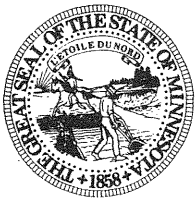


**DEPARTMENT OF PUBLIC SERVICE  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE FIVE YEARS ENDED JUNE 30, 1987**

**JUNE 1988**





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Phillip J. Riveness, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Tony Perpich, Director  
Department of Public Service

**Audit Scope**

We have completed a financial and compliance audit of the Department of Public Service for the five years ended June 30, 1987. Section I provides a brief description of the department's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on April 15, 1988.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the department, in effect as of January 31, 1988;
- evaluate the recording and reporting of financial transactions on the statewide accounting system for the period July 1, 1982 through June 30, 1987;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapters 216A, 216C, 237, and 239, and other finance-related laws and regulations for the period July 1, 1982 through June 30, 1987; and
- determine the status of prior audit recommendations.

**Management Responsibilities**

The management of the Department of Public Service is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Representative Phillip J. Riveness, Chairman  
Members of the Legislative Audit Commission  
Mr. Tony Perpich, Director  
Department of Public Service  
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Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Department of Public Service is responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Department of Public Service. The purpose of our testing of transactions was to obtain reasonable assurance that the Department of Public Service had, in all material respects, administered their programs in compliance with applicable laws and regulations.

### Conclusions

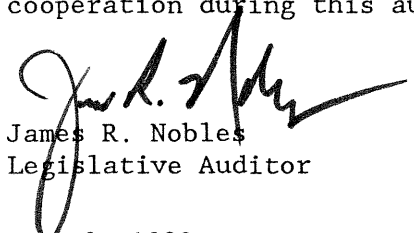
In our opinion, except for the issues addressed in Section II, findings 1 and 3, the Department of Public Service's system of internal accounting control in effect on January 31, 1988, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization.

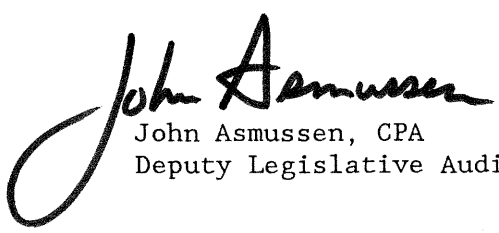
In our opinion, for the five years ended June 30, 1987, the Department of Public Service properly recorded in all material respects, its financial transactions on the statewide accounting system.

In our opinion, for the five years ended June 30, 1987, except for the issue raised in Section II, finding 2, the Department of Public Service administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

The recommendations included in this report are presented to assist the department in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the Department of Public Service's progress on resolving these findings. A summary of the progress made on all audit recommendations discussed in our last audit report covering the year ended June 30, 1982, dated June 10, 1983, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Department of Public Service staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

June 9, 1988

# DEPARTMENT OF PUBLIC SERVICE

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## AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Carl Otto, CPA	Staff Auditor

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Public Service on June 1, 1988:

Tony Perpich	Director
Ken Nickolai	Deputy Director
Ed Skluzacek	Director, Weights and Measures
Michael Blacik	Regional Supervisor, Weights and Measures
Mim Stohl	Accounting Supervisor



## DEPARTMENT OF PUBLIC SERVICE

### I. INTRODUCTION

The Department of Public Service was established in 1968 with responsibilities in the areas of public utilities, weights and measures, and energy. In January of 1987, the Energy Division of the Department of Energy and Economic Development was transferred to the Department of Public Service. The department is responsible for representing the citizens of Minnesota in the regulation of utilities. Additionally, the department is responsible for the enforcement of all state weights and measures statutes.

The director of the department is Tony Perpich. The department's activities are funded mainly by appropriation from the General Fund. Fiscal year 1987 receipts and expenditures were as follows:

Receipts	
Federal grants	\$1,598,958
Utility assessments	1,507,906
Telephone assessments	854,086
Inspection fees	806,215
Other	<u>37,089</u>
Total	<u>\$4,804,254</u>

Expenditures	
Personal services	\$3,645,197
Administrative expenditures	2,450,281
Grants and subsidies	997,856
Supplies and equipment	439,570
Other	<u>534</u>
Total	<u>\$7,533,438</u>

## DEPARTMENT OF PUBLIC SERVICE

### II. CURRENT FINDINGS AND RECOMMENDATIONS

#### 1. Computer system controls need to be strengthened.

The Department of Public Service (DPS), Division of Weights and Measures has computerized its billing and accounts receivable system. The inspection reports are entered into the computer and a statement of charges is printed and sent to the company. Daily receipts are entered into the computer which updates the accounts receivable records and prepares a daily receipts listing. Any account not paid within 30 days is rebilled. One employee is in charge of entering the inspection reports and mailing the statement of charges. This person also enters adjustments to the accounts and follows up on delinquent accounts. Another employee is in charge of entering daily receipts. Receipts for fiscal year 1987 totalled \$806,000.

The current system does not protect against unauthorized access or changes to the accounts receivable records. There are no security access controls to prevent unauthorized use of the system. Access controls would help prevent an unauthorized person from entering or changing data on the system. An alternative to having access controls is to prepare a daily recap of adjustments to the accounts receivable records. A daily recap could then be compared to source documentation to determine if any unauthorized adjustments were made during the day.

Also, system backup tapes are stored next to the computer. An essential control for safeguarding computerized data is separate offsite storage of all backup files. Should the computer be destroyed or damaged, the backup files may also be destroyed. System recovery may be difficult should this happen. To prevent the loss or destruction of backup tapes, they should be stored in an area separate from the computer. This would reduce the likelihood of the tapes also being destroyed should the computer be destroyed but would provide access to the tapes when needed.

#### RECOMMENDATIONS

- Security access controls should be established or a daily recap of all adjustments entered on the system should be printed and compared to source documentation.
- System backup tapes should be stored in a secure place.

#### 2. Copy receipts are not deposited in accordance with Minn. Stat. 16A.275.

The Department of Public Service provides copies of various reports and rulings issued by the department upon request for 25¢ per copy. During fiscal year 1987, the department collected about \$12,000 in copy fees. Minn. Stat. Section 16A.275 states that, "an agency shall deposit receipts totaling \$250 or more in the state treasury daily." The Commissioner of



## DEPARTMENT OF PUBLIC SERVICE

Finance may authorize a waiver of this requirement if the department provides documentation that the cost of making daily deposits exceeds the lost interest earnings and the risk of loss or theft of the receipts. Seven of the eight copy receipt deposits tested were not deposited until 10-15 days after they totaled \$250. The amounts of the deposits ranged from \$370 - \$749.

### RECOMMENDATION

- Copy receipts should be deposited in accordance with Minn. Stat. Section 16A.275.

### 3. DPS needs to write off uncollectable accounts.

The Department of Public Service maintains an accounts receivable balance for amounts billed by the Weights and Measures Division for the inspections they perform. The accounts receivable balance at June 30, 1987, was \$86,094. Of this amount, \$21,439 related to fiscal years 1977-1985.

Minnesota statutes allow for the write-off of uncollectable accounts once approval has been obtained from the executive council and the attorney general. The write-off of uncollectable accounts reduces the amount of recordkeeping and provides for a more accurate projection of future receipts. However, no uncollectable accounts have been written off since 1982.

### RECOMMENDATION

- Accounts receivable balances in the Weights and Measures Division should be periodically analyzed and all amounts deemed uncollectable submitted to the executive council and attorney general for approval to be written off.

DEPARTMENT OF PUBLIC SERVICE

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

Internal controls over receipts need to be strengthened.

1. The mail opener should restrictively endorse all checks and prepare a listing of receipts.
2. All receipts should be forwarded to the person in charge of preparing the deposit. Any documentation attached to the receipts could be forwarded to the person responsible for recordkeeping.
3. A person independent of mail receipt and recordkeeping should compare the listing of receipts to deposit slips and statewide reports.

RECOMMENDATIONS IMPLEMENTED. Beginning in June 1983, the mail opener began restrictively endorsing all checks and preparing a listing of receipts. All receipts are then forwarded to the person responsible for preparing the deposit. Finally, the DPS accountant compares the mail listing to the deposit slips and statewide accounting reports.

Internal controls over payroll need strengthening to assure adequate monitoring of payroll.

4. The payroll time roster should be reviewed and approved for payment by someone other than the person who prepares the roster.

RECOMMENDATION IMPLEMENTED. Beginning in June 1983, payroll rosters were approved by someone other than the preparer.

The telephone investigation appropriation authority and use needs clarification.

5. The DPS should analyze their options for financing the costs of large, unanticipated telephone investigations and/or evaluations and then seek to modify Minn. Stat. Section 237.30 as appropriate.

RECOMMENDATION IMPLEMENTED. DPS has reviewed their options and chosen not to seek revision of the statute. Currently, all costs for special consultants on telephone investigations are paid for out of this fund. Then, at year-end all amounts in excess of \$25,000 are transferred back to the General Fund as required by statute.

DEPARTMENT OF PUBLIC SERVICE

Utility and telephone companies that have been delinquent in paying the cost assessments have not been charged interest as required by statute.

6. Interest should be assessed on delinquent accounts in accordance with Minn. Stat. Sections 216B.63 and 237.295, Subd. 4.

**RECOMMENDATION IMPLEMENTED.** Beginning in June 1983, interest has been charged on all delinquent accounts.

Cash receipts and accounts receivable procedures at the Division of Weights and Measures are inadequate.

- 7.a. The mail opener should prepare a listing of cash receipts and restrictively endorse all checks immediately.
- b. Someone independent of mail receipt and deposit preparation should verify that the receipts as listed are properly accounted for and deposited.
- c. The billing and posting of accounts receivable should be done by someone not having cash receipt or deposit duties.
8. A control account should be reconciled to the accounts receivable ledger at month end.
9. NSF checks should be reinstated on the accounts receivable ledger and procedures for follow up should be developed.

**RECOMMENDATIONS IMPLEMENTED.** Beginning in June 1983, the receipts and accounts receivable procedures in the Division of Weights and Measures were restructured to incorporate all of the recommendations cited above.

Receipts are not deposited daily as required by statute.

10. Receipts should be deposited daily or when they aggregate \$250 as required by Minn. Stat. Section 16A.275.

**RECOMMENDATION IMPLEMENTED.** Receipts in the Division of Weights and Measures were deposited promptly beginning in June 1983.



MINNESOTA  
**Department of  
Public Service**

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Administrative Office  
(612) 296-7107

June 9, 1988

790 American Center  
150 East Kellogg Boulevard  
St. Paul, Minnesota 55101

James Nobles  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

This is in response to your draft regarding the preliminary audit report for the Department of Public Service for the five years ending June 30, 1987. The Department's proposal to implement the recommended changes is as follows:

Recommendation #1: Computer system controls needs to be strengthened.

- Security access controls should be established or a daily recap of all adjustments entered on the system should be printed and compared to source documentation.

Response: The access code option will be implemented as soon as a computer programmer is available.

- System back up tapes should be stored in a secure place.

Response: The Division will purchase an insulated tape storage cabinet. Backup tapes will be stored in the cabinet in a location remote from the computer.

Recommendation #2: Copy receipts are not deposited in accordance with Minn. Stat. § 16A.275.

Response: The accounting technician will deposit the copy receipts in accordance with MS 16A.275. As daily receipts are almost always under \$250, the deposit will be made as soon as receipts total at least \$250.

This procedure has been implemented.

Recommendation #3: DPS needs to write off uncollectible accounts.

Response: The Division will begin the process of writing off old, uncollectible accounts during the summer of 1988. The process should be completed before the end of the calendar year.

Sincerely,



Tony Perpich  
Commissioner

TP/jd