
Public Utilities Commission

Financial Audit

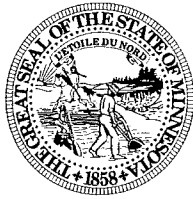
For the Period July 1, 1995, through June 30, 1997

April 1998

*This document can be made available in
alternative formats, such as large print,
Braille, or audio tape, by calling 296-1727.*

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

98-24



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Public Utilities Commission


Mr. Burl Haar, Executive Secretary
Public Utilities Commission

We have audited the Public Utilities Commission for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included telephone and utility assessments and ground current studies, revenues and expenditures of the telephone assistance plan and administrative hearing judges, and employee payroll and other administrative costs. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of internal controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the commission complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the commission is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

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 April 24, 1998.


James R. Nobles
Legislative Auditor


Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 17, 1998

Report Signed On: April 20, 1998

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
612/296-4708 • FAX 612/296/4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: <http://www.auditor.leg.state.mn.us>

Public Utilities Commission

Financial Audit

For the Period July 1, 1995, through June 30, 1997

Public Release Date: April 24, 1998

No. 98-24

Background Information

The Public Utilities Commission is a regulatory agency with jurisdiction over Minnesota's natural gas, electric, and telecommunications utilities. The commission consists of five commissioners appointed by the Governor, with the advice and consent of the Senate. Commissioners are appointed to six-year terms. Burl Haar has served as the executive secretary of the commission since December 1993.

Audit Scope and Objectives

We audited the following financial activities of the commission for the two years ended June 30, 1997: telephone and utility assessments and ground current studies, revenues and expenditures of the telephone assistance plan and administrative hearing judges, and employee payroll and other administrative costs. Our audit objectives included reviewing internal controls over material financial activities of the commission and determining compliance with significant laws and regulations.

Conclusions

The commission appropriately set and collected fees for services performed for the assessments, ground current studies, telephone assistance plan, and administrative hearing judges, for the items tested. The commission designed controls to provide reasonable assurance that receipts were safeguarded and properly recorded in the state's accounting system. However, the commission needs to follow up on discrepancies in telephone assistance plan revenues.

The commission processed the telephone assistance plan, administrative hearing judges, payroll, and administrative expenditures in accordance with applicable laws and regulations for the items tested, except that the commission should develop a method of verifying the propriety of telephone assistance plan payments. Expenditures were accurately recorded in the state's accounting system. The commission had an inadequate separation of duties, however, over both payroll and personnel transactions. Additionally, the commission did not adequately monitor third party travel reimbursements.

In its response to the audit report, the commission indicated its agreement with the findings and recommendations and has developed a corrective action plan.

Public Utilities Commission

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Assessments and Ground Current Studies	3
Chapter 3. Telephone Assistance Plan and Administrative Hearing Judges Revenues and Expenditures	5
Chapter 4. Payroll and Other Administrative Expenditures	9
Status of Prior Audit Issues	13
Public Utilities Commission Response	15

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Karen Klein, CPA	Auditor-in-Charge
Scott Tjomsland	Auditor
Rick Weinmeyer	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Public Utilities Commission on April 10, 1998. We also noted other matters involving the internal control structure and compliance with laws and regulations that we reported to management of the department at this meeting.

Edward Garvey	Commission Chair
Burl Haar	Executive Secretary
Mary Jo Jasicki	Accounting Officer

Public Utilities Commission

Chapter 1. Introduction

The Public Utilities Commission regulates the rates, services, and financial practices of natural gas, electric, and telephone companies that operate in Minnesota. The Governor, with the advice and consent of the Senate, appoints the five full-time commissioners. The current chair of the commission is Edward Garvey. The commission appoints an executive secretary who is responsible for personnel, budgeting, and the day-to-day operations of the commission. Burl Haar has served as the executive secretary since December 1993.

According to the commission, its mission is to create and maintain a regulatory environment that ensures safe, reliable, and efficient services at fair and reasonable rates. The commission derives its authority from Minn. Stat. Sections 216A and 237.

The commission's primary funding sources are General Fund appropriations and dedicated receipts from billing regulated industries for the telephone assistance plan and administrative hearing judges costs. The department received appropriations of \$3,244,000, and \$3,219,000 in fiscal years 1996 and 1997, respectively. The commission collected revenues of \$5.9 million in fiscal year 1996 and \$5.5 million in fiscal year 1997. Table 1-1 shows a breakdown of revenues by type for the audit period.

Table 1-1
Revenues by Type and Fiscal Year

Revenues:	1996	1997
Assessments (1)	\$3,650,841	\$3,087,007
Telephone Assistance Plan	1,808,068	1,880,617
Administrative Hearing Judges	114,659	226,812
Ground Current Studies	114,819	193,840
Investment Income (2)	153,833	121,844
Other Revenue	56,780	18,534
Total	<u>\$5,899,000</u>	<u>\$5,528,654</u>

(1) The reason for the decrease in revenue in fiscal year 1997 is attributable in part to the commission overestimating fiscal year 1996 indirect assessment billings. Also, assessments include attorney general fees recovered for telephone and utility investigations.

(2) Investment income is audited as part of our annual Statewide Audit.

Source: Amounts recorded on the Minnesota Accounting and Procurement System.

The commission incurred expenditures of \$11.4 million during the two-year audit period. Payroll for the two years totaled \$5.3 million, or 47 percent of the commission's expenditures. Table 1-2 shows the amount of commission expenditures by type for the audit period.

Public Utilities Commission

Table 1-2
Expenditures by Type and Fiscal Year

Expenditures:	<u>1996</u>	<u>1997</u>
Payroll	\$2,554,874	\$2,769,608
Telephone Assistance Plan	2,136,657	2,041,235
Rent	275,187	357,949
Professional services	271,975	332,912
Supplies and equipment (1)	61,241	234,062
Travel and employee development	84,120	85,055
Other expenditures (2)	<u>86,250</u>	<u>137,455</u>
Total Expenditures	<u>\$5,470,304</u>	<u>\$5,958,276</u>

(1) Supplies and equipment expenditures increased in fiscal year 1997 in part due to purchases of computers and peripherals, and computer software upgrades.

(2) Other expenditures include repairs, printing, communications, indirect costs, and other operating costs.

Source: Budget fiscal year amounts recorded on the Minnesota Procurement and Accounting System from July 1995 through December 1997.

Chapter 2. Assessments and Ground Current Studies

Chapter Conclusions

The commission designed controls to provide reasonable assurance that telephone and utility companies and ground current studies receipts were adequately safeguarded and properly recorded in the state's accounting system. For the items tested, the commission appropriately assessed and collected fees for the services performed, as required by statute.

The commission is responsible for regulating utility and telephone companies for compliance with laws governing the gas, electric, and telephone industries. The commission also reviews rate requests and supporting evidence when companies file for rate increases. In addition, the commission received special approval from the Legislature to conduct ground current impact studies on livestock. Minn. Stat. Sections 216B and 237 authorize the commission to bill companies for regulatory and ground current studies costs. The commission collected assessments of \$3.7 million in fiscal year 1996 and \$3.1 million in fiscal year 1997. It collected approximately \$115,000 and \$194,000 for ground current studies during the same time periods. The receipts are deposited in the General Fund.

Telephone and utility assessments are based on both direct and indirect costs. The commission maintains accounting records to identify the direct costs it incurs on specific company cases. The commission calculates the assessments for direct costs every six months. The commission assesses its indirect costs based on the proportion of each company's revenue to the total revenues of similar companies. The commission determines indirect costs, which are billed in advance, on a quarterly basis. According to statute, the Department of Public Service is responsible for billing public utilities. Public Service incorporates the commission's assessments into its billings. In our audit of the Department of Public Service for the three year period ended June 30, 1995, we reported that Public Service needed to bill direct costs to telephone and utility companies more frequently.

In accordance with Laws of Minnesota for 1994, Chapter 573, the commission appointed a group of scientists and engineers to determine if there is a need for further research on the possible effects of earth and ground currents on dairy cows. The Legislature appropriated funds for ground current studies until June 30, 1999. The commission bills the public utilities and cooperative electric associations that provide electrical service annually for the costs associated with the ground current studies. Each company is assessed in proportion to its gross operating revenues to total sales of electric service within Minnesota for the previous calendar year.

Public Utilities Commission

Scope, Objectives, and Audit Procedures

For the two years ended June 30, 1997, we focused on the following objectives for telephone and utility assessments and ground current studies:

- Were the fees collected by the commission assessed and billed in accordance with statutory requirements?
- Were the fees collected by the commission adequately safeguarded and properly recorded on the state's accounting system?
- Did the commission comply with other material finance-related legal provisions?

As part of our audit, we interviewed commission staff to gain an understanding of the controls in place over the collection of telephone and utility assessments and ground current studies. We also selected samples from telephone and utility assessments and ground current studies to verify that the proper fees were collected and deposited.

Conclusions

We concluded that the commission designed controls to provide reasonable assurance that assessments and ground current studies receipts were adequately safeguarded and properly recorded in the state's accounting system. For the items we selected for testing, the commission properly assessed utilities for services performed, as required by statute.

Chapter 3. Telephone Assistance Plan and Administrative Hearing Judges Revenues and Expenditures

Chapter Conclusions

The commission designed controls to provide reasonable assurance that telephone assistance plan and administrative hearing judges receipts were safeguarded and properly recorded in the state's accounting system. We found, however, that the commission needs to follow-up on discrepancies in telephone assistance plan receipts. For the items tested, the commission appropriately collected fees for services performed, as required by statute.

The commission properly authorized and recorded administrative hearing judges expenditures in the accounting system, but needs to improve controls over ensuring the propriety of telephone assistance plan expenditures. The program expenditures we tested were made in accordance with applicable finance-related legal provisions.

Both the telephone assistance plan and administrative hearing judges operations are financed through revolving funds. The commission collects receipts from regulated industries for each program. The receipts, which the commission deposits as dedicated revenues in respective accounts in the Special Revenue Fund, are used to finance future department costs associated with these programs. Telephone assistance plan revenues totaled approximately \$1.8 million annually in fiscal years 1996 and 1997. Administrative hearing judges revenues amounted to about \$115,000 in fiscal year 1996 and \$227,000 in fiscal year 1997.

The telephone assistance plan provides financial assistance for telephone service to elderly or disabled Minnesotans with incomes at or below 150 percent of federal poverty guidelines. The commission charges telephone companies a monthly surcharge per access line to fund the program. The commission reimburses the telephone companies for the credits provided on the telephone bills of eligible participants and for administrative costs. The commission administers the program jointly with the Department of Human Services.

Each year, the commission sets the monthly per-line surcharge and the amount of the telephone assistance plan credit. In fiscal year 1997, the telephone assistance plan surcharge was six cents per access line. The credit was \$3.50 per month for each eligible participant.

The commission pays the Office of Administrative Hearings for the costs associated with administrative hearings of public utility contested cases. The commission then bills the appropriate telephone or utility company for the expenses incurred. The commission received a one-time appropriation of \$85,000 in working capital for the administrative hearing judges program.

Public Utilities Commission

Scope, Objectives, and Audit Procedures

For the two years ended June 30, 1997, we focused on the following objectives for telephone assistance plan and administrative hearing judges revenues and expenditures:

- Were the fees collected by the commission assessed and billed in accordance with statutory requirements?
- Were the fees collected by the commission adequately safeguarded and properly recorded on the state's accounting system?
- Did the commission comply with other material finance-related legal provisions?
- Were the expenditures authorized and recorded properly in the accounting system?

To meet these objectives, we interviewed commission staff to gain an understanding of the controls in place over the collections and payments of the telephone assistance plan and administrative hearing judges programs. We selected samples of transactions from the respective programs to verify that the proper fee was collected and deposited. In addition, we determined whether the commission authorized the program expenditures and recorded expenditures properly in the accounting system.

Conclusions

The commission designed controls to provide reasonable assurance that telephone assistance plan and administrative hearing judges receipts were adequately safeguarded and properly recorded in the state's accounting system. For the transactions we tested, the commission properly assessed companies as required by statute. However, the commission needs to follow up on discrepancies between the amounts telephone companies remit to the department.

We also found that the commission properly authorized and recorded expenditures for the telephone assistance plan credits and administrative hearing judges costs, except that the commission needs to improve controls over determining the propriety of the telephone assistance plan payments. We discuss issues related to the telephone assistance plan in Finding 1.

1. The commission needs to improve controls over ensuring the accuracy of the telephone assistance plan revenues and expenditures.

The commission did not follow up on discrepancies in amounts remitted by telephone companies for the telephone assistance plan. Also, the commission could improve its procedures to verify that telephone companies only claim reimbursement for telephone assistance plan credits provided to eligible participants.

The commission performed an annual reconciliation of amounts reported and remitted by telephone companies. The commission did not, however, follow up on discrepancies identified in the reconciliations. During testing of the calendar year 1996 reconciliations, we found one

Public Utilities Commission

company that paid \$10,224 more than the company had stated on its report. We also found five other companies that underpaid immaterial amounts ranging from \$115 to \$328, for a total of approximately \$1,000. Some discrepancies may occur because the telephone companies remit combined payments to the Department of Administration for various programs. Administration allocates the payments to three programs including the telephone assistance plan. The commission should follow up on the discrepancies to ensure that telephone companies pay the proper amounts.

Another concern is that the commission did not verify the propriety of the amounts telephone companies claim for telephone assistance plan credits extended to eligible participants. The Department of Human Services (DHS) determines the eligibility of the participants in the telephone assistance plan. DHS notifies the telephone companies of the individuals that are eligible to participate in the telephone assistance plan. The telephone companies request reimbursement from the commission for the credits given to the eligible participants.

During testing, we found one company that claimed about \$700 more (201 credits) than the eligible amount stated on the DHS eligibility report. Four other companies we tested claimed between 15 and 1,100 recipients less than the eligible amount. Commission staff told us that they perform a reasonableness test of the credits claimed by telephone companies to the number of eligible participants reported by DHS on an annual basis. This test was not documented, however. The number of discrepancies in our tests indicate a potential for inaccurate payments without the commission performing additional verification procedures.

Recommendations

- *The commission should develop a process to follow up on material discrepancies in its reconciliation of telephone assistance plan amounts reported and remitted by telephone companies.*
- *The commission should work with Department of Human Services to establish a process to test the reasonableness of the credits claimed by telephone companies.*

Public Utilities Commission

This page intentionally left blank.

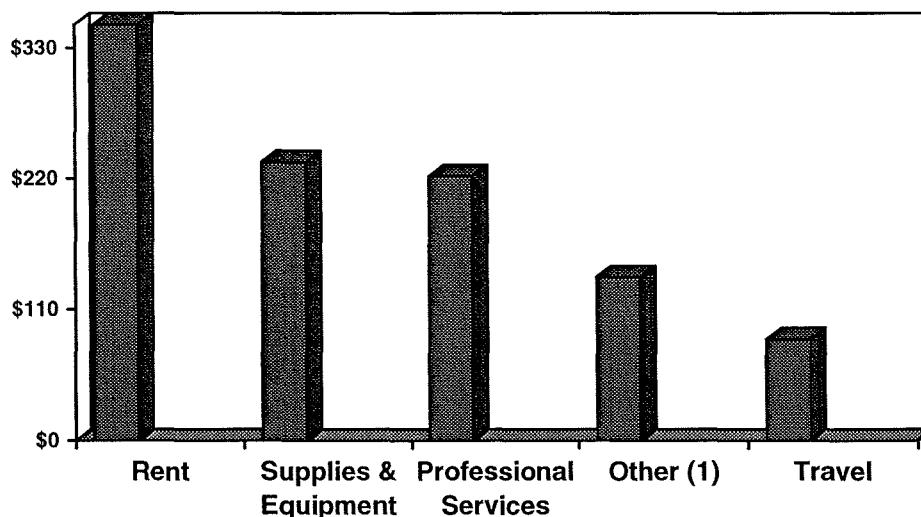
Chapter 4. Payroll and Other Administrative Expenditures

Chapter Conclusions

The commission processed payroll in accordance with applicable bargaining unit agreements for the items tested. However, the commission had not adequately separated payroll and personnel duties. Payroll and other administrative expenditures were authorized and accurately recorded in the state's accounting system. However, the commission did not adequately control third-party travel reimbursements.

The commission's largest expenditure is payroll. Payroll costs totaled about \$2.7 million in fiscal year 1997 or approximately 47 percent of commission expenditures. The commission has about 55 employees, including five full-time commissioners. Figure 4-1 summarizes the commission's administrative expenditures, other than payroll, by type of expenditure for fiscal year 1997. We discuss payroll and other administrative expenditures in the following sections.

Figure 4-1
Nonpayroll Administrative Expenditures by Type
Fiscal Year 1997
(in thousands)



(1) Other expenditures include repairs, printing, communications, and indirect costs.

Source: Minnesota Accounting and Procurement System.

Public Utilities Commission

Payroll

We focused our review of payroll on the following objectives:

- Were employees paid in accordance with applicable bargaining unit agreements?
- Were payroll transactions accurately recorded in the state's accounting system?

To meet our audit objectives, we interviewed commission staff to gain an understanding of the controls in place over payroll. We performed analytical procedures over payroll expenditures in fiscal years 1996 to 1997 and tested changes in pay rates for a sample of employees.

Based on our review of payroll, we concluded that for the items tested, commission employees were paid at the amounts according to the applicable bargaining unit agreements, and that payroll transactions were properly recorded in the state's accounting system. However, Finding 2 discusses that the commission needs to properly separate duties over payroll and personnel transactions.

2. The commission had an inadequate separation of duties over the payroll process.

The business manager had authority to change pay rates and payroll transactions in the accounting system. In addition, the business manager was responsible for reviewing payroll reports to verify the accuracy of the processed data. To ensure a proper separation of duties, someone independent of the payroll process should be responsible for verifying the accuracy of the payroll, including changes in employee pay rates. Although it is difficult to adequately separate duties in a small agency, payroll is the largest expenditure of the commission. Without an adequate separation of duties, errors or irregularities in payroll could occur and go undetected.

Recommendation

- *The commission should have an independent person review payroll and personnel transactions.*

Other Administrative Expenditures

We addressed the following objectives for other administrative expenditures:

- Were administrative expenditures authorized and recorded properly?
- Were administrative expenditures made in accordance with applicable laws and regulations?

The methodology we used to audit administrative expenditures included interviewing agency personnel to gain an understanding of the controls in place. We analyzed the classes of administrative expenditures that were material or posed the most risk and performed additional

Public Utilities Commission

tests on those expenditure types. We tested other administrative expenditures on a sample basis, including rent and travel.

We concluded that, for the items tested, administrative expenditures were authorized, recorded properly, and complied with applicable finance-related legal provisions. However, as discussed in Finding 3, we found that the commission did not adequately control certain travel reimbursements.

3. The commission did not adequately control third party travel reimbursements.

The commission did not monitor third party travel reimbursements. In some cases, professional organizations agreed to reimburse travel expenses for commission employees who attended conferences. Employees complete out-of-state travel authorization forms and indicate whether a professional organization will reimburse the commission for related expenses. The commission paid the employees' travel expenses from state funds. The employees were then responsible for obtaining reimbursement from the professional organization.

The accounting staff deposited third party reimbursements upon receipt. However, since accounting staff did not monitor third party reimbursements, the commission was not assured that it received all applicable reimbursements. During testing, we found one instance where a professional organization owed the commission \$500. The employee indicated on the travel authorization that the third party would reimburse the travel expense; however, the employee never requested reimbursement from the organization.

Often the commission did not receive reimbursements timely. A professional organization reimbursed \$4,167 to the commission for five trips by an employee. The commission received the reimbursement in April of 1997 for trips made from July 1996 through February 1997.

Recommendation

- *The commission should collect the \$500 reimbursement from the professional organization and should establish procedures for monitoring future third party reimbursements.*

Public Utilities Commission

This page intentionally left blank.

Public Utilities Commission

Status of Prior Audit Issues As of March 17, 1998

Most Recent Audit

June 1993, Legislative Audit Report 93-30 covered the three fiscal years ending June 30, 1992. The audit scope included the agency's financial activities as follows:

- Payroll
- Assessment Receipts
- Telephone Assistance Plan receipts and grants
- Mid-America Regulatory Conference in June 1992

The report did not cite any audit findings or recommendations.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Public Utilities Commission

This page intentionally left blank.



STATE OF MINNESOTA PUBLIC UTILITIES COMMISSION

121 7th Place East ■ Suite 350 ■ St. Paul, Minnesota 55101-2147

612/296-7124
(FAX) 612/297-7073
(TDD) 612/297-1200

April 14, 1998

Mr. James R. Nobles
Legislative Auditor
1st Floor South, Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

This letter is in response to the audit report of the Office of the Legislative Auditor (OLA) concerning the Minnesota Public Utilities Commission for the period July 1, 1995 through June 30, 1997. This letter will provide a response to the OLA recommendations for follow-up action as those recommendations were presented in the audit report.

Telephone Assistance Plan and Administrative Hearing Judges Revenues and Expenditures: The audit report makes two recommendations: a) the Commission develop a process to follow up on material discrepancies in its reconciliation of TAP amounts reported and remitted by telephone companies; b) the Commission work with the Department of Human Services to establish a process to test the reasonableness of the TAP credits claimed by telephone companies.

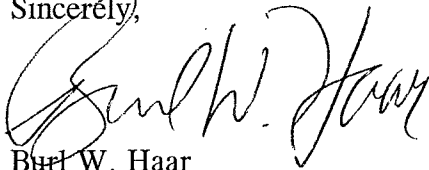
Commission Response: The Commission will direct its current designated TAP staff-person to consult with the Department of Administration as well as the telephone companies to revise the Commission's procedures to ensure that material discrepancies in TAP amounts reported and remitted by telephone companies are promptly reconciled. Staff will also work with the telephone companies to minimize discrepancies. Likewise, the TAP staff-person will work with the Department of Human Services to establish a documented and more timely reasonableness test for the credits claimed by the telephone companies under the TAP program. It is expected this revision of procedures would be completed by June, 1998.

Payroll and Other Administrative Expenditures: The audit report makes the following recommendations: a) regarding payroll, the Commission should have an independent person review payroll and personnel transactions; b) regarding other administrative expenditures, the Commission should collect \$500 as reimbursement from a professional organization and should establish procedures for monitoring future third party reimbursements.

Commission Response: Regarding payroll, the Commission will assign the secretary providing assistance to the Executive Secretary to perform an independent review of payroll. There have already been discussions about this change in responsibilities with the affected staff persons. The Commission will begin immediately the process of training this person for this task. Regarding other administrative expenditures, the Commission contacted the relevant professional organization regarding the \$500 due. On March 23, 1998 the funds were received, the MAPS transaction was completed and the funds were deposited. In addition, the Commission has revised its travel policy to enable more accurate tracking of these situations and for ensuring proper reimbursement by third parties.

I wish to thank the Office of the Legislative Auditor for this review. It has brought to our attention opportunities by which we can improve our performance. I also wish to express our appreciation for the professional manner in which your staff conducted its inquiry.

Sincerely,

A handwritten signature in black ink, appearing to read "Burl W. Haar". The signature is fluid and cursive, with the first name "Burl" being more prominent than the last name "Haar".

Burl W. Haar
Executive Secretary