



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

State Board of Electricity
July 1, 1999, through June 30, 2003



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 forty 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.

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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

Mr. Timothy Mergen, President
State Board of Electricity

Members of the State Board of Electricity

Mr. John Schultz, Executive Secretary
State Board of Electricity

We have audited the State Board of Electricity for the period July 1, 1999, through June 30, 2003. Our audit scope included licensing and inspection fees and payroll and professional technical contracts. 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 State Board of Electricity complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the board 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, the management of the State Board of Electricity, and the members of the State Electricity Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 12, 2004.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: September 15, 2003

Report Signed On: February 9, 2004

State Board of Electricity

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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
Cecile Ferkul, CPA, CISA	Audit Manager
Susan Mady	Auditor-in-Charge
Jillian Baldys	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the State Board of Electricity at exit conferences on September 4, 2003, and September 15, 2003:

John Schultz	Executive Secretary
John Williamson	Assistant Executive Secretary
Gail Peterson	Office Manager
Janet Mitchell	Accounting Officer

Report Summary

Audit Conclusions

The board's internal controls provided reasonable assurance that it accurately recorded payments to electrical inspectors in compliance with contract provisions. Although segments of the inspectors' work are reviewed by a number of different board staff, due to the nature of the inspection process and the volume of inspections performed, the board has limited ability to verify the performance of inspections submitted for payment by the inspectors. It sporadically conducted field audits of inspections performed by inspectors, but the audits were not consistent and not always formally documented. The board could enhance its field audit of the inspections process by having them performed on a more regular schedule and by providing a more detailed report to the board office.

Generally, the State Board of Electricity promptly deposited inspection fees. However, as explained in Chapter 3, Finding 1, some weaknesses noted in the board's licensing receipt process also applied to inspection receipts. The board complied with legal provisions over inspection fees.

The State Board of Electricity did not have adequate internal controls over its receipt process. The board did not adequately safeguard receipts, including inspection and licensing fees, before deposit. It also did not always timely deposit licensing receipts as required by statute. The board did not segregate incompatible receipt processing duties. Finally, it did not reconcile the total number of licenses issued to the license fees deposited. The board has not resolved prior audit recommendations to improve controls over receipts. These internal control weaknesses create an environment that may not prevent or detect errors, and may provide an opportunity for theft or fraud. We recommended that the board keep all receipts physically secure until deposit, deposit receipts daily as required by statute, appropriately segregate incompatible receipt processing duties, and reconcile the licenses issued to the receipts deposited. (Finding 1, page 10)

The State Board of Electricity had adequate internal controls to provide reasonable assurance that it properly authorized and accurately reported payroll and other administrative expenditures in the accounting records and complied with applicable legal provisions

Agency Background

The State Board of Electricity is a service and regulatory agency. It inspects electrical installations in all areas of the state, except those where a political subdivision provides its own electrical inspections. The primary purpose of the inspection is to assure consumers that electrical wiring installations conform to accepted construction standards. The board also licenses electricians, electrical contractors, and alarm and communication contractors. In fiscal years 2001 and 2002, the board issued about 16,500 personal licenses and about 3,000 business licenses.

State Board of Electricity

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Chapter 1. Introduction

The State Board of Electricity is a service and regulatory agency.

- It inspects electrical installations in all areas of the state, except those where a political subdivision provides its own electrical inspections. Approximately 40 political subdivisions have adopted local inspection authority. The board is the inspection authority in over ninety-nine percent of the land area of the state occupied by approximately two-thirds of the state's population. The primary purpose of the inspection is to assure consumers that electrical wiring installations conform to standards adopted as part of the state building code. The board contracts with separate entities to perform electrical inspections throughout the state. There were 84 entities under contract in April 2003. The persons actually performing inspections are licensed as master or journeyman electricians. Chapter 2 explains the inspection process, including the collection of inspection fees and the payments made to the contracted inspectors.
- It licenses electricians, electrical contractors, and alarm and communication contractors. The alarm and communication contractor license was replaced by the technology system contractor license on August 1, 2002. The power limited technician license was also established on this same date. Only applicants for personal licenses are required to take an examination to obtain a license. The board's regular examination schedule includes four examinations each month. Contractor licenses are issued by application only and require a responsible licensed person, bond, certificate of insurance, and evidence of compliance with employment, tax, and business laws. In fiscal years 2001 and 2002, the board issued about 16,500 personal licenses and about 3,000 business licenses. As a result of the new license categories established August 1, 2002, the board administered approximately 9,000 license examinations and subsequently issued approximately 8,000 personal licenses through the first 9 months of fiscal year 2003. Chapter 3 provides further information about the board's licensing process.

The State Board of Electricity operates under the Minnesota Electrical Act (Minn. Stat. Sections 326.241 through 326.248). The board consists of 11 members appointed by the Governor. The board employs an administrative staff, supervised by an executive secretary. In April 2003, the board had 28 administrative employees. The executive secretary is Mr. John Schultz. The board determines broad licensing and inspection policies and has delegated day-to-day operations to the executive secretary. Chapter 4 overviews administrative expenditures, mainly focusing on payroll processing.

Table 1-1 shows the financial activity of the State Board of Electricity for fiscal years 2000 through 2003. License, examinations, and inspection fees finance the operations of the State Board of Electricity. The board deposits the revenues collected into a special revenue account in the state treasury.

State Board of Electricity

Table 1-1
State Board of Electricity
Summary of Financial Activity by Fiscal Year

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Balance Forward In from Prior Fiscal Year	\$3,821,174	\$3,685,834	\$4,173,288	\$ 5,012,295
Receipts:				
Electrical Inspection Fees ^(Note 1)	6,142,382	7,571,393	8,469,158	8,450,250
Licensing Fees	721,267	687,623	822,436	1,347,193
Other Receipts	<u>188,580</u>	<u>153,426</u>	<u>185,118</u>	<u>209,394</u>
Total Receipts	\$7,052,229	\$8,412,442	\$9,476,712	\$10,006,837
Expenditures:				
Payments to Electrical Inspectors	\$4,850,120	\$5,866,146	\$6,593,392	\$ 7,228,358
Payroll	1,407,415	1,528,229	1,618,452	1,813,923
Other Administrative Costs	<u>930,034</u>	<u>506,058</u>	<u>409,334</u>	<u>489,082</u>
Total Expenditures	\$7,187,569	\$7,900,433	\$8,621,178	\$ 9,531,363
Balance Forward Out to Next Fiscal Year	<u>\$3,685,834</u>	<u>\$4,173,288</u>	<u>\$5,012,295</u>	<u>\$ 5,335,201</u>
Balances ^(Note 2)	<u>\$ 0</u>	<u>\$ 24,555</u>	<u>\$ 16,527</u>	<u>\$ 152,568</u>

Note 1: The Board of Electricity holds electrical inspection fees in escrow for payment to the electrical inspector upon completion of the inspection.

Note 2: The balance for each fiscal year represents encumbrances outstanding for fiscal years 2001 through 2003. The fiscal year 2001 balance is an encumbrance for payment to the consultant that designed the new licensing system, pending its successful implementation. The fiscal years 2002 and 2003 balances represent the amounts, as of December 22, 2003, of contractual obligations to the electrical inspectors, pending close out of their contracts for those periods. The actual amounts paid may be less than the encumbered amount. Following closeout of the contracts, any encumbered amounts not paid to the contractors will carry forward to the next fiscal year.

Source: Minnesota Accounting and Procurement System, as of December 22, 2003.

Chapter 2. Electrical Inspection Services

Chapter Conclusions

Generally, the State Board of Electricity promptly deposited inspection fees. However, as explained in Chapter 3, Finding 1, some weaknesses noted in the board's licensing receipt process also applied to inspection receipts. The board complied with legal provisions over inspection fees.

The board's internal controls provided reasonable assurance that it accurately recorded payments to electrical inspectors in compliance with contract provisions. Although segments of the inspectors' work are reviewed by a number of different board staff, due to the nature of the inspection process and the volume of inspections performed, the board has limited ability to verify the performance of inspections submitted for payment by the inspectors. It sporadically conducted field audits of inspections performed by inspectors, but the audits were not consistent and not always formally documented. The board could enhance its field audit of the inspections process by having them performed on a more regular schedule and by providing a more detailed report to the board office.

The State Board of Electricity is the inspection authority in all areas of the state that have not adopted local inspection authority. It conducts electrical inspections to ensure compliance with accepted standards of construction for safety to life and property. In all but limited instances, Minnesota Statutes require that electrical work be performed by either:

- employees of companies licensed as contractors by the board;
- employees of employers registered with the board; or
- owners performing work on their personal residence they own and occupy.

Where inspection is required, the installing entity files a request for electrical inspection form and the applicable inspection fee with the board at or before the commencement of the electrical work. The installing entity must schedule all required inspections, including inspections before the installer conceals the electrical work and final inspections. Minnesota Statutes, section 326.2441 establish the board's fee schedule, which is standard in all areas of the state where the board is the inspection authority. The board deposits inspection fees in an escrow account and uses the fees to pay for inspection service. During the fiscal years 2002 and 2003, the board collected approximately \$8.5 million each year in inspection fees and paid approximately \$6.5 and \$7.2 million, respectively, for inspection service. The board retains any residual balance to support its administrative costs.

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The board's assistant executive secretary directly oversees the board's inspection responsibilities. The board's accounting officer oversees the three office and administrative specialists and one account clerk who perform data entry and accounting functions related to inspection activity. Twelve electrical area representatives, eleven of whom directly monitor inspection service provided by professional/technical contractors, provide technical assistance to installers of electrical wiring. Individual professional/technical contracts are for specific geographical areas of the state and include compensation based on a percentage of the inspection fee associated with individual installations. Payment for inspection service is made after the requested inspections have been completed. In fiscal year 2003, payments for thirty of the 84 inspection contracts exceeded \$100,000 each; the average contract was about \$86,000.

The board makes payments to inspectors based on their claim that they performed the inspections. The board has limited ability to determine whether the inspector performed the inspection or the quality of the inspection. The board relies mainly on the honesty and integrity of the inspector. One way that the board controls the payments to the inspectors is that it matches the inspector's payment claim to the initial inspection request, limiting the amount that an inspector can be paid to the amount of inspections requested within a certain area. The area representatives do sporadically review inspectors' work, however, the oversight is inconsistent and not formally documented. The board could enhance its oversight of the electrical inspectors by having the area representatives conduct and document formal, periodic reviews of the electrical inspectors and report the results of the reviews to the board office.

In 2000, the board became aware that one of its inspectors had submitted reimbursement requests without performing the work. In April 2000, the board reassigned the inspection areas to other inspectors, and assigned one of its area representatives to reexamine over 7,000 inspections to ensure that faulty electrical work did not exist. The board's initial review of about 500 inspections indicated that about 80 percent of the payments were for inspections not performed or performed insufficiently. The board estimates that it may take up to five years to complete the inspection reviews. During the span of the contract, from September 1997 through March 2000, the board paid the inspector nearly \$195,000. Board staff stated that they had contacted the Office of the Attorney General to determine what recourse they may have against the inspector.

Audit Objectives and Scope

Our review of the State Board of Electricity's collection of inspection fees and the payments made to electrical inspection contractors focused on the following questions:

- Did the board adequately safeguard and promptly deposit inspection fees collected and accurately record inspection fees in the accounting records?
- Did the board's internal controls provide reasonable assurance that it properly authorized, adequately supported, and accurately recorded payments to electrical inspectors?
- Did the board's payments to electrical inspectors comply with contract provisions?
- Did the board comply with finance-related legal provisions over inspection fees?

State Board of Electricity

To answer these questions, we reviewed the applicable statutes and rules relating to electrical inspectors and interviewed board employees to gain an understanding of the control structure in place over electrical inspection fees and payments. We performed analytical procedures and reviewed board contracts with and payments to selected electrical inspectors.

Conclusions

Generally, the State Board of Electricity promptly deposited inspection fees. However, as explained in Chapter 3, Finding 1, some weaknesses noted in the board's licensing receipt process also applied to inspection receipts. The board complied with legal provisions over inspection fees.

The board's internal controls provided reasonable assurance that it accurately recorded payments to electrical inspectors in compliance with contract provisions. Although segments of the inspectors' work are reviewed by a number of different board staff, due to the nature of the inspection process and the volume of inspections performed, the board has limited ability to verify the performance of inspections submitted for payment by the inspectors. It sporadically conducted field audits of inspections performed by inspectors, but the audits were not consistent and not always formally documented. The board could enhance its field audit of the inspections process by having them performed on a more regular schedule and by providing a more detailed report to the board office.

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Chapter 3. Electrician Licensing

Chapter Conclusions

The State Board of Electricity did not have adequate internal controls over its receipt process. It did not adequately safeguard receipts before deposit. It did not always timely deposit licensing receipts, as required by state statute. It did not limit access to mail receipts. The board did not adequately segregate incompatible receipt duties. It also did not reconcile the fees recorded on the state's accounting system to the licenses issued.

The State Board of Electricity licenses electricians, electrical contractors, alarm and communication contractors, and elevator contractors throughout the state. License fees accounted for approximately nine percent of the board's total revenues each year.

The board receives license revenue from two classes of licenses – personal licenses and contractor licenses. Before obtaining a personal license, each licensee must pass an examination administered by the board. Each licensee must also provide proof of satisfactory completion of the work experience and technical knowledge requirements. The board generally issues and renews licenses for a two-year period. Contractor licenses expire March 1 of even-numbered years. Alarm and communication contractor licenses expire July 1 of odd-numbered years.

Statutory changes effective in 2003 added a personal license type and increased the number of applicants taking the examinations and obtaining licenses, resulting in an increase in revenue in fiscal year 2003.

Since 1999, the board has been developing a new system application to record licensing and inspection data. The board plans to implement the new system during fiscal year 2004.

Audit Scope and Objectives

Our review of the State Board of Electricity's license fee revenues focused on the following questions:

- Did the board appropriately and accurately assess license fees?
- Did the board collect all license fees due, adequately safeguard all fees collected and deposited, and accurately record fees in the accounting records?

To answer these questions, we interviewed board employees to gain an understanding of the controls in place over the receipt and collection process for license fees. We compared amounts

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recorded on the board's license fee system to amounts in the state's accounting system and tested a sample of license fee receipts.

Conclusions

The State Board of Electricity did not have adequate internal controls over its receipt process. It did not adequately safeguard receipts before deposit. It did not always timely deposit licensing receipts, as required by state statute. It did not limit access to mail receipts. The board did not adequately segregate incompatible receipt duties. It also did not reconcile the fees recorded on the state's accounting system to the licenses issued.

1. PRIOR ISSUE NOT RESOLVED: The State Board of Electricity did not have adequate internal controls over its receipt process.

The board continues to have difficulty establishing adequate internal controls to ensure that it safeguards, timely deposits, and accurately records receipts. Our prior audit reports have repeatedly included recommendations designed to improve the receipt process, including ensuring that receipts are deposited daily as required by statute. The executive secretary has not always acted to implement the audit recommendations. The board needs to play a stronger role in the organization's operations when audit reports identify significant weaknesses in internal controls. These internal control weaknesses create an environment that may not prevent or detect errors, and may provide an opportunity for theft or fraud.

The board's controls over the receipt process are weak in the following areas:

- The State Board of Electricity did not adequately safeguard its receipts before deposit. The board generally used an unlocked, fireproof file cabinet to store checks and cash until it input the receipt transactions into its computer system and deposited the receipts in the bank. The file cabinet was located in a high-traffic area of the board office, accessible to all employees. We observed that staff sometimes left the cabinet drawer open and unattended, once while an outside technician worked nearby. On another occasion, employees left cash on the top of their desks while they were out of the office at a training session.
- The board did not always deposit licensing fees daily when the receipts exceeded \$250. At times, the board held license receipts for up to five days before funds were deposited in the bank. The board has been aware of this statutory violation for years, yet has not improved its processes sufficiently to ensure that it complies with the law.

The board's semi-annual license renewal dates result in an overload of receipt activity during certain periods. The board does not separate the checks from the supporting documentation and does not deposit the checks until the transactions are recorded on its licensing system. During peak processing times, this often results in a significant amount of receipts not being timely deposited. By

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separating the checks from the documentation, the board may be able to get the receipts deposited in compliance with the statutes.

Statutes require daily deposits when receipts exceed \$250. The statutory requirement strives to minimize the amount of receipts held by state agencies in environments less secure than a bank. The statute allows a state agency that believes it cannot comply with the provision to request an exemption from the Department of Finance. The board has not requested an exemption.

- Although the board has generally assigned specific staff the responsibility to open and record mail receipts, during peak mail periods, many board employees open the mail. After they restrictively endorse the checks and time stamp the supporting documentation, they separate the mail into the type of receipt, such as exam fees, license applications and renewals, and inspection requests. They do not create a receipt log or separate the checks from the supporting documentation. Should there be a loss or theft, it would difficult to determine the chain of custody. The board would be unable to provide an accurate written record to document the receipts on hand.
- The licensing clerk performs incompatible functions. She is one of the staff that opens the mail and endorses the checks. She inputs the licensing application and renewal data and the fee receipt information into the licensing system and creates a paper file for the applicant or licensee. She prints a daily receipt report from the licensing system and verifies that the checks total to the amount recorded in the licensing system. The person posting license application and renewal data into the licensing system should not also have access to the cash. Someone independent of the posting and depositing duties should verify that the actual receipts agree to the posted receipts.
- The board does not reconcile the number of licenses issued to the receipts deposited and recorded in the licensing system and the state's accounting system. The board also does not independently reconcile the licensing system receipts to the receipts recorded on the state's accounting system and deposited in the bank to provide an overall reconciliation. The daily reconciliations that the board performs are conducted by staff with incompatible functions.

Reconciliation of recorded deposits to licenses issued is a fundamental control to ensure that the all license fees are collected. Without this key reconciliation, the board cannot ensure it collected the correct amount of fees, or that all licenses issued had an associated cash receipt.

A well-controlled process should have specific staff responsible to open and log all receipts. Receipts should be separated from the supporting documentation, prepared for deposit, and properly safeguarded. As required by statute, receipts would be deposited daily when they exceed \$250. A person with no access to the receipts should process the supporting documentation to record the license application or renewal on the licensing system. Someone else should verify that the receipts recorded on the licensing system agree to the receipts

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recorded on the state's accounting system and to the actual deposit, and that the number and types of licenses issued support the amount of receipts deposited.

The process for the inspection fees is closer to this ideal process, although it does not have one person to open and log receipts and does not separate receipt processing from the inspection request processing. In addition, inspection receipts were not adequately secure before deposit. However, they do timely deposit receipts and periodically independently reconcile inspection system financial activity to the financial activity recorded in the state's accounting system, including receipts. This verification has identified, at times, data integrity problems within the inspection system that would have otherwise not been detected.

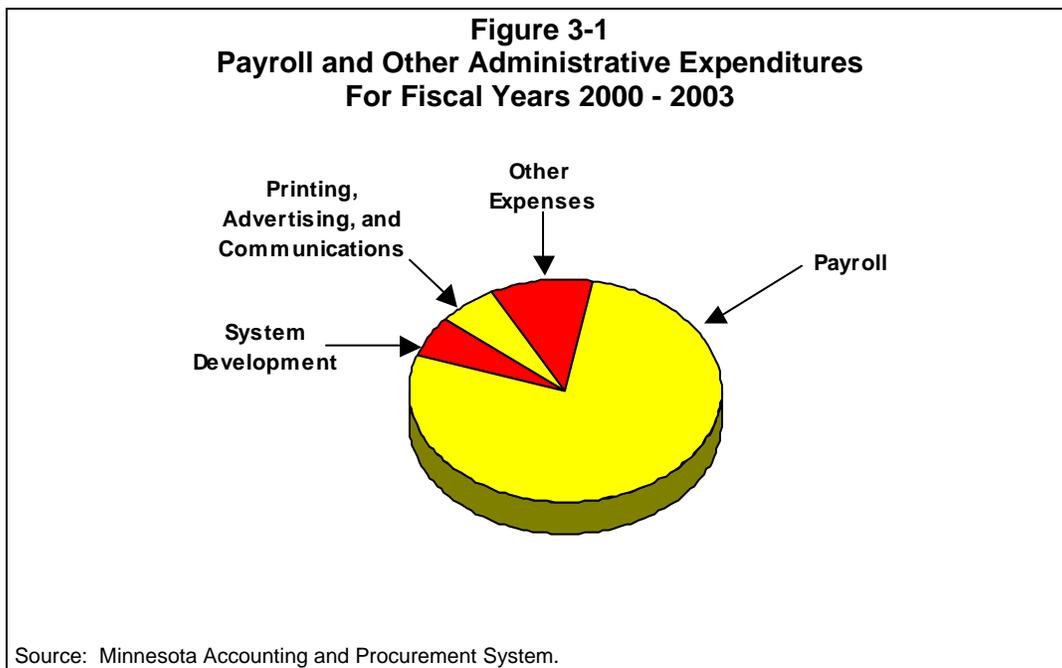
Recommendations

- *The board needs to adequately safeguard receipts by keeping all receipts physically secure until deposit and limiting access to the receipts.*
- *The board should deposit receipts totaling \$250 or more on a daily basis, as required by statute.*
- *The board should prepare a receipt log and separate receipts from supporting documentation.*
- *The board should separate the incompatible duties of cash custody and license application and renewal processing.*
- *The board needs to reconcile the total licenses issued to the receipts recorded in its licensing system, the state's accounting system, and deposited in the bank.*

Chapter 4. Payroll and Other Administrative Expenditures

Chapter Conclusions

The State Board of Electricity provided reasonable assurance that it properly authorized and accurately reported payroll and other administrative expenditures in the accounting records and complied with applicable legal provisions.



Payroll was the second largest class of expenditures (following the payments made to contracted inspectors discussed in Chapter 2). Annual payroll was approximately \$1.6 million. In April 2003, the board had 28 administrative employees, whose responsibilities included administering examinations, licensing and monitoring electricians' professional activities and education, and administering the inspection program.

Audit Objectives and Scope

Our review of the State Board of Electricity's payroll and other administrative expenditures focused on the following questions:

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- Did the board design and implement internal controls to provide reasonable assurance that payroll and other administrative expenditures were properly authorized, supported, and accurately reported in the accounting records?
- Did the board comply with material finance-related legal provisions, including applicable state bargaining unit agreements?

To answer these questions, we interviewed board employees to gain an understanding of the control process for payroll and other administrative expenditures. We reviewed applicable bargaining unit agreements. We conducted analytical reviews and tested a sample of payroll transactions, including leave requests, separation payoffs, and timesheets.

Conclusions

The State Board of Electricity provided reasonable assurance that it properly authorized and accurately reported payroll and other administrative expenditures in the accounting records and complied with applicable legal provisions.

Status of Prior Audit Issues As of September 15, 2003

Legislative Audit Report 00-13, issued in April 2000, covered the period July 1, 1996, through December 31, 1999. The audit scope included license and inspection fees, payroll, and disbursements to contracted inspectors. The report had four audit findings.

The first finding was a prior audit recommendation that cited the inadequacy of the board's controls over license and inspection fees. Although the board did segregate some incompatible accounting duties and instituted the practice of promptly endorsing check receipts, many of the control issues remained in the current audit and are repeated in Finding 1 in the current report.

The second finding, also a prior audit recommendation, concerned the board's ineffective control of access to the computer systems used for monitoring licensing and electrical inspections. The board is implementing a new licensing and inspection system and has incorporated access controls into its development.

The third finding concerned noncompliance with statutory provisions regarding the expiration of requests for electrical inspections after a certain period. This finding, as well, was repeated from the prior audit report. The board initiated and changed the rules to better reflect the board's practices.

The final finding identified inadequate employee access to the state's payroll and personnel system. The board has resolved this issue.

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 the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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State of Minnesota Board of Electricity

February 4, 2004

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
Saint Paul, MN 55155

Electricity Board Response to the Financial-Related Audit performed by the Office of the Legislative Auditor for the period July 1, 1999 through June 30, 2003.

Dear Mr. Nobles:

The board appreciates the thoroughness of the audit and the assistance it provides to enable the board to modify its policies and procedures to meet current requirements. The board recognizes the importance of concerns expressed in this audit and is committed to resolution.

Due to the 2002 legislation that created a new personal license category, the board was presented with a monumental challenge during fiscal year 2003. Although the board anticipated an increase in the number of applicants due to the creation of the new license category, it did not anticipate the large number of applications it received. During this time period, the board received approximately 15,000 personal license applications, approximately seven times the number it receives in an average year. Not only did board staff meet the challenge of processing this huge number of applicants, it also administered examinations to these same applicants and issued approximately 12,000 new licenses. This application, examination, and licensing process resulted in the board processing over 25,000 additional separate transactions, including the deposit of application and license fees, in a timely manner. This was accomplished in addition to the normal licensing and inspection work performed by the board. Although much of this activity took place during the audit period, it was only generally addressed as part of the audit report. I believe it is important to note this extraordinary event and the positive and complying manner in which the board responded.

The following is a response to each of the observations identified in the audit report.

Chapter 2. Electrical Inspection Services

Conclusions

The board's internal controls provided reasonable assurance that it accurately recorded payments to electrical inspectors in compliance with contract provisions. Although segments of the inspectors' work are reviewed by a number of different board staff, due to the nature of the inspection process and the volume of inspections performed, the board has limited ability to verify the performance of inspections submitted for payment by the inspectors. It sporadically conducted field audits of inspections performed by inspectors, but the audits were not consistent and not always formally documented. The board could enhance its field audit of the inspections process by having them performed on a more regular schedule and by providing a more detailed report to the board office.

Response

The board has a number of monitoring procedures in place to ensure that provisions of the inspector's contracts are complied with. The electrical area representative position description includes a principal responsibility to "monitor contract inspectors to ensure they comply with the provisions of their contract with the Board of Electricity" which is identified as "Priority A" and reflects 40% of the employee's time dedicated to this activity. Included in the detail of the principal responsibility is the task to apply control mechanisms to confirm that contract inspectors are fulfilling the terms of their contract, including providing adequate inspection service to clientele, and maintaining complete and accurate records. These responsibilities are not new, and have been a part of the electrical area representatives position descriptions for decades. Additionally, electrical inspectors are required to provide copies to the district electrical area representative of all Inspection Reports they have issued that identify code compliance issues on inspected installations as well as copies of Order for Payment forms that identify shortage of inspection fees to submitters of Request for Inspection forms. The board's accounting department prepares monthly reports that identify the total number and dollar value of Requests for Inspection assigned to individual inspectors; the total number and dollar value of jobs inspected and submitted for payment by individual inspectors; and number and dollar value of Requests for Inspection assigned to individual inspectors during the month. These reports are provided to the executive secretary, assistant executive secretary and the electrical area representatives. Individual inspection contracts are also audited on an annual basis. The annual audit provides an opportunity for any discrepancies between board and inspector records to be identified and corrected. The audit also provides an additional opportunity for inspector procedures to be reviewed as well as the effectiveness of monitoring performed by the electrical area representatives. As part of the professional/technical contract process/procedures, inspector contract performance is also evaluated. In an effort to provide a more structured on-site audit of inspections performed by contract inspectors, in January of 2002 the executive secretary outlined a field audit process wherein a sampling of each inspector's completed inspections would be audited by the district electrical area representative for compliance with contract requirements, including accuracy and evidence of inspection. The initial audit was performed during the balance of calendar year 2002. The results of the audit did not reveal any significant irregularities. Any identified irregularities were brought to the attention of the inspectors to ensure compliance with the terms of the professional/technical contract.

Because of the large workload resulting from the additional licensing activity during 2003, the structured on-site audit procedure was not performed in 2003. The board's intention is to conduct this structured field audit process on an annual basis.

Chapter 3. Electrical Licensing

Conclusions

The State Board of Electricity did not have adequate internal controls over its receipt process. It did not adequately safeguard receipts before deposit. It did not always timely deposit licensing receipts, as required by state statute. It did not limit access to mail receipts. The board did not adequately segregate incompatible receipt duties. It also did not reconcile the fees recorded on the state's accounting system to the licenses issued.

Prior Issue Not Resolved: The State Board of Electricity did not have adequate internal controls over its receipt process.

The board's controls over the receipt process are weak in the following areas:

- *The State Board of Electricity did not adequately safeguard its receipts before deposit. The board generally used an unlocked, fireproof file cabinet to store checks and cash until it input the receipt transactions into its computer system and deposited the receipts in the bank. The file cabinet was located in a high-traffic area of the board office, accessible to all employees. We observed that staff sometimes left the cabinet drawer open and unattended, once while an outside technician worked nearby. On another occasion, employees left cash on the top of their desks while they were out of the office at a training session.*

Response:

Except for the lobby area, the board's office is only accessible by key or keypad entry. Unless accompanied by board staff, board clientele conduct business at a service counter and are not permitted access to the inner office. Only in very limited instances are service personnel not directly monitored while working in the board's inner offices. The fireproof file cabinet has been relocated to a separate accounting related work area. Four employees work in this area processing inspection receipts and daily deposits. Staff persons that previously had need to access a petty cash drawer kept in the fireproof file cabinet have been provided with separate cash drawers that are kept at their work stations during office hours. In the identified instance when the fireproof file cabinet drawer was left open, a staff person had accessed the petty cash drawer to make change at the front counter and, upon completing the transaction, placed the receipts in the petty cash drawer and closed the cabinet. Throughout this time, the staff person was within sight of, and within 15 feet of the cabinet. Generally the board uses its meeting room for training sessions. On the other identified occasion, the board was precluded from using its meeting room because it was being used by the audit team and the scheduled training was conducted in a meeting room located immediately across the hallway from the board's offices. During the time of the training session, five other staff persons, including management and technical staff were present in the board offices.

All employees have file cabinets or other lockable storage units at their workstations and have been instructed to place any cash or checks in them whenever they leave their workstation.

- *The board did not always deposit licensing fees daily when the receipts exceeded \$250. At times, the board held license receipts for up to five days before funds were deposited in the bank. The board has been aware of this statutory violation for years, yet has not improved its processes sufficiently to ensure that it complies with the law.*

Response:

In response to the FY 2000 Office of the Legislative Auditor audit, the board developed a process for copying checks submitted for license renewals when license fees could not be timely deposited as a result of increased volume during fixed term renewals and subsequently processing the renewal application later as a separate process. The current audit identified that this process was not always followed by individual board personnel. Supervisory and management staff is monitoring this issue more closely to ensure that receipts are timely deposited. The board is also within transition from its FoxPro computer licensing system to a newly developed system. The deposit problem is compounded by design features of the FoxPro system, requiring the board to use a work-around during peak renewal periods to ensure timely deposit. The board's new licensing system includes design features that will enable timely deposit without resorting to these types of workarounds. Because of the unanticipated licensing activity during FY 2003, the board was not able to devote staffing to the transition to the new system and has only now been able to continue the transition process.

- *Although the board has generally assigned specific staff the responsibility to open and record mail receipts, during peak mail periods, many board employees open the mail.*
- *The licensing clerk performs incompatible functions.*

Response:

One percent or less of the board's business is conducted in person. The balance of the board's business is conducted through the mail. Because of seasonal variations in inspection activity and term variations in license activity, as well as employee absences due to illness and vacations, the board must have a number of employees that are trained to open its mail. As absences and/or increases in mail receipts occur, specific staffing assignments to open the mail are made. The board takes care to minimize any circumstance where an employee is perceived to have an incompatible function.

- *The person posting license application and renewal data into the licensing system should not also have access to the cash. Someone independent of the posting and depositing duties should verify that the actual receipts agree to the posted receipts.*

Response:

Because of the varied license fees, including the prorating of fixed term fees, it is not practical to separate the receipts from the application and renewal data. The board believes it is more practical to return the fee payment to the submitter and have the correct amount submitted rather than depositing and refunding, or depositing and requesting additional payment.

It's also not practical to deposit renewal fees prior to verifying that continuing education requirements have been met. If the renewal fees are deposited without the applicant having met the continuing education requirements, the board would be required to process refunds of these fees, resulting in a significant increase in board labor costs due to the state's extensive refund process. In many instances the amount refunded would be less than the costs associated with processing the refund. Depositing renewal receipts without verifying continuing education credits and subsequently refunding the fees could also start a series of submittals, refunds, and resubmittals, frustrating both the license holder and board staff. The board has taken positive steps to address the submitting of renewal fees without having met the required continuing education requirements by successfully seeking a late fee for license holders that fail to renew their licenses in a timely manner. This provision was passed by the 2003 legislature. The board also believes that verifying continuing education credits prior to renewing a license is a more effective program than using the honor method and randomly verifying that applicants have earned the required credits.

- *The board does not reconcile the number of licenses issued to the receipts deposited and recorded in the licensing system and the state's accounting system. The board also does not independently reconcile the licensing system receipts to the receipts recorded on the state's accounting system and deposited in the bank to provide an overall reconciliation. The daily reconciliations that the board performs are conducted by staff with incompatible functions.*

The board's FoxPro licensing system includes an accounting function that generates a deposit report that is directly related to issuing a license. This report is printed by the licensing clerk and provided to the account clerk along with licensing receipts for reconciliation, entry into the state's accounting system, and deposit. This is performed on a daily basis, and because of the simplicity of the recording and deposit process, no other reconciliation reports are generated.

Because a significant number of licenses issued by the board have a fixed license term and the initial fee is prorated on a quarterly basis, the resulting fees for these license types are varied. Therefore, it is not practical to reconcile the total number of licenses issued to the total license fees recorded in the state's accounting system. However, this reconciliation is performed at the daily processing and receipt level.

In closing, board staff continues to strive to administer the laws it has been delegated responsibility in a manner that complies with laws governing their administration.

Sincerely,

/s/ John A. Schultz

John A. Schultz
Executive Secretary