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Secretary of State

State of Oregon

**PUBLIC UTILITY COMMISSION**

**Special Review**

July 1, 1995 through June 30, 1996



**Audits Division**

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Secretary of State

Audits Division

*Auditing for a Better Oregon*

The Honorable John Kitzhaber  
Governor of Oregon  
State Capitol Building  
Salem, Oregon 97310

Roger Hamilton, Chairman  
Public Utility Commission  
550 Capitol Street NE  
Salem, Oregon 97310

This audit encompasses a review of the Public Utility Commission for the period July 1, 1995, through June 30, 1996. The objectives of the audit were to determine whether controls were in place to safeguard assets and whether selected transactions complied with laws, rules and regulations.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, we made inquiries of agency personnel, reviewed policies and procedures, tested relevant reports, and evaluated management controls as required to accomplish the objectives of our audit.

Our report includes recommendations to improve internal controls over telecommunication revenues, cash, expenditures, and fixed assets. Our audit was limited to the specific matters described above, and was based on tests and procedures we considered necessary in the circumstances.

OREGON AUDITS DIVISION

Sam Cochran  
Acting State Auditor

Fieldwork Completion Date:  
January 28, 1997

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## SUMMARY

The Public Utility Commission (PUC) consists of three members appointed by the governor. The commission is responsible for the regulation of investor-owned utilities and telecommunication utilities. The commission also administers the Residential Service Protection Fund, which provides assistance to low-income and to hearing, speech or mobility impaired Oregonians. Prior to January 1, 1996, PUC was also responsible for the regulation of motor carriers and most railroads.

PUC receives revenue from assessments on utility companies, and from surcharges on telephone lines. During the fiscal year under audit, utility assessments totaled about \$20 million, and revenue from telephone surcharges totaled about \$13 million.

Our audit covered the period July 1, 1995, through June 30, 1996. Our scope included an evaluation of internal control; tests of revenue, expenditures and fixed assets; and a review of the transfer of the motor carrier and rail programs to the Department of Transportation.

Our report includes the following recommendations:

- Controls should be established to assure all companies that should be collecting and remitting telephone surcharges for the Residential Service Protection Fund are doing so.
- Internal controls over cash should be improved.
- Written policies and procedures should be expanded to include a description of the authority and responsibility for expenditures.
- Procedures should be established to assure that all travel claims reimbursed comply with appropriate Department of Administrative Services travel rules.
- Procedures should be established to assure compliance with the fixed asset controls required by the Oregon Accounting Manual.



## **INTRODUCTION**

### **ORGANIZATION AND FUNCTIONS**

The three-member Public Utility Commission (PUC) was created by a vote of the people in 1985. It replaced the previous single utility commissioner. Commission members are appointed by the governor, subject to Senate confirmation, to four year terms. The commissioners appoint a chairman, who serves in that capacity for a period of two years.

PUC is responsible for regulating investor-owned utilities and telecommunications utilities. Utilities are defined as any corporation, company, individual, or association that owns, operates, or controls facilities for the production, transmission, or delivery of heat, light, water or power. Telecommunications utilities provide telephone services. The commission's primary responsibility is to ensure that utility customers receive safe, reliable service at reasonable rates while allowing regulated companies an opportunity for fair return on their investments.

In addition to regulating utilities, PUC also administers the Residential Service Protection Fund (RSPF). This fund was established in 1987 to provide assistance with telephone bills to low-income Oregonians, and to provide telecommunication services for the hearing, speech, and mobility-impaired.

Prior to January 1, 1996, the Commission was also responsible for regulating the motor carrier and rail industries. The 1995 legislature voted to transfer those responsibilities to the Department of Transportation. That transfer was effected January 1, 1996.

### **FINANCIAL ACTIVITIES**

The Public Utility Commission receives revenue from assessments on utility companies, and from surcharges on telephone lines. Utility companies are assessed annually based on their gross revenues. By law, the fee is limited to .25 of one percent of gross operating revenues; during the audit period, the amount assessed was .20 of one percent.

The telecommunications surcharge which funds the Residential Service Protection Fund is statutorily limited to 35 cents per telephone line each month; during the audit period, the rate charged was 25 cents. During fiscal year 1995-96, revenue from utility assessments totaled approximately \$20 million, and revenue from telecommunications surcharges was about \$13 million.

## **SCOPE AND METHODOLOGY**

We reviewed internal controls at the Public Utility Commission and tested transactions for the period July 1, 1995 through June 30, 1996. The transactions were tested to evaluate the effectiveness of internal controls and compliance with laws and regulations.

Specifically, we:

- Reviewed cash reconciliations for timeliness and accuracy.
- Reviewed controls over receipts and revenue, and tested revenue transactions to determine whether transactions were supported and accurate.
- Tested expenditures for authorization, supporting documentation, and accuracy.
- Reviewed controls over accounting for fixed assets.
- Reviewed documentation for the transfer of the motor carrier and rail programs to the Department of Transportation for compliance with applicable law.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our review was limited to the areas specified in this section of the report.

## AUDIT RESULTS

### REPORT ON INTERNAL CONTROL

The management of the Public Utility Commission is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. The objectives of an internal control system are to provide management with reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with laws and regulations. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit, we obtained an understanding of internal control. With respect to the internal control system, we obtained an understanding of the design of relevant controls and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control system and its operation that we consider to be reportable conditions under the 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 internal controls that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report on financial data. The matters we consider to be reportable conditions are included in the FINDINGS AND RECOMMENDATIONS section of this report.

A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities may occur and not be

detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal controls that we consider to be material weaknesses as defined above.

**REPORT ON COMPLIANCE  
WITH LAWS AND  
REGULATIONS**

Compliance with laws and regulations applicable to the Public Utility Commission is the responsibility of the department's management. As part of our audit, we performed tests of PUC's compliance with certain provisions of laws and regulations related to selected transactions. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

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## **FINDINGS AND RECOMMENDATIONS**

### **Residential Service Protection Fund Revenues**

The Residential Service Protection Fund (RSPF) is supported by a monthly surcharge on telephone access lines, which was 25 cents at the time of our audit. The surcharge is collected by telecommunication utilities from all subscribers (except those who receive the benefits of RSPF programs) and remitted to PUC monthly.

PUC does not have a system in place to assure that all companies who should be paying the surcharge actually are paying it. While the primary telecommunication providers are well known, recent growth in the reselling of telecommunications service and in wireless service means there are additional providers that might be liable for collecting and remitting the RSPF surcharges. PUC monitors the payment history of identified telecommunication utilities to assure that they remit surcharge payments monthly. However, PUC does not have a system to identify companies that are providing services but not submitting payments of the surcharge. Information regarding possible providers of local service is available from primary telecommunication utilities that resell lines to other firms. Without a system of internal controls to identify which firms owe surcharges, PUC cannot be certain that it is collecting all the moneys owed to it.

In addition, PUC has no post-audit function in place to assure that companies who do pay are paying the correct amount, nor is there sufficient follow-up when payment errors are evident from the documents submitted with payment. For example, PUC identified one instance in which a firm paid double the rate per line, but did not follow-up when the company failed to correct the error. Further, there is no way to assure that companies are paying on the correct number of lines without auditing the company records. Because the RSPF charges are determined by the utility company, some type of post-audit function is needed to assure that the correct amount is being collected and remitted, and utility consumers are being neither over- nor under-charged.

**We recommend** that PUC establish controls to assure that all companies that should be collecting and remitting RSPF surcharges are identified. In addition, PUC should develop a post-audit system whereby the accuracy of payments submitted can be confirmed.

**AGENCY RESPONSE:**

*Audit staff recommends that PUC establish controls to assure that all companies that should be collecting and remitting RSPF surcharges are identified. In addition, PUC should develop a post-audit system whereby the accuracy of payments submitted can be confirmed.*

*PUC staff has begun the process of establishing controls to ensure all companies that should be collecting and remitting RSPF surcharges are identified. We are also developing a post-audit system to confirm the accuracy of payments submitted by the companies. We have been reviewing methods to identify potential service providers and are working with our telecommunications staff to develop a process for post audit. We expect to have a system in place to address these issues by December 31, 1997.*

**Internal Controls  
Over Cash**

We noted several areas where internal controls over cash could be improved:

- Cash reconciliations prepared during our audit period were not timely. Six of the twelve monthly reconciliations were prepared between 70 days and 194 days after month end. In addition, seven of the monthly reconciliations did not agree to cash balances on the books, and some reconciling items were carried in the reconciliations for the entire twelve months rather than being corrected. To be a useful control, cash reconciliations must be accurate and timely, and errors identified in the reconciliation process must be promptly corrected.
- Cash reconciliations during the audit period were prepared by the same person who picks up the mail, prepares the initial listing of receipts, and approves recording of cash receipt transactions in the accounting records. Further, the reconciliations were not subject to supervisory review. Adequate segregation of duties

would have no single person handling a cash transaction from beginning to end.

- Processing of daily mail receipts is appropriately segregated from other responsibilities over cash. However, counter receipts and receipts delivered by other divisions were brought to the individual who prepares the bank deposit. Good internal control requires the duties of receipt of payment be separated from those for the deposit of that payment.
- Checks were endorsed after being listed and forwarded for deposit, rather than immediately upon receipt. The Oregon Accounting manual requires that all checks be restrictively endorsed as soon as they are received.

**We recommend:**

- Delivery of counter payments and other non-mail receipts directly to the person responsible for the check control log.
- Segregation of the responsibility for cash reconciliation from other cash handling responsibilities.
- Supervisory review of all cash reconciliations for accuracy and reasonableness.
- Preparation of reconciliations promptly after month-end.
- Prompt correction of outstanding items identified in cash reconciliations.
- Endorsement of checks immediately upon receipt.

**AGENCY RESPONSE:**

*A number of recommendations were made in connection with internal controls.*

- 1. Delivery of counter payments and other non-mail receipts directly to the person responsible for the check control log.*
- 2. Segregation of the responsibility for cash reconciliation from other cash handling responsibilities.*
- 3. Supervisory review of all cash reconciliations for accuracy and reasonableness.*

4. *Correction of outstanding items identified in cash reconciliations promptly.*
5. *Endorsement of checks immediately upon receipt.*

*Staff agrees with these recommendations and has completed changes to all items, except number 4. Staff is currently correcting items identified in this point to ensure their accuracy.*

### **Authorization of Expenditures**

Four out of 58 (7 percent) of expenditure vouchers tested did not provide evidence the transactions were appropriately authorized. Also, PUC does not have a formal listing of employees who are authorized to approve expenditures. The Oregon Accounting Manual requires that an agency have policies and procedures describing the authority and responsibility for expenditures, and that there be satisfactory evidence disbursements are properly authorized.

We also noted authorizations for employee overtime were not being kept on file. PUC procedures require advance approval of overtime whenever possible, using an overtime authorization form.

**We recommend** PUC expand its policy and procedures manual to describe the authority and responsibility for expenditures. Management should establish a listing of persons authorized to approve expenditures and maintain that listing to validate authorizing signatures. Overtime authorization forms should be prepared (in advance whenever possible) and filed with the employee's time sheet, with a copy kept by the authorizing supervisor.

#### **AGENCY RESPONSE:**

*Audit staff recommends that PUC expand its policy and procedures manual to describe the authority and responsibility for expenditures and maintain a listing to validate authorizing signatures. Overtime authorization forms should be prepared (in advance whenever possible) and filed with the employee's time sheet, with a copy kept by the authorizing supervisor.*

*Staff is in the process of developing a method of identifying all authorized signatures. This should be complete by June 1, 1997. We have made changes in our procedures to require overtime authorization forms be prepared and filed with management and payroll staff as recommended.*

## Travel Expense Compliance

We noted instances in which travel expense reimbursement forms did not contain required documentation to support the amounts reimbursed.

Travel expense rules for state employees are established by the Department of Administrative Services. Those rules include the following requirements:

- If personnel are attending a conference or meeting and are staying at an official hotel/motel for that conference or meeting, actual lodging expenses will be reimbursed. If those actual expenses exceed the standard state lodging allowance, a notation and documentation are required on the expense reimbursement claim.
- Only one employee should attend an out-of-state meeting unless otherwise justified and approved by agency management and documented in the agency's travel records.
- Personnel making a claim for travel expenses must show the inclusive dates of each trip for which reimbursement is claimed and the times of departure and return.
- Room tax is reimbursed as a miscellaneous expense and is not included in the amount allowed for lodging.

We reviewed all of the year's travel expense reimbursements for 5 PUC employees, and noted one or more exceptions to each of the above rules. We found instances in which documentation was not available to support the employee staying at an official hotel that exceeded standard state rates. We noted several claims that did not include departure and arrival times. There was no documentation supporting management approval of an out-of-state conference attended by five PUC employees. Reimbursement of room tax was sometimes claimed as miscellaneous expense and sometimes as part of the room charge. We identified one instance in which room tax was reimbursed twice to an employee because it had been included in both the miscellaneous section of the travel

expense reimbursement form, and also as part of the room charge.

**We recommend** PUC establish procedures to assure that all travel claims reimbursed comply with appropriate Department of Administrative Services travel rules.

**AGENCY RESPONSE:**

*Audit staff recommends PUC establish procedures to assure that all travel claims comply with appropriate Department of Administrative Services travel rules.*

*Commission staff is setting up processes and training to identify authorization for more than one employee's attendance at an out-of-state meeting. This is to be completed by May 1, 1997. Initial training has already been conducted with agency travel coordinators reviewing DAS travel rules and proper completion of travel forms. Training included documentation and approval of lodging at "official" hotels, stating departure and arrival times, and room tax reimbursements. The training of agency coordinators will be ongoing.*

**Accountability for  
Fixed Assets**

PUC has not maintained complete accountability for its fixed assets. Although PUC staff told us an inventory of fixed assets had been performed during the year, there was no documentation available to support that inventory. Fixed asset reconciliations had not been prepared, and documentation on disposal of fixed assets was not always retained.

The Oregon Accounting Manual (OAM) requires a physical inventory of an agency's property be taken at least annually. Documentation that an inventory had been taken is to be retained in the agency's central accounting office. The OAM also requires quarterly reconciliations of capital outlay expenditures to property recorded in the subsidiary records, and quarterly reconciliations of the subsidiary records to the general ledger. In addition, the OAM requires a copy of each Property Disposition Request be kept in an agency control file.

**We recommend** PUC establish procedures to assure compliance with the fixed asset controls required by the Oregon Accounting Manual.

*AGENCY RESPONSE:*

*Audit staff recommends the PUC establish procedures to assure compliance with the fixed asset controls required by the Oregon Accounting Manual.*

*PUC Business Services staff has already implemented quarterly reconciliation of subsidiary records to the general ledger. It has also verified the capital outlay expenditures to the property listing and is establishing a reconciliation process. A physical inventory will be conducted prior to June 30, 1997.*

## **REPORT DISTRIBUTION**

This report is a public record and is intended for the Public Utility Commission and its management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

## **COMMENDATION**

The courtesies and cooperation extended by officials and employees of the Public Utility Commission during the course of our audit were very commendable and sincerely appreciated.

## **AUDIT TEAM**

Joel Leming, CPA, Audit Administrator  
Sheila Orton, CPA  
Chuck Hibner  
Jennifer Stinson