DEPARTMENT OF PUBLIC SERVICE
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991

AUGUST 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

92-52

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

DEPARTMENT OF PUBLIC SERVICE

FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: August 13, 1992 No. 92-52

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: regulation fees, telephone investigation fees, inspection fees, payroll, grants, professional/technical contracts, and travel.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found two areas where the internal control structure needed improvement:

- The department is not processing direct and indirect billings timely.
- The department needs to write off uncollectible accounts.

We were unable to reach a conclusion on whether the state continues to comply with the supplementing requirement of the Exxon Oil Overcharge court order.

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

FINANCIAL AUDIT DIVISION

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Kris Sanda, Commissioner
Department of Public Service

Audit Scope

We have conducted a financial related audit of the Department of Public Service as of and for the three years ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Public Service, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Public Service in effect at June, 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 Department of Public Service are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Public Service'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 Department of Public Service 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:

- 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 the 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:

- regulation fees,
- telephone investigation fees,
- inspection fees,
- payroll,
- grants,
- professional/technical contracts, and
- travel

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 conditions discussed in findings 1 and 2 involving the internal control structure of the Department of Public Service. 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 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 none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Public Service at the exit conference held on January 30, 1992.

Exxon Oil Overcharge Funds - Compliance With Court Order

The court order pertaining to the Exxon Oil overcharge funds contains certain compliance requirements. One provision states "Exxon funds can only be used to supplement and not supplant funds otherwise available for the programs." The concept of supplanting is not well defined. The state originally received its share of Exxon funds in 1986. It allocated the funds among several state agencies and targeted them for a variety of energy assistance programs. At that time, we believe the state complied with the court order and allocated the Exxon funds in a manner which supplemented other state programs.

State agencies, including the Department of Public Service, continued to spend the Exxon funds over a period of several years. We are uncertain whether the supplementing requirement had to be reevaluated on an annual basis as the funds were expended. The Department of Public Service has coordinated the preparation of periodic financial reports on the Exxon funds. It submits the report to the U.S. Department of Energy. Public Service has not conducted an annual evaluation of whether the combined spending efforts of the state continued to satisfy the supplementing requirement of the court order.

Because of our uncertainty regarding the supplementing requirement, we did not reach a conclusion on whether the state continues to comply with that provision of the Exxon Oil overcharge court order.

The results of our tests indicate that, except for the issues discussed above concerning the Exxon Oil overcharge funds and finding 1, with respect to the items tested, the Department of Public Service 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 Department of Public Service 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 Department of Public Service. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 13, 1992.

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

End of Fieldwork: December 22, 1991
Report Signed On: August 10, 1992

Table of Contents

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
Beth Hammer, CPA	Auditor-in-Charge
Mark Johnson	Staff Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Department of Public Service at the exit conference held on January 30, 1992:

Kris Sanda	Commissioner
Ruth Grendahl	Deputy Commissioner
Burl Haar	Assistant Commissioner
Michael Blacik	Director, Weights and Measures Division
Harold Nicholson	Administrative Services Manager
Mim Stohl	Accounting Director
William Janisch	Personnel and Budget Director
Michael Roelofs	Manager, Energy Analysis and Support

Introduction

The Department of Public Service has regulatory responsibility in utility rates and services, commercial weighing and measuring devices, and energy conservation. These functions are carried out by the department's three divisions: the Utility Division, the Weights and Measures Division, and the Energy Division.

Minnesota Statutes require telephone companies and public utilities to pay for the direct and indirect costs of investigations, appraisals, and services performed by the department. In addition, Minnesota Statutes require the department to charge a fee for the costs of inspections performed by the Weights and Measures Division. Kris Sanda serves as commissioner.

The following is a breakdown of the department's revenues and expenditures for fiscal years 1989, 1990, and 1991.

	Fiscal Years		
	1989	1990	1991
Revenue:			
Utility Regulation	$1,663,543	$1,679,049	$2,036,700
Telephone Investigation	2,436,883	918,759	872,563
Inspection Fees	852,177	826,001	762,808
Interest on Investments*	1,492,638	1,286,220	898,006
Federal Grants	369,015	368,612	300,824
Other	7,612	84,836	76,446
Total	$7,131,867	$5,163,476	$4,947,348
Expenditures:			
Payroll	$5,132,587	$5,252,676	$5,508,711
Grants	3,061,446	1,586,235	1,122,797
Professional/Technical Contracts	342,020	464,496	389,285
Travel	190,661	189,090	154,858
Other	1,221,654	1,461,695	1,205,558
Total	$9,864,924	$8,771,026	$8,070,098

Source: Managers Financial Report and Estimated/Actual Receipts Report as of September 1, 1990, and August 31, 1991, respectively.

*Interest on investments is controlled by the State Board of Investment and audited during our annual audit of the State's financial statements.

Current Findings and Recommendations

1. The Department of Public Service is not processing direct and indirect billings timely.

The department is not billing public utilities and telephone companies for direct and indirect costs timely. Minn. Stat. Section 216B.62, subdivisions 2 and 3 and Section 237.295, subdivisions 1 and 2, require public utilities and telephone companies to pay expenses for investigations, appraisals, services, and indirect costs. The department and the Public Utilities Commission combine their direct and indirect billings.

The department and commission bill direct charges about every six months. On average, the department was billing six months past the end of a billing period. For example, the department did not bill the direct costs of $512,000 for July through December 1989 until September 18, 1990. This billing was delayed for over eight months. The department should prepare billings more timely. Also, the department should bill direct costs more frequently.

The department combines all second and third quarter indirect cost assessments and sends the billing in February. The statutes require the department to bill for indirect costs on a quarterly basis and to send the billings at least 30 days before the start of each quarter. The department adjusts the second quarter billing to reflect actual expenditures for the preceding fiscal year. Both the department and the commission feel it is difficult to follow the billing requirements. The department has been working with the Legislature on a statutory change.

Recommendations

- *The Department of Public Service should improve the direct billing process by:*
  - *billing public utilities and telephone companies more frequently, and*
  - *sending out billings more timely after the end of a billing period.*
- *The Department of Public Service should take steps to ensure compliance with the statutes regulating indirect assessment billings or seek to have the statutes changed.*

Department of Public Service

2. **PRIOR FINDING NOT RESOLVED: The Department of Public Service needs to write off uncollectible accounts.**

The department maintains an accounts receivable balance for inspection fees billed by the Weights and Measures Division. The accounts receivable balance at June 30, 1991, was $85,527. Of this amount $22,382, or 26 percent, related to fiscal year 1977 through 1986.

Minnesota statutes allow for the write-off of uncollectible accounts when approved by the attorney general and executive council. The department sent a list of uncollectible accounts to the attorney general in 1990. However, it never received a response from the attorney general. The department's representative in the Attorney General's Office changed. The department did not contact its new attorney concerning the uncollectible accounts. No uncollectible accounts have been written off since 1982.

Recommendation

- *The Department of Public Service should analyze accounts receivable balances. All amounts considered uncollectible should be submitted to the executive council and attorney general for write off approval.*

MINNESOTA
Department of Public Service

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August 3, 1992

Mr. James R. Nobles
Legislative Auditor
Centennial Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

This is in response to your draft of July 14, 1992 regarding the preliminary audit report for the Department of Public Service covering the three years ending June 30, 1991.

We generally concur with the findings and recommendations, and those which have not already been implemented will be implemented as soon as possible.

1. The Department of Public Service is not processing direct and indirect billings timely.

RECOMMENDATION:

- The Department of Public Service should improve the direct billing process by:
    - -- billing public utilities and telephone companies more frequently, and
    - -- sending out billings more timely after the end of a billing period.
- The Department of Public Service should take steps to ensure compliance with the statutes regulating indirect assessment billings or seek to have the statutes changed.

RESPONSE:

- The past delays in the direct billing process are largely the result of the time required to manually review time sheets and expense reports. Manually detecting coding errors is a very time-consuming process.

  To speed up this process, the Department is reprogramming and enhancing the current computer data base so that the computer system will verify the accuracy of time sheet coding at the time of entry. This will eliminate the need for manual verification of time sheet coding. The new data base will provide for the direct entry of expense data which will eliminate the need to manually review and accumulate expense data by individual utility companies. Together these two changes will make it possible to produce an invoice directly from the data base. This will allow the Department to assess the utility companies in a more frequent and timely manner.

- The legislature has agreed with the Department and changed the statute to require that the Department adjust the third quarter billing to reflect the actual expenditures for the preceding fiscal year. This change makes it possible for the Department to comply with the statutes regulating the indirect assessment billings.

2. PRIOR FINDING NOT RESOLVED: The Department of Public Service needs to write off uncollectible accounts.

RECOMMENDATION:

- The Department of Public Service should analyze accounts receivable balances. All amounts considered uncollectible should be submitted to the executive council and attorney general for write off approval.

RESPONSE:

- When the Auditor pointed out that the Attorney General had not acted on the Department's request to write off uncollectible accounts, the Department updated its previous submittal to make it current and resubmitted the list to the Attorney General's Office on February 12, 1992.

Sincerely,

Ruth Grendahl

RUTH GRENDAHL
DEPUTY COMMISSIONER

RG/MS/jl