
**PUBLIC UTILITIES COMMISSION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE FIVE YEARS ENDED JUNE 30, 1987**

JUNE 1988

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

88-37



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Barbara J. Beerhalter, Chair
Public Utilities Commission

Members of the Public Utilities Commission

Mary Ellen Hennen, Executive Secretary
Public Utilities Commission

Audit Scope

We have completed a financial and compliance audit of the Public Utilities Commission for the five years ended June 30, 1987. Section I includes a brief description of the Public Utilities Commission'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 March 2, 1988.

The objectives of the audit were to:

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

Management Responsibilities

The management of the Public Utilities Commission is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are

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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.

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 Public Utilities Commission is also 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 Public Utilities Commission. The purpose of our testing of transactions was to obtain reasonable assurance that the Public Utilities Commission had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Conclusions

In our opinion, except for the issue raised in Section II, finding #1, the system of internal accounting control of the Public Utilities Commission in effect as of 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 and recorded properly.

In our opinion, except for the issue raised in Section II, finding #2, the Public Utilities Commission administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations for the period July 1, 1982 through June 30, 1987.

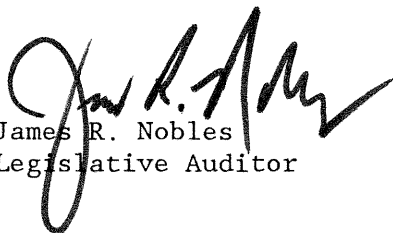
In our opinion, except for the issue raised in Section II, finding #2, the Public Utilities Commission properly recorded, in all material respects, its financial transactions on the statewide accounting system for the period July 1, 1982 through June 30, 1987.

This audit report includes both the findings developed during this audit and reiteration of our prior audit findings which have not yet been resolved. Prior audit findings repeated in this report are denoted under the caption "PRIOR FINDING NOT RESOLVED."

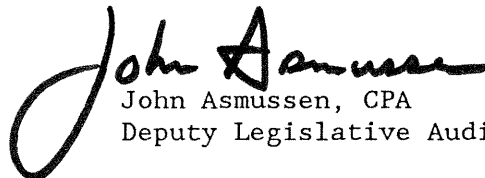
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The recommendations included in this report are presented to assist the Public Utilities Commission in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the Public Utilities Commission's progress on resolving these findings. A summary of the progress made on all audit recommendations discussed in our last audit report covering the two years ended June 30, 1982, dated May 11, 1983, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Public Utilities Commission staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

June 3, 1988

PUBLIC UTILITIES COMMISSION

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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
Lori Pellicci, CPA	Auditor-in-Charge
Joan Haskin	Staff Auditor
Rhonda Warner	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following members and staff of the Public Utilities Commission at an exit conference on May 25, 1988:

Mary Ellen Hennen	Executive Secretary
Barbara Beerhalter	Chair

PUBLIC UTILITIES COMMISSION

I. INTRODUCTION

The Public Utilities Commission is a quasi-judicial, independent regulatory agency established to regulate telephone, gas and electric utility rates, authorities and service. The Commission consists of five members appointed by the Governor. The chair is appointed by the Governor and is the principal executive officer. The Commission appoints an executive secretary who serves as the administrative officer with responsibility for personnel, budget, and other administrative details related to the work of the Commission or as required by state law. The Commission has a staff of 34 employees.

The Commission conducts investigations, holds hearings, prescribes rules and issues orders governing the conduct of regulated industries. They also supervise the management and customer service of these industries, determine proper tariffs, fares, charges and rates, prescribe uniform accounting systems, and authorize the issuing of franchises, permits or certificates of public convenience and necessity.

Following is a breakdown of the Commission's cash basis receipts and disbursements for fiscal years 1985 through 1987:

	Fiscal Years		
	1987	1986	1985
Receipts			
Miscellaneous	\$ 3,416	\$ 1,155	\$ 1,035
Assessments	1,512,923	1,223,087	1,096,498
Administrative Hearings	175,635	204,336	106,006
Total	<u>\$1,691,974</u>	<u>\$1,428,578</u>	<u>\$1,203,539</u>
Disbursements			
Payroll	\$1,120,448	\$1,036,987	\$ 959,594
Administrative Expenditures	575,411	378,083	271,801
Capital Equipment	9,251	5,239	13,924
Miscellaneous	21	20,935	2,628
Total	<u>\$1,705,131</u>	<u>\$1,441,244</u>	<u>\$1,247,947</u>

PUBLIC UTILITIES COMMISSION

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR FINDING NOT RESOLVED: Inadequate separation of duties exist over receipts.

The Office of Administrative Hearings bills the Commission for public utility and telephone contested case hearings. The amounts billed are assessed the public utility or telephone company by the Commission. The fees received are then used as payment to Administrative Hearings. About \$175,600 in Administrative Hearing costs was collected during fiscal year 1987.

Two individuals are responsible for most of the receipt process at the Commission. The receptionist opens the mail, restrictively endorses the checks, and completes a mail listing. The accounting officer receives the checks from the receptionist and prepares the deposit. The accounting officer also prepares the invoices and records the collection of administrative hearing fees, and reconciles the mail listing and the deposit slips to the statewide accounting (SWA) system.

Independent reconciliations are essential to properly account for all funds received. Someone, other than the accounting officer, should reconcile the invoices sent to the public utilities and telephone companies for administrative hearing fees to the amount billed by and subsequently paid the Office of Administrative Hearings.

RECOMMENDATION

- Invoices sent to the public utilities and telephone companies should be reconciled to the amount billed by the Office of Administrative Hearings by an individual who does not maintain the accounting records.

2. Telephone receipts are not deposited into the telephone investigation revolving fund.

Minn. Stat. Section 237.30 states that all sums paid by telephone companies for the Department of Public Service and the Public Utilities Commission costs associated with an investigation and the quarterly assessments are to be deposited into the telephone investigation revolving fund. This fund is for the use of the Department of Public Service and the Attorney General in investigations, valuations, and reevaluations.

Assessments paid by telephone companies for the Department of Public Service and its Attorney General costs are deposited into the telephone investigation revolving fund. However, the Commission's and the Attorney General's direct and indirect assessments paid by telephone companies are deposited into the general fund with receipts from gas and electric companies and not into the revolving fund.

PUBLIC UTILITIES COMMISSION

Any balance in excess of \$25,000 in the fund at the end of each fiscal year is transferred to the general fund. In the past, most of the money in the fund has been transferred to the general fund. Therefore, depositing the additional fees in the revolving fund would have the effect of increasing the revolving fund balance and delaying use by the general fund. The Commission should consider proposing legislation eliminating the stipulation that the fees collected by the Commission be deposited into the telephone investigation revolving fund. This would eliminate the increased balance in the revolving fund each fiscal year.

RECOMMENDATION

- The Public Utilities Commission should propose legislation eliminating the Commission's deposit of telephone company receipts into the telephone investigation revolving fund.

PUBLIC UTILITIES COMMISSION

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

Control over payroll and personnel functions could be strengthened by separating certain duties.

1. The personnel function should be separated from payroll duties.

RECOMMENDATION IMPLEMENTED. The payroll and personnel duties are now separated between three people.

2. The payroll time roster should be reviewed and authorized for payment by someone other than the preparer.

RECOMMENDATION IMPLEMENTED. One staff person now prepares the payroll time roster and inputs the timesheets while another staff person reviews the payroll certification report. The Executive Secretary then reviews and signs the payroll roster.

3. Someone who is not involved in preparing or authorizing the payroll time roster should receive and distribute the payroll checks.

RECOMMENDATION IMPLEMENTED. The personnel officer distributes the checks.

Cash receipt procedures and controls are inadequate.

4. The mail opener should prepare a listing of receipts and immediately endorse the checks "for deposit only."

RECOMMENDATION IMPLEMENTED. The Commission receptionist opens the mail and endorses the checks "for deposit only." The receptionist then prepares a mail listing which began in fiscal year 1984.

5. 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.

RECOMMENDATION IMPLEMENTED. The receptionist at the Commission delivers checks received to the accounting officer after logging in the check. Any documentation received with the check is given to the accounting officer who prepares the deposit.

6. Someone independent of mail receipt and deposit preparation should verify that the receipts as listed are properly accounted for and deposited.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

PUBLIC UTILITIES COMMISSION

Internal controls over the purchasing and disbursing functions need to be strengthened.

7. The duties of preparing and approving purchase orders and payment batches should be separated.

RECOMMENDATION IMPLEMENTED. There is now a separation of duties. One person is responsible for the purchasing function. Another individual is responsible for reviewing invoices and entering payments into SWA.

Written internal operating policies and procedures for the billing, accounts receivable, cash receipts, purchasing and disbursement areas should be developed.

8. Written internal operating policies and procedures should be developed from the billing, accounts receivable, cash receipts, purchasing and disbursements areas.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. Written procedures have been developed for the billing, accounts receivable, and cash receipts areas. The Commission should also develop written procedures for the purchasing and disbursement functions.

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

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

RECOMMENDATION IMPLEMENTED. Interest charges are now assessed on delinquent accounts for direct and indirect assessments and administrative hearings billings.

June 3, 1988

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

Dear Mr. Nobles:

The Public Utilities Commission has reviewed your preliminary audit report for the five years ending June 30, 1987. Our response is as follows:

Finding No. 1: Inadequate separation of duties exist over receipts.

Response: The accounting officer will continue to receive checks from the receptionist and prepare deposits. An Executive 1 who has responsibilities for paying invoices and payroll will be assigned to reconcile the amounts billed by the Office of Administrative Hearings and the amounts invoiced to the public utilities and telephone companies.


Mary Jo Jasicki will oversee implementation of this new system which will begin immediately.

Finding No. 2: Telephone receipts are not deposited into the telephone investigation revolving fund.

Response: The Commission will carefully evaluate the recommendation and other possible options before any legislative change is proposed. As of March 15, 1988, telephone receipts have been deposited into the telephone investigation revolving fund.

Mary Jo Jasicki is in charge of this function.

Sincerely,


Mary Ellen Hennen
Executive Secretary

