

PUBLIC UTILITIES COMMISSION

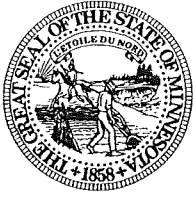
FINANCIAL AUDIT

FOR THE THREE YEARS ENDED JUNE 30, 1992

JUNE 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-30



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Donald Storm, 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 for the three years ended June 30, 1992. 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 Background. We have also made a study and evaluation of the internal control structure of the Public Utilities Commission in effect in January 1993.

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, it was not our objective to provide an opinion on overall compliance with such provisions.

Mid-America Regulatory Conference

We reviewed the Public Utilities Commission's role in hosting the Mid-America Regulatory Conference in June 1992. A news media report had alleged that the commission had sponsored the conference, in part, by obtaining some support from the industries it regulates. The media report suggested that because of the commission's regulatory authority, the industry representatives may have felt pressured into providing support for the conference. Public interest groups also expressed concern that the regulated industries may have gained an unfair advantage with the commission as a result of offering support for the conference.

The Mid-America Regulatory Commission (MARC) is a multi-state organization which holds its annual conference in the state of its president. The PUC Chair was to be the organization's president in 1992. Although he resigned before the conference, MARC asked Minnesota to host the conference in June 1992. Conference records indicate approximately 75 percent of the 350 persons in attendance were representing regulated industries. Most remaining attendees represented public utility commissions from the 15 states holding memberships in MARC. The conference was intended to be an educational event. To accommodate out-of-state visitors some recreational activities were also offered in conjunction with the educational seminars.

The Minnesota Public Utilities Commission is subject to strict laws and rules which establish a code of conduct "to preserve the quasi-judicial function of the commission." One of these rules prohibits the commissioners and staff from accepting gifts or favors in connection with their official duties. The rule, however, contains an exception for educational program. Minnesota Rules 7845.0700, Subpart 1 reads:

A commissioner or employee shall not directly or indirectly solicit or accept for the commissioner or employee, or for another person, any compensation, gift, gratuity, favor, entertainment, meal, beverage, loan, or other thing of monetary value from a public utility, telephone company, or party, that exceeds nominal value. This prohibition does not apply to:

A. books or printed materials that are relevant to the official responsibilities of the commission; or

B. an educational program devoted to improving the regulatory process or the administration of the commission that is open to other interested groups or state agencies under the same terms and conditions. Meals associated with the program must be paid for by a commissioner or employee who attends the program.

MARC supported the annual conference and was responsible for the financial and administrative details. The Minnesota Public Utilities Commission, as the host state was responsible for program content, arranging for speakers, and other conference details. PUC was also responsible for coordinating the recreational activities associated with the conference. It was in fulfilling these duties that commission staff sought the support of the regulated industries. The commission did not solicit direct financial contributions, rather it sought indirect support. The participating industries provided support by lending services or expertise such as making arrangements for spouse and evening activities. Ultimately, conference attendees were expected to pay any direct costs associated with the recreational activities, such as golf fees, etc. Also, some industries declined to help the commission coordinate the recreational activities.

The commission believes that its involvement with the MARC conference complied with the rules of its code of conduct. Specifically, it believes that its activities were permitted by the exception granted for educational programs. Based upon our review of this situation, we conclude that the Minnesota Public Utilities Commission has acted properly and complied with its code of conduct.

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:

- 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:

- payroll
- assessment receipts
- Telephone Assistance Plan receipts
- Telephone Assistance Plan grants

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.

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Conclusions


In our opinion, the internal control structure of the Public Utilities Commission, in effect at January, 1993, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Public Utilities Commission.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Public Utilities Commission at the exit conference held on May 24, 1993.

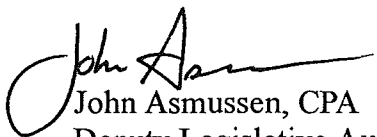
The results of our tests indicate that, with respect to the items tested, the Public Utilities Commission complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the 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 June 10, 1993.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 4, 1993

Report Signed On: June 3, 1993

Public Utilities Commission

Background

The Public Utilities Commission regulates the rates, services and financial practices of natural gas, electric and telephone companies that operate in Minnesota. There are five full-time commissioners who are appointed by the Governor. The current chair of the commission is Donald Storm. The commission appoints an Executive Secretary who is responsible for personnel, budgeting, and the day-to-day operations of the commission. Richard Lancaster has held this position since April 1990. The commission has a staff of 38 employees.

The commission receives state appropriations for its operating expenditures. The assessment receipts, collected from the regulated industries, are deposited back into the state's General Fund and are not available for the commission to spend. The assessments are designed to reimburse the General Fund for the cost of operating the commission. Through the Telephone Assistance Plan, the commission uses receipts collected from all telephone users to provide assistance to elderly or handicapped telephone users whose incomes are below certain levels. The Telephone Assistance Plan is intended to be self-sustaining. Reimbursements to the telephone companies for June credits extended to the Telephone Assistance Plan participants do not get recorded on the Statewide Accounting System until after the fiscal year cutoff. As a result, adjustments to the accounting records were necessary to provide the figures below.

Following is a schedule of the commission's appropriations, revenues and expenditures for fiscal years 1990, 1991, and 1992:

	Fiscal Years		
	1990	1991	1992
Appropriations	\$2,060,000	\$2,047,414	\$2,415,000
Assessment Receipts	\$2,132,815	\$2,313,193	\$2,118,946
Telephone Assistance Plan	2,356,338	3,099,974	2,736,169
Other Revenues and Transfers	<u>250,161</u>	<u>582,213</u>	<u>427,055</u>
Total Revenues	<u>\$4,739,314</u>	<u>\$5,995,380</u>	<u>\$5,282,170</u>
Payroll	\$1,537,240	\$1,696,190	\$1,905,056
Telephone Assistance Plan	2,546,184	2,688,241	2,818,087
Other Expenditures and Transfers	<u>642,730</u>	<u>572,713</u>	<u>560,777</u>
Total Expenditures	<u>\$4,726,154</u>	<u>\$4,957,144</u>	<u>\$5,283,920</u>

Sources: Minnesota Laws and Managers Financial Reports and Estimated/Actual Receipts Reports as of September 1, 1990, August 31, 1991, and September 5, 1992, as adjusted for Telephone Assistance Plan reimbursements occurring after these dates.