

**STATE BOARD OF ELECTRICITY  
FINANCIAL RELATED AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1991**

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**MARCH 1992**

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



**STATE BOARD OF ELECTRICITY**  
**FINANCIAL AUDIT**  
**FOR THE THREE YEARS ENDED JUNE 30, 1991**

Public Release Date: March 26, 1992

No. 92-17

**OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Inspection fee receipts, contract disbursements, payroll, and license fee receipts.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

**CONCLUSIONS:**

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

- The work descriptions and fee computations on inspection requests are not always complete.

We found one area where the board had not complied with finance-related legal provisions:

- The board does not monitor insurance periods for licensed contractors.

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





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. George Meyer, President  
State Board of Electricity

Members of the State Board of Electricity

Mr. John Quinn, Executive Secretary  
State Board of Electricity

## **Audit Scope**

We have conducted a financial related audit of the State Board of Electricity as of and for the period July 1, 1988 through June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the State Board of Electricity, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the State Board of Electricity in effect at December, 1991.

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 State Board of Electricity are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the State Board of Electricity'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 State Board of Electricity 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

Representative Ann Rest, Chair  
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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:

- 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 into the following categories:

- inspection fee receipts,
- contract disbursements,
- payroll, and
- license fee receipts.

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. We also assessed control risk.

## **Conclusions**

Our study and evaluation disclosed the conditions discussed in finding 1, involving the internal control structure of the State Board of Electricity. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention

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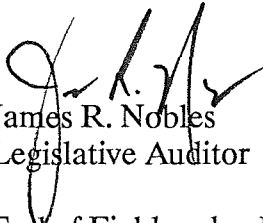
relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

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 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 in finding 1 is a material weakness.


We also noted other matters involving the internal control structure and its operation that we reported to the management of the Board in a meeting held on February 21, 1992.

The results of our tests indicate that, except for the issues discussed in finding 2, with respect to the items tested, the State Board of Electricity 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 State Board of Electricity 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 State Board of Electricity. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 26, 1992.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: January 31, 1992

Report Signed On: March 20, 1992





## **State Board of Electricity**

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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
Tom Donahue, CPA	Audit Manager
Brad White, CPA	Auditor-In-Charge
Pat Ryan	Auditor
Susan Rumpca, CPA	Auditor

### **Exit Conference**

The findings and recommendations in this report were discussed with the following officials of the State Board of Electricity at an exit conference on February 21, 1992:

John Quinn	Executive Secretary
William Bickner	Assistant Executive Secretary
JoAnne Peterson	Office Manager



## State Board of Electricity

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### Introduction

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The State Board of Electricity is a service and regulatory agency which licenses electricians, electrical contractors, and alarm and communication contractors. It also inspects new electrical installations in all areas of the state except when a city, by ordinance, provides its own electrical inspections. The primary purpose of the board is to assure consumers that electrical wiring is installed in conformance with accepted standards of construction and to protect the public from incompetent electrical installers.

The State Board of Electricity consists of 11 members appointed by the Governor. The board currently has 21 employees who are under the supervision of the Executive Secretary, Mr. John Quinn. The board contracts with electricians who perform electrical inspections throughout the state. There are currently 54 inspectors under contract.

Operations of the State Board of Electricity are financed through license and inspection fees. Since July 1, 1987, revenues collected by the board are deposited to the Special Revenue Fund. Inspection fees are deposited into an inspection escrow account within the fund and subsequently paid to inspectors upon an inspection's completion. Operating activities are accounted for on the statewide accounting system.

The State Board of Electricity collected and spent the following amounts during the audit period:

	<u>Fiscal Year</u> <u>1991</u>	<u>Fiscal Year</u> <u>1990</u>	<u>Fiscal Year</u> <u>1989</u>
Revenues:			
Inspection Fees	\$3,656,981	\$3,589,479	\$3,334,728
License Fees	479,066	465,210	439,589
Other	<u>126,519</u>	<u>127,430</u>	<u>121,096</u>
Total Revenues	<u>\$4,262,566</u>	<u>\$4,182,119</u>	<u>\$3,895,413</u>
Expenditures:			
Inspector Contracts	\$3,034,660	\$2,799,122	\$2,642,180
Employee Payroll	865,101	813,681	640,142
Other	<u>316,085</u>	<u>306,949</u>	<u>248,016</u>
Total Expenditures	<u>\$4,215,846</u>	<u>\$3,919,752</u>	<u>\$3,530,338</u>
Inspection Escrow Account	\$2,070,066	\$2,022,963	\$1,762,873

Sources: Statewide accounting system, Estimated/Actual Receipts Reports for the fiscal years 1991, 1990, and 1989 as of the closing date.

Statewide Accounting System, Manager's Financial Reports for fiscal years 1991, 1990, and 1989 as of the closing date.

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## Current Findings and Recommendations

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**1. The work description and fee computation on inspection requests is not always complete.**

The State Board of Electricity receives many incomplete requests for electrical inspection from contractors and homeowners. The necessary inspection work description and fee computations are not provided. Without this information, the board cannot ensure that fees are accurate and have been collected. It also results in an inadequate record of the type of inspection work completed.

The Request for Electrical Inspection form initiates the inspection process and is the basis for over \$3 million of fees collected and subsequently paid to inspectors. This form details the type of building, appliance or equipment, in addition to size and number of circuits being wired. Contractors and homeowners submit the request directly to the board office, along with the fee. The board office forwards requests to inspectors for performing the actual job site inspection. Board contract inspectors use the requests as a basis to perform the actual inspection at the job site. The inspectors are not required to add any omitted information or verify the accuracy of the fees collected. Inspectors are responsible and liable for the type and extent of work documented on the request which becomes evidence of the inspection.

Contractors or homeowners often submit inspection requests at the minimum or maximum fee rate and provide no other details. Without the detailed charges, there is no ability to determine whether actual fee charges fall within these limits.

A large percentage of inspection requests are incomplete. We noted several during the audit period and expanded our review to over 9,000 requests paid in December, 1991. Over 27 percent were found without any work description or fee computation, just a total fee amount. Most of these fees were collected at the minimum or maximum rate, without any other details. However, many were well above the maximum rate without the size and number of circuits showing how this fee was derived. The board must take steps to ensure full completion of inspection requests and improve control over fee computations.

### *Recommendation*

- *The board should require inspectors to identify work description and fee computations on incomplete electrical inspection requests.*

## **State Board of Electricity**

### **2. The board does not monitor insurance periods for licensed contractors.**

The State Board of Electricity does not monitor effective dates of general liability insurance for electrical contractors and alarm and communication contractors. Insurance policies lapse prior to the end of the licensing period, without renewal information provided to the board.

Minn. Stat. Section 326.242, Subd. 6, requires contractors to carry general liability insurance as a condition of licensure. Board staff obtain evidence of insurance and review policy limits before providing each contractor a license renewal effective for two years. However, most general liability insurance policies are in effect for only one year. Board staff do not ensure that contractors submit insurance renewal evidence for the remaining license period. Without such evidence, there is no assurance that contractors are in compliance with statutes requiring general liability insurance.

The board is currently automating a new license computer system. They plan to generate a report to identify lapsed coverage and prompt written notification to the contractor. However, this computerized feature is not yet established.

#### *Recommendation*

- *The State Board of Electricity should ensure that contractors comply with the general liability insurance requirements for the entire license period.*



## STATE OF MINNESOTA

STATE BOARD OF ELECTRICITY  
GRIGGS-MIDWAY BLDG.-ROOM S-173  
1821 UNIVERSITY AVENUE  
SAINT PAUL, MINN. 55104

OFFICE OF THE  
EXECUTIVE SECRETARY  
(612) 642-0800

March 12, 1992

Mr. James R. Nobles, Legislative Auditor  
State of Minnesota  
Office of the Legislative Auditor  
Centennial Building  
St. Paul, MN 55155

Dear Mr. Nobles:

This is the board's formal written response to the findings of a draft audit report that summarizes the audit work completed at the Board of Electricity for 3 years ending June 30, 1991.

### **CURRENT FINDINGS AND RECOMMENDATIONS**

- 1. The work description and fee computation on inspection requests is not always complete.**

The State Board of Electricity receives many incomplete requests for electrical inspection from contractors and homeowners. The necessary inspection work description and fee computations are not provided. Without this information, the board cannot ensure that fees are accurate and have been collected. It also results in an inadequate record of the type of inspection work completed.

The Request for Electrical Inspection form initiates the inspection process and is the basis for over \$3 million of fees collected and subsequently paid to inspectors. This form details the type of building, appliance or equipment, in addition to size and number of circuits being wired. Contractors and homeowners submit the request directly to the board office, along with the fee. The board office forwards requests to inspectors for performing the actual job site inspection. Board contract inspectors use the requests as a basis to perform the actual inspection at the job site. The inspectors are not required to add any omitted information to verify the accuracy of the fees collected. Inspectors are responsible and liable for the type and extent of work documented on the request which becomes evidence of the inspection.

Contractors or homeowners often submit inspection requests at the minimum or maximum fee rate and provide no other details. Without the detailed charges, there is no ability to determine whether actual fee charges fall within these limits.

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or fee computation, just a total fee amount. Most of these fees were collected at the minimum or maximum rate, without any other details. However, many were well above the maximum rate without the size and number of circuits showing how this fee was derived. The board must take steps to ensure full completion of inspection requests and improve control over fee computations.

#### Recommendation

The board should require inspectors to identify work description and fee computations on incomplete electrical inspection requests.

#### Board's Response

Information provided on Requests for Electrical Inspection forms submitted to the board is the responsibility of the electrical contractor or owner installing the wiring.

It would be impractical, when the board receives a Request for Electrical Inspection with incomplete information, to return the request to the contractor or owner for additional information due to the volume and cost.

The board feels it would be inappropriate for its staff or contract electrical inspectors to complete any information that is the responsibility of the contractor or owner doing the wiring due to the possibility of future liability.

Effective immediately contract inspectors will be instructed, where there is inappropriate information on a request, to identify on the back of the request form the work description and fee computation.

#### 2. The board does not monitor insurance periods for licensed contractors.

The State Board of Electricity does not monitor effective dates of general liability insurance for electrical contractors and alarm and communication contractors. Insurance policies lapse prior to the end of the licensing period, without renewal information provided to the board.

Minn. Stat. Section 326.242, Subd. 6, requires contractors to carry general liability insurance as a condition of licensure. Board staff obtain evidence of insurance and review policy limits before providing each contractor a license renewal effective for two years. However, most general liability insurance policies are in effect for only one year. Board staff do not ensure that contractors submit insurance renewal evidence for the remaining license period. Without such evidence, there is no assurance that contractors are in compliance with statutes requiring general liability insurance.

Mr. James R. Nobles, Legislative Auditor  
March 13, 1992

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The board is currently automating a new license computer system. They plan to generate a report to identify lapsed coverage and prompt written notification to the contractor. However, this computerized feature is not yet established.

#### Recommendation

The State Board of Electricity should ensure that contractors comply with the general liability insurance requirements for the entire license period.

#### Board's Response

The Minnesota Statutes provide that the liability insurance certificate contain a cancellation clause requiring 15 days advance notice before cancellation of the liability insurance policy. Cancellation Notices are received each week and a follow-up procedure has been in place for many years to obtain new evidence of coverage. There are also some companies that have computer systems which automatically send renewal certificated and are willing to send notices of non-renewal with their company. However, many companies have difficulty keeping track of certificates needed on renewal because of the many insurance agents involved and, renewal time is when the insured reviews his insurance needs and premiums to determine if a change in coverage or insurance carrier is appropriate.

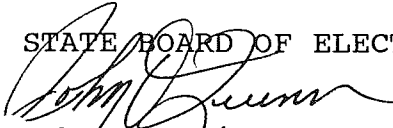
The State Board of Electricity planned for the follow-up on expired liability insurance when developing its new in-house licensing system. The Board has been aware that renewal certificates of insurance are not always filed when a policy expires during a license period but had no solution while it was issuing licenses through the Statewide Licensing System (SWL) of the Intertechnologies Division of the Department of Administration.

The new system has been in the development stage for the past two years with the electrical contractor's being the last phase. The insurance, bonding, and other information needed in the new system had to be manually entered from our office files as the records in the SWL system did not include this information.

In January 1992 the renewal process for all electrical contractor's began and by mid-March 1992 all insurance expiration dates will be entered into our new system. April 1, 1992 this office will begin a monthly follow-up on expired insurance.

Sincerely,

STATE BOARD OF ELECTRICITY



John D. Quinn  
JDQ:jk