

**PUBLIC UTILITIES COMMISSION  
FINANCIAL AUDIT  
FOR THE TWO YEARS ENDED JUNE 30, 1989**

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**MAY 1990**

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

**90-31**



# **PUBLIC UTILITIES COMMISSION**

## **FINANCIAL AUDIT JULY 1, 1987 - JUNE 30, 1989**

Public Release Date: May 31, 1990

No. 90-31

### **OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Receipts, administrative disbursements, Telephone Assistance Plan disbursements, and payroll.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

### **CONCLUSIONS:**

We found one area where the internal control structure needed improvement:

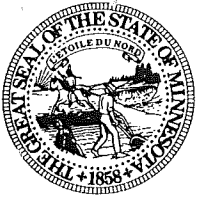
- The duties of preparing and approving purchases, and authorizing payments should be separated.

We found two areas where the agency had not complied with finance-related legal provisions:

- The commission is not processing indirect assessment billings on a timely basis, as required by law.
- Telephone Assistance Plan reimbursements are not being processed in a timely manner.

Contact the Financial Audit Division for additional information.  
(612) 296-1730





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

Members of the Legislative Audit Commission

Darrel L. Peterson, Chair  
Public Utilities Commission

Members of the Public Utilities Commission

Richard Lancaster, Executive Secretary  
Public Utilities Commission

Audit Scope

We have conducted a financial related audit of the Public Utilities Commission as of and for the two years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Public Utilities Commission, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Public Utilities Commission in effect at February, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Public Utilities Commission are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Public Utilities Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Public Utilities Commission is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

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- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

#### Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- receipts,
- administrative disbursements,
- Telephone Assistance Plan disbursements, and
- payroll disbursements

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

#### Conclusions

Our study and evaluation disclosed the condition discussed in finding 3 involving the internal control structure of the Public Utilities Commission. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

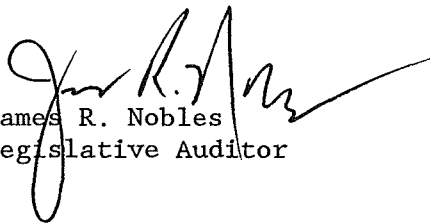
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities

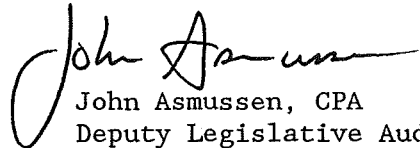
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being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable condition described above is not a material weakness.

The results of our tests indicate that except for the issues discussed in findings 1 and 2, with respect to the items tested, the Public Utilities Commission complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Public Utilities Commission had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and 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 May 31, 1990.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: March 23, 1990

REPORT SIGNED ON: May 24, 1990





# 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
Pat Ryan	Auditor-in-Charge
Ron Mavetz	Senior Auditor

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Public Utilities Commission at the exit conference held on May 7, 1990:

Richard Lancaster	Executive Secretary
Lee Larson	Financial Office Supervisor



# PUBLIC UTILITIES COMMISSION

## I. INTRODUCTION

The Public Utilities Commission is an independent regulatory agency established to regulate the rates, services and financial practices of Minnesota operations of natural gas, electric and telephone companies in accordance with Minnesota statutes. The commission also regulates the service areas for telephone and electric utilities. In fiscal year 1988, the commission began administering the Telephone Assistance Plan. The plan provides telephone assistance credits to senior citizens and low-income telephone company customers. The commission sets a surcharge on all local access lines. The surcharge is currently ten cents. The commission consists of five members appointed by the Governor. The commission appoints an executive secretary who serves as the administrative officer with responsibility for personnel, budgeting, and other administrative details related to the work of the commission. The commission has a staff of 35 employees. The commission received appropriations of \$1,760,400 and \$1,878,100 for fiscal years 1988 and 1989, respectively.

The following is a breakdown of the commission's revenues and expenditures for fiscal years 1988 and 1989.

	<u>Fiscal Years</u>	
	<u>1988</u>	<u>1989</u>
Receipts:		
Assessments	\$1,202,907	\$1,727,210
Administrative Hearings	185,431	117,715
Miscellaneous	189,786	2,500
Telephone Assistance Plan	<u>577,406</u>	<u>2,512,109</u>
Total	<u>\$2,155,530</u>	<u>\$4,359,534</u>
Disbursements:		
Payroll	\$1,374,382	\$1,503,282
Administrative Expenditures	566,632	595,514
Capital Equipment	53,136	27,795
Telephone Assistance Reimbursements	<u>12,305</u>	<u>968,628</u>
Total	<u>\$2,006,455</u>	<u>\$3,095,219</u>

Source: Managers Financial Report and Estimated/Actual Receipts Report as of September 3, 1988, and September 2, 1989, respectively.

## PUBLIC UTILITIES COMMISSION

### II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The Public Utilities Commission is not processing indirect assessment billings on a timely basis, as required by law.

The Public Utilities Commission did not assess indirect costs of about \$806,000 and \$1,000,000 in fiscal years 1988 and 1989, respectively, in a timely basis as required by Minn. Stat. Sections 216B.62 and 237.295. All eight quarterly billings were in violation of the statutory billing requirement for fiscal years 1988 and 1989. For example, the first quarter assessments for fiscal year 1988 were billed on July 30 when they should have been billed before June 1st. The second and third quarter billings, for fiscal years 1988 and 1989, were combined and billed the beginning of March. The commission and the Department of Public Service are required to charge utility companies for their estimated indirect costs. The costs are to be billed on a quarterly basis and the billings sent at least 30 days before the start of each quarter. The second quarter billings are adjusted to compensate for the amount by which actual expenditures for the preceding fiscal year were more or less than the estimated expenditures previously assessed. The indirect costs are pro-rated to each utility company based on the company's gross operating revenue.

Currently, the commission and the department are combining their indirect assessment billings. The department receives the commission's cost information, combines it with theirs, and creates the actual billing. Both the commission and department feel it is difficult to comply with the billing requirements. They said they have trouble obtaining the utility companies financial data. As a result, this effects the timeliness of the second quarter settlement billings which then effects the timeliness of all the other billings. Although the department is creating and sending the actual billing, the commission has a responsibility to comply with the statutes.

#### RECOMMENDATION

- The Public Utilities Commission should take steps to insure they are in compliance with the statutes regulating indirect assessment billings or seek to have the statutes changed.
2. Telephone Assistance Plan reimbursements are not being processed in a timely manner.

The commission is not reimbursing telephone companies for Telephone Assistance Plan (TAP) credits and the related administrative expenses within 60 days of receiving a company's TAP report as required by Minn. Rules. Of 48 TAP payments tested, 22 were processed in excess of the 60 day requirement. Several payments were processed only a few days late. However, others were processed 30 to 40 days after the 60 day requirement.

## PUBLIC UTILITIES COMMISSION

All Minnesota telephone companies participate in the plan. The purpose of the plan is to provide telephone assistance credits to reduce the local telephone rates of eligible residential households. The program is funded by a surcharge on all local access lines which is collected by the telephone companies and deposited into the state treasury. On a periodic basis the telephone companies submit a report to the commission detailing the amount of TAP credits extended to eligible households. The telephone companies may also request reimbursement for TAP related administrative expenses. Often a batch of reports is accumulated before processing, which results in some reports not being processed within 60 days. The commission should develop procedures which will allow for timely TAP reimbursements.

### RECOMMENDATION

- The commission should reimburse TAP credits and administrative expenses within 60 days as required by Minn. Rule 7800.0300.

### 3. Duties over purchasing and processing payments are not separated.

The commission processed approximately \$1,500,000 in nonpayroll disbursements in fiscal year 1989. Controls over the purchasing and disbursement functions are weak because the duties associated with the process are not adequately separated.

Currently the accounting supervisor is responsible for preparing and approving purchase orders. She also has the ability to input payments onto the statewide accounting system (SWA). Such duties are incompatible. When the approval of purchases and the processing of payments is with one individual, the possibility exists that incorrect or unauthorized transactions may occur and not be detected. While the commission accounting staff is small, an adequate separation of duties is possible. The executive director or division managers could authorize purchases. The invoices should be approved by the person responsible for ordering the goods or services received. On a monthly basis the executive director could also review the SWA expenditure by AID report and investigate unusual transactions.

### RECOMMENDATION

- The duties of preparing and approving purchases, and authorizing payments, should be separated.

May 18, 1990

Mr. James Nobles  
Legislative Auditor  
Veterans Service Building  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

As you requested, this responds to the preliminary audit report dated May 3, 1990. I will confine my response to the three findings and recommendations discussed at the end of the report.

#### Indirect Assessments

Estimated indirect costs are billed quarterly to public utilities. The Department of Public Service and the Commission combine billings. The combined billings are issued by the Department.

In the past, the two agencies have waited for the most current revenue data before issuing the indirect assessments. In the future, three of the four quarterly assessments can and will be made on time by using the best available revenue data rather than the most current data. This will be implemented by Mary Jo Jasicki, in cooperation with the Department, in time for the next quarterly billing on June 1, 1990.

Second quarter billings are adjusted to compensate for the amount by which the actual expenditures for the preceding fiscal year were more or less than the estimated expenditures previously assessed. Second quarter billings are due September 1 of each year, the same date that the year-end report for the previous fiscal year is issued by the State-Wide Accounting System (SWAS). Since the adjustment to the second-quarter billings is based on the year-end report, it is not practical to issue the second-quarter billings on the same day that the year-end report is issued. Therefore, as suggested in the audit report, the Commission will seek legislative authority to make the adjustment to third quarter billings instead. I will be responsible for implementing this during the next legislative session.

#### Telephone Assistance Plan (TAP) Reimbursements

The Commission is required to reimburse telephone companies for TAP credits and expenses within 60 days of receiving a company's TAP report. (Minn. Rule 7817.0300) The current and past practice has been to accumulate the reports into batches for administrative efficiency and process each batch according to its due date. All batches were being processed within 60 days of the due date. However, reimbursements resulting from reports



submitted early were not being processed within 60 days in all cases.

To remedy this problem, Commission staff will accumulate reports into batches based on date of receipt and process them promptly without waiting until after the reports' due dates. This will result in all reimbursements being made within 60 days of receiving the TAP reports.

Revised batching will be implemented for the reporting period beginning July 1, 1990. Since this project involves coordination among divisions, I will be responsible for ensuring that reimbursements are made within 60 days.

#### Separation of Purchase Approval and Payment Authorization

Until receipt of the draft audit report, the Commission had assigned the duties of purchase approval and payment authorization to one person. After reviewing the draft report, the Commission immediately implemented a policy of requiring payment approval by the executive secretary or division managers, as recommended by the report. I will also review the monthly State-Wide Accounting System report and investigate any unusual transactions, beginning with the next report.

#### Conclusion

As the Commission's new executive secretary, I found the audit report to be both timely and constructive. I look forward to future opportunities to work with you and your staff and would welcome any formal or informal suggestions for ways to improve our operations.

Sincerely,

A handwritten signature in cursive script, reading "Richard R. Lancaster".

Richard R. Lancaster  
Executive Secretary