OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Public Utilities Commission

July 1, 1999, through June 30, 2002

JULY 3, 2003 **03-37**

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.

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- 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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OLA

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

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Commissioners 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, 1999, through June 30, 2002. Our audit scope included telephone and utility assessments, employee payroll and administrative expenditures, and the telephone assistance plan revenues and expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *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 3, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 5, 2003

Report Signed On: June 27, 2003

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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
Brad White, CPA, CISA	Audit Manager
Gena Hoffman	Auditor-in-Charge
Kristen Poore	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Public Utilities Commission at an exit conference on June 17, 2003:

Burl Haar	Executive Secretary
Mary Jo Jasicki	Business Manager

Report Summary

Key Findings and Recommendations

- The Public Utilities Commission's expenditure controls require improvement. Certain internal control breakdowns exposed the Commission to financial risk and misreporting of expenditures in the accounting system. We noticed instances where a large discount was lost, a telephone company had to return a significant overpayment, and transaction record dates did not reflect the actual date of liability. (Finding 1, page 9)

- The TAP fund balance continued to grow during the audit period with a carry-forward balance of $2.76 million from fiscal year 2002 into fiscal year 2003. The Commission has discretion to adjust the level of TAP assessments, and program grant eligibility requirements were recently changed making it very difficult for the Commission to manage and forecast plan finances. We suggested that the Commission consider developing financial tools and data sources to assist in the management and projection of TAP finances, allowing it to minimize its fund balance. (Finding 2, page 13)

Agency Background

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. Mr. Burl Haar has served as the Commission's executive secretary since 1993.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments and agencies. The scope of our audit work at the Public Utilities Commission included assessments, administrative expenditures, and the Telephone Assistance Plan from 2000 to 2002. The Commission's response is included in the report.

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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. Mr. Burl Haar has served as the Commission's executive secretary since 1993.

The Commission is charged by state statute with the responsibility of maintaining 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 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 operational funding from state appropriations. The Commission assesses utility companies for services it provides and deposits these receipts into the state's General Fund as nondedicated revenues. 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 fiscal year 2002.

Table 1-1
Sources and Uses of Funds
Fiscal Year 2002

	General Fund	Telephone Assistance Plan (TAP)	Other Special Revenue Funds
Sources:			
State Appropriations	$3,994,000	$ 0	$ 0
Receipts	0	1,908,312	363,101
Other:			
Transfers In (Note 1)	146,030	0	0
Transfers Out (Note 2)	0	(314,000)	(252)
Balance Forward In	67,744	2,637,150	91,294
Balance Forward Out	(389,068)	(2,755,201)	(78,638)
Total Sources	$3,818,706	$1,476,261	$375,505
Uses:			
Payroll and Fringe Benefits	$3,265,831	$ 13,456	$ 0
Space Rent and Utilities	345,273	0	0
Purchased/Professional Services	88,566	0	375,505
Travel	44,003	0	0
Supplies	22,966	0	0
Equipment	15,947	0	0
Other	36,120	8,081	0
Grants	0	1,454,724	0
Total Uses	$3,818,706	$1,476,261	$375,505

Note 1: The Public Utilities Commission received a transfer from the Office of Technology for small agency infrastructure pursuant to Minnesota Laws (1999), Art. 1, Sec. 12, Subd. 3(c)

Note 2: The Commission transferred $314,000 from the Telephone Assistance Plan (TAP) to the Department of Human Services for reimbursement of administrative expenses in accordance with Minn. Stat. Section 237.701.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2002.

Chapter 2. Assessments

Chapter Conclusions

The Public Utilities Commission's internal controls provided reasonable assurance that assessment revenues were adequately safeguarded and accurately recorded in the state's accounting system. For the items tested, the Commission appropriately assessed and collected fees from the state's energy and telephone utility companies for services performed, as required by state statute.

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. Sections 216B and 237 authorize the Commission to assess utility companies for recovery of 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 are incurred in performing regulatory responsibilities. Assessment collections averaged $3.6 million annually from fiscal years 2000 to 2002. Billings for assessments are incorporated into the Department of Commerce's billing process. Table 2-1 shows the Commission's energy and telephone assessment of direct and indirect costs by type for fiscal years 2000 to 2002.

Table 2-1
Assessment Revenues by Type
Fiscal Years 2000-2002

Assessment Type	2000	2001	2002
Energy Direct	$ 459,042	$ 306,114	$ 932,541
Energy Indirect	840,779	809,552	1,370,847
Telephone Direct	732,746	552,687	1,328,506
Telephone Indirect	1,211,550	1,114,427	1,188,724
Total	$3,244,117	$2,782,780	$4,820,618

Note: Fluctuations from fiscal years 2000 to 2002 were caused by assessment timing differences and increased workload in fiscal year 2002.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 2000 to 2002 from July 1, 1999, through December 31, 2002.

Public Utilities Commission

Audit Objectives and Methodology

Our audit of assessment revenues focused on the following objectives:

- Did the Public Utilities Commission's internal controls provide reasonable assurance that assessment revenues were adequately safeguarded and properly recorded on the state's accounting system?

- Did the Commission assess and collect assessment revenues in compliance 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 energy and telephone utility assessment receipt transactions to verify that the proper fee amounts were collected and deposited. We analyzed calculations of direct overhead and indirect assessment rates to ensure that appropriate fee rates were charged to the utility companies. Security access to the computerized assessment billing system was examined to ensure that access was appropriately restricted.

Conclusions

The Public Utilities Commission's internal controls provided reasonable assurance that assessment revenues were accurately determined, 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 energy and telephone utility companies for services performed, as required by state statute.

Chapter 3. Payroll/Administrative Expenditures

Chapter Conclusions

The Public Utilities Commission's internal control structure provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in accordance with management's authorization. However, other Commission administrative expenditure controls require improvement, as certain internal control breakdowns exposed the Commission to financial risk and misreporting of expenditures in the accounting system. We noticed instances where a large discount was lost, a telephone company had to return a substantial overpayment, and transaction record dates did not reflect the actual date of liability.

For the items tested, except for untimely payment of vendor invoices and early payment of rent, the Public Utilities Commission complied with material finance-related legal provisions concerning administrative expenditures and compensated employees in compliance with respective bargaining unit contracts and compensation plans.

During the audit period, the Public Utilities Commission averaged annual administrative expenditures of approximately $4 million. Administrative expenditures included payroll and fringe benefits, rent and utilities, professional services, travel, and other expenditures. Table 3-1 summarizes the Commission's administrative expenditures by type for fiscal years 2000 through 2002.

Table 3-1
Administrative Expenditures by Type
Fiscal Years 2000 to 2002

Expenditure Type	2000	2001	2002
Payroll and Fringe Benefits	$3,012,543	$3,239,371	$3,279,287
Space Rent and Utilities	323,363	473,843	345,273
Purchased/Professional Services	186,424	197,964	464,071
Travel	59,393	50,963	44,003
Supplies	44,243	102,523	22,966
Equipment	22,959	62,314	15,947
Other	47,375	58,661	44,200
Total	$3,696,300	$4,185,639	$4,215,747

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 2000 to 2002 from July 1, 1999, through December 31, 2002.

Public Utilities Commission

Classified employees of the Public Utilities Commission belonged to various state bargaining units and compensation plans. The five commissioners are paid at an approved level determined by the Legislative Coordinating Commission (LCC) Subcommittee on Employee Relations.

Audit Objectives and Methodology

Our audit of the Public Utilities Commission's administrative expenditures focused on the following objectives:

- Did the Commission's internal controls provide reasonable assurance that it accurately compensated its employees in compliance with applicable bargaining unit contracts and compensation plans and paid its commissioners at the level established by the LCC?

- Did the Commission's internal controls provide reasonable assurance that administrative expenditure transactions were for goods received and services rendered, were accurately recorded in the accounting records, and made in accordance with management's authorization?

- Did the Commission comply with material finance-related legal provisions governing employee pay and procurement of goods and services?

To meet these objectives, we interviewed Commission employees to gain an understanding of the internal control structure over the processing and recording of payroll and other administrative expenditures. We analyzed the classes of transactions that were material or posed greater risk. We tested a sample of transactions to determine whether the Commission appropriately documented and authorized payments, accurately recorded disbursement transactions on the state's accounting system, and complied with applicable legal provisions and management authorization.

Conclusions

The Public Utilities Commission's internal control structure provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in accordance with management's authorization. However, other Commission's administrative expenditure controls require improvement, as certain internal control breakdowns exposed the Commission to financial risk and misreporting of expenditures in the accounting system. We noticed instances where a large discount was lost, a telephone company had to return a substantial overpayment, and transaction record dates did not reflect the actual date of liability.

For items tested, except for untimely payment of vendor invoices and early payment of rent, the Public Utilities Commission complied with material finance-related legal provisions concerning administrative expenditures and compensated employees in compliance with respective bargaining unit contracts and compensation plans.

Public Utilities Commission

1. Internal controls over certain expenditures and recording of transactions in the state's accounting system require improvement.

The Commission experienced some procedural breakdowns in its internal controls over certain expenditures, resulting in missing payment authorizations, late payments, and lost discounts. The risk of inaccurate or inappropriate payment increases when controls are not functioning as intended. We also noted the need for improvement in accounting system encumbering of individual grants and coding of liability dates as explained below.

- Certain space remodeling costs were not effectively controlled. The Commission was unable to take advantage of a $1,400 purchase discount because it did not coordinate with the landlord. Also, floor preparation costs were not to exceed a certain level, yet the Commission was invoiced and paid a larger amount. The Commission could have challenged the vendor, but did not because the total project cost was not exceeded.

- The Commission overpaid a telephone company $600,000 for a Telephone Assistance Plan credit reimbursement. Internal controls should have detected this large overpayment; however, the telephone company caught the error and returned the check to the Commission. The Commission used one blanket encumbrance to pay TAP reimbursement payments to all telephone companies. Had the Commission individually encumbered reimbursements for the larger telephone companies, the accounting system would have prevented an overpayment of this magnitude.

- The Commission entered administrative expenditure transactions on the accounting system using record dates that did not reflect the state's liability date. Twenty-three of 29 transactions we tested had incorrect record dates, and many times the accounting system's default date, or the day entered, was used. The transaction record date should reflect the date the goods or services were received, or the date of obligation for Telephone Assistance Plan grant reimbursements.

Recommendations

- *The Commission should improve scrutiny and internal controls over expenditures by:*
  - *planning the timing of large payments to ensure available purchase discounts are obtained and holding vendors accountable for project cost limits;*
  - *considering individual encumbrances in the accounting system for large telephone company reimbursements from the Telephone Assistance Plan; and*
  - *properly recording the liability date in the accounting system based on the date the goods or services were received.*

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Chapter 4. Telephone Assistance Plan

Chapter Conclusions

The Public Utilities Commission's internal controls provided reasonable assurance that the Telephone Assistance Plan (TAP) receipts were adequately safeguarded and properly recorded in the state's accounting system. For the items tested, the Commission complied with material finance-related legal provisions governing program receipts.

The Commission's internal controls generally provided reasonable assurance that TAP expenditures were properly authorized and recorded in the state's accounting system. However, as explained in Chapter 2, Finding 1, we noted that individually encumbering TAP grants to large telephone companies and properly recording record date obligations would improve control. For the items tested, program expenditures were made in accordance with applicable finance-related legal provisions.

The TAP fund balance continued to grow during the audit period with a carry-forward balance of $2.76 million from fiscal year 2002 into fiscal year 2003. The Commission has discretion to adjust the level of TAP assessment, and program grant eligibility requirements were recently changed, making it very difficult for the Commission to manage and forecast plan finances. We suggested that the Commission consider developing financial tools and data sources to assist in the management and projection of TAP finances, allowing it to minimize its fund balance.

The Telephone Assistance Plan (TAP) is financed through dedicated receipts. The telephone assistance plan revenues totaled approximately $2 million in fiscal year 2002.

The Commission coordinates administration of the Minnesota Telephone Assistance Plan with the Department of Human Services. The program has provided monthly credits on the telephone bills of low-income customers who are either disabled or over 65 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 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.

Table 4-1
Telephone Assistance Plan Financial Activity
Fiscal Years 2000 to 2002

	2000	2001	2002
Sources:			
Receipts (Note 1)	$2,193,534	$2,690,634	$1,908,312
Other:			
Transfers Out (Note 2)	(314,000)	(314,000)	(314,000)
Balance Forward In	1,375,697	1,611,815	2,637,150
Balance Forward Out	(1,611,815)	(2,637,150)	(2,755,201)
Total Sources	$1,643,416	$1,351,299	$1,476,261
Uses:			
Administrative Expenditures	$ 14,862	$ 15,197	$ 21,537
Grants	1,628,553	1,336,102	1,454,724
Total Uses	$1,643,415	$1,351,299	$1,476,261

Note 1: The Commission deposited a fine of $362,100 into the TAP fund in fiscal year 2001 pursuant to direction from the Office of the Attorney General.

Note 2: The Commission annually transferred $314,000 to the Department of Human Services for reimbursement of administrative expenses in accordance with Minn. Stat. Section 237.701.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 2000 to 2002.

Audit Objectives and Methodology

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

- Did the Public Utilities Commission's internal controls provide reasonable assurance that it adequately safeguarded and properly recorded its TAP receipts in the state's accounting system, and that it collected fees for the telephone assistance plan in accordance with statutory requirements?
- Did the Commission's internal controls provide reasonable assurance that program expenditures were accurate and authorized, and transactions were properly recorded on the state's accounting system?
- Were program revenue and 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 telephone assistance plan revenues and expenditures. We tested receipt transactions to verify that the proper fees were collected and deposited. In addition, we tested expenditure transactions for management authorization, accurate recording in the accounting system, and compliance with applicable finance-related legal provisions.

Conclusions

The Public Utilities Commission's internal controls provided reasonable assurance that the Telephone Assistance Plan (TAP) receipts were adequately safeguarded and properly recorded in the state's accounting system. For the items tested, the Commission complied with material finance-related legal provisions governing program receipts.

The Commission's internal controls generally provided reasonable assurance that TAP expenditures were properly authorized and recorded in the state's accounting system. However, as explained in Chapter 2, Finding 1, we noted that individually encumbering TAP grants to large telephone companies and properly recording record date obligations would improve control. For the items tested, program expenditures were made in accordance with applicable finance-related legal provisions.

The TAP fund balance continued to grow during the audit period with a carry-forward balance of $2.76 million from fiscal year 2002 into fiscal year 2003. The Commission has discretion to adjust the level of TAP assessment, and program grant eligibility requirements were recently changed making it very difficult for the Commission to manage and forecast plan finances. We suggested that the Commission consider developing financial tools and data sources to assist in the management and projection of TAP finances, allowing it to minimize its fund balance.

2. The Commission did not have adequate financial tools and data sources to forecast planned finances and allow it to reduce the TAP fund balance.

The Public Utilities Commission's Telephone Assistance Plan (TAP) had a significant fund balance, which grew from $1.4 million at July 1, 1999, to over $2.76 million as of June 30, 2002. The Commission has not reduced its surcharge due to key changes recently made in TAP eligibility requirements. Legislative Session Laws (2003), Chapter 79 modified plan eligibility to be parallel with those eligible for the federal lifeline telephone service discount. It is uncertain how many people will be eligible under the new rules for credits reimbursed to local telephone companies. In addition, there may be Commission obligations for companies that have not submitted claims for reimbursement for credits issued in prior years. As a result, the Commission has not taken steps to reduce the TAP fund balance. The Commission is in need of financial tools and data sources to allow a reasonable forecast of TAP finances.

The plan is not intended to build a large fund balance. The Commission can increase or reduce the monthly telephone surcharge to generate sufficient revenues to fund plan credits for eligible participants. Pursuant to Minn. Stat. Section 237.70, Subd. 7(d)(5), the Commission is required to set a surcharge at a level to prevent an unreasonable overcollection of surcharge revenues. However, the recent changes in eligibility requirements created uncertainty regarding the number of individuals that will qualify for the credits. The Commission assumes more people will qualify for credits, which will deplete the fund balance. The Commission should work with the Department of Human Services to obtain TAP eligibility counts and estimate credits.

We also noted that three telephone companies requested and were reimbursed for credits given to customers after the required filing time stated in MN Rule 7817.0900. These late filings, in addition to several smaller telephone companies that had not reported or requested reimbursement for prior years, create uncertainty about the extent of unclaimed credits. When paid, these claims also reduce the fund balance.

The Commission needs to obtain the tools and estimates necessary to forecast the plan's surcharge revenues and credit levels. The information will ensure that the TAP fund balance is reasonable and allow a better basis for adjusting the surcharge and credit rates.

Recommendation

- *The Public Utilities Commission should develop the necessary financial tools and identify data sources, allowing improved forecasting of plan surcharge revenues and plan credit reimbursements to reduce the TAP fund balance.*

Status of Prior Audit Issues
As of May 5, 2003

Most Recent Audit

Legislative Audit Report 00-34, issued in July 2000, covered the three fiscal years ended June 30, 1999. The audit scope included assessment receipts, telephone assistance plan and administrative hearing judges' revenues and expenditures, and payroll and other administrative expenditures. The report contained one written issue related to the assessment system security access and a partially resolved issue from the previous audit related to Telephone Assistance Plan revenue. The Commission resolved the two findings.

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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STATE OF MINNESOTA PUBLIC UTILITIES COMMISSION

June 24, 2003

Mr. James R. Nobles
Legislative Auditor
Rom 140, Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Re: Legislative Audit Report for July 1, 1999 through June 30, 2002

Dear. Mr. Nobles:

This letter is a response to the audit report of the Office of Legislative Auditor (OLA) concerning the Minnesota Public Utilities Commission (PUC) for the period July 1, 1999 through June 30, 2002. The letter will explain the steps the PUC will take to address the two findings noted in your report.

Finding: The Public Utilities Commission's expenditure controls require improvement.

> This finding contained three components relating to the following: handling of remodeling costs, reimbursement for Telephone Assistance Program credits and recording of administrative expenditure transactions in the state accounting system. I will comment on each component.

- Handling of remodeling costs: The Commission will question remodeling vendors about early payment discounts at the early stages of any transaction. Specifically, we will ask vendors to provide a fax copy of all invoices given to the building landlord for services provided to the PUC so the Commission can more aggressively pursue discount opportunities. We will also work more closely with the landlord to alert them to our need to take advantage of any such opportunities. Finally, the Commission will not pay amounts that exceed "not to exceed" limits under any circumstances and will work with vendors to resolve discrepancies between work orders and invoices.

- Reimbursement for TAP credits: The Commission will separately encumber larger individual payments under the TAP reimbursement process. As part of this process, the Commission will also develop and apply criteria for determining

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which companies will be subject to individualized encumbrance procedures. These steps, in addition to continuation of month-end reviews are intended to ensure that payments reflect claimed credits.

- Recording dates of transactions: The Commission will begin immediately to ensure record dates in the MAPS system will reflect the liability dates. If the input operator has a question (e.g., liability date is difficult to determine), that person will work with the Business Manager to resolve the issue.

Finding: The PUC needs better financial tools and data sources to forecast planned finances and allow it to reduce the TAP fund balance.

The Commission will work the Department of Human Services (DHS) to secure access to accurate information on participation levels in the programs that now determine eligibility under TAP. Recent legislation has significantly streamlined determination of eligibility under TAP by tying it to participation in other well-established programs. As a result, more accurate forecasts of TAP participation should be possible in the future. However, the program is expected to see an increase in enrollment levels as another result of the new legislation. It is expected to take approximately one year for the effects of the new legislation to play out. This period will allow the Commission time to refine the information sources needed to more accurately forecast needs. By that time, the Commission also will be in a better position to adjust program benefits and/or surcharge levels to bring revenues into alignment with the new program requirements.

The steps to be taken by the PUC to address the audit findings will be implemented immediately and will be on-going. I am the person responsible for implementation. 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 matters, please contact me directly (651.296.7526).

Sincerely,

/s/ Burl W. Haar

Burl W. Haar
Executive Secretary

cc LeRoy Koppendrayer, Chair
Mary Jo Jasicki, Administrative Management Director