revenues and expenditures. The commission has improved controls over the accuracy of the expenditures for the telephone assistance plan. However, the commission did not reconcile the surcharge revenues reported by telephone companies with actual access line totals for each fiscal year. The telephone companies remit a surcharge based on the number of telephone lines they operate. In fiscal year 1999, the commission collected approximately \$2.1 million in telephone assistance plan receipts. Minn. Stat. 237.70 states that

Public Utilities Commission

the commission must require each telephone company to account to the commission on a periodic basis for surcharge revenues collected by the company. The Department of Commerce prepares an annual report that contains the access line information needed to verify telephone company surcharge calculations.

Recommendation

- *The commission should reconcile the telephone access lines reported by the Department of Commerce to the access lines reported by the telephone companies for remittance of surcharges. The commission should document the reconciliation and follow-up on any material discrepancies between the Department of Commerce reports and remittance reports from the telephone companies.*

Chapter 4. Payroll and Other Administrative Expenditures

Chapter Conclusions

The Public Utilities Commission's internal controls provided reasonable assurance that payroll and other administrative expenditures were authorized and properly recorded in the accounting system. For the items tested, payroll and other administrative expenditures were administered in accordance with applicable finance-related legal provisions, including bargaining unit agreements.

The Public Utilities Commission's largest expenditure is payroll. Payroll costs totaled nearly \$2.9 million for fiscal year 1999. The commission has approximately 48 employees including five full-time commissioners. The commission's other administrative expenditures totaled approximately \$1 million in fiscal year 1999. Figure 4-1 summarizes the commission's administrative expenditures other than payroll for fiscal year 1999.

Figure 4-1
Non-Payroll Administrative Expenditures by Type
Fiscal Year 1999



(1) Professional services do not include services provided by the administrative hearing judges.

(2) Other expenditures include repairs, printing, communications, and indirect costs.

Source: Minnesota Accounting and Procurement System (MAPS).

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Audit Objectives and Methodology

Our audit of payroll and other administrative expenditures focused on the following questions:

- Were payroll and other administrative expenditures authorized and properly recorded on the state's accounting system?
- Did the commission comply with finance-related legal provisions including collective bargaining agreements?

To answer these questions, we gained an understanding of the internal control structure over the processing and recording of payroll and other administrative expenditures. We performed an analytical review of changes in pay rates for a sample of employees. We tested the commissioners' salaries to ensure that they were within statutory limits. We analyzed the classes of transactions that were material or posed greater risk and performed analytical reviews and sample testing of these classes of transactions. We tested samples of payroll and other administrative expenditure transactions to ensure that they were authorized and properly recorded.

Conclusions

The Public Utilities Commission's internal controls provided reasonable assurance that payroll and other administrative expenditures were authorized and properly recorded in the accounting records. For the items tested, the commission complied with applicable finance-related legal provisions and collective bargaining agreements.

Status of Prior Audit Issues

As of June 2, 2000

Most Recent Audit

Legislative Audit Report 98-24, issued in April 1998, covered the two fiscal years ended June 30, 1997. The scope of the audit included assessment receipts, telephone assistance plan and administrative hearing judges revenues and expenditures, and payroll and other administrative expenditures. The report contained three written issues related to the telephone assistance plan, payroll, and travel reimbursements. The commission resolved two of the findings. Although the commission resolved the prior finding related to telephone assistance plan expenditures, it has not yet fully resolved the finding involving telephone assistance plan revenues, as discussed in Finding 2 in this report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



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July 20, 2000

Mr. James R. Nobles
Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Re: Legislative Audit Report for July 1, 1997 through December 31, 1999

Dear Mr. Nobles:

This letter is a follow-up report to the audit report of the Office of Legislative Auditor (OLA) concerning the Minnesota Public Utilities Commission (PUC) for the period July 1, 1997 through December 31, 1999. This letter will provide an update on the steps the PUC will take to address the two findings noted in your report.

Finding: Control of access to docketing and assessment system.

As part of its routine process for closing out affairs after the departure of an employee, the Commission will give particular attention to notifying the Department of Commerce (DOC) when an employee leaves the PUC and ask the DOC to remove the user from the group that has access rights to the Assessment and Imaging systems. The DOC has administrative control over these systems. This notification will be the responsibility of the PUC's Technology Manager. Specifically, the Technology Manager will:

1. Remove the person as a user from the PUC tree.
2. Notify the DOC administrator of assessment and imaging systems that the person has left the Commission. She will also request/instruct that rights to assessment and imaging systems are to be terminated.

In addition, our Technology Manager will contact the DOC and provide a list of authorized users for the imaging and assessment systems, so that access for anyone who has left the PUC can be terminated.

Finding: Further verification and documentation of the number of telephone lines reported by telephone companies through the Telephone Assistance Program (TAP) by reconciliation with those reported to the Department of Commerce.

The annual reports for year ending Dec. 31 are submitted by the telephone companies or competitive local exchange companies to the DOC every May 1 of each year. We will formally ask the Department to send us a summary of line counts 20 or 30 days after the May 1 deadline. Although the procedure has not been documented since the start of TAP, we periodically do a count comparison not just with what is reported to the DOC, but with the Minnesota Telephone Association's annual reports as well. We will begin to create a document record of these comparisons in the future.

I believe these measures will adequately address the issues raised by the audit report. I would be very interested in any comments you or your staff might have with respect to these measures. If you would like any further status reports or other information on these subjects, please contact me directly (296.7526).

Thank you!

Sincerely,

/s/ Burl W. Haar

Burl W. Haar
Executive Secretary

cc: Greg Scott, Chair
Mary Jo Jasicki, Administrative Management Director