



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Public Service Regulation

*For the Two Fiscal Years Ended
June 30, 2012*

DECEMBER 2012

LEGISLATIVE AUDIT
DIVISION

12-26

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§5-13-202(2), MCA

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

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Reports can be found in electronic format at:
<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Department of Public Service Regulation for the two fiscal years ended June 30, 2012. This report contains no recommendations.

We thank the commissioners and department staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED AND ADMINISTRATIVE OFFICIALS

	<u>Term Expires</u>
Public Service Commission	
Travis Kavulla, Chair	January 2015
Gail Gutsche, Vice Chair	January 2013
Bill Gallagher	January 2015
Brad Molnar	January 2013
John Vincent	January 2013
 Administrative Officials	
Staci Litschauer, Administrator, Centralized Services Division	
Dennis Lopach, Administrator, Legal and Consumer Division	
Kate Whitney, Administrator, Regulatory Division	

For additional information concerning the Department of Public Service Regulation programs, contact:

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 Centralized Services Division
 Public Service Regulation
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 Helena, MT 59620-2601
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Public Service Regulation

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-26

REPORT SUMMARY

The Department of Public Service Regulation (department) is responsible for assuring the public receives safe, adequate, and economical utility and transportation services at just and reasonable rates under the direction of the Public Service Commission.

Context

In addition to assuring safe, adequate, and economical utility and transportation services, the department regulates certain public utilities, motor carriers, railroads, and pipelines within the state, and performs safety inspections of regulated activities under the direction of the Public Service Commission. The department's operating activity is subject to state regulation and grants received are subject to federal regulation.

The department is comprised of the Regulatory Division, Centralized Services Division, and Legal and Consumer Division. The department has 43 full-time equivalent (FTE) positions that include the five Commissioners and a Communications and Research Director. Commissioners are elected by district to serve four-year terms.

Most department funding comes from a tax on the gross operating revenue of regulated companies collected by the Department of Revenue. In fiscal year 2011 and 2012, this tax brought in \$4.2 million and \$3.5 million in revenue, respectively. The department also received federal grant funding of \$240,661 and \$184,888 in fiscal years 2011 and 2012, respectively.

Results

We audited the fiscal years 2010-11 and 2011-12 financial schedules and tested compliance with state laws and federal regulations. No findings resulted from our audit, and we make no recommendations to the department. The previous two audits also resulted in no recommendations to the department.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (12-26) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad hotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2012. The objectives of the audit were to:

1. Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine whether the department complied with selected state and federal laws and regulations.
3. Determine whether the department's financial schedules present fairly the financial position and the results of operations for the two fiscal years ended June 30, 2012.

We addressed these objectives by focusing our audit effort on reviewing revenues and expenditures related to personnel services, reimbursement activity such as for travel, and federal activity related to the Pipeline Safety Grant and American Recovery and Reinvestment Act (ARRA). We also reviewed the accounting records for any unusual activity. Throughout the audit, we reviewed and tested the department's control systems and determined compliance with selected state laws.

Background

The Department of Public Service Regulation operates under the direction of the Public Service Commission (commission). The commission consists of five voting members who are elected on a district basis and serve a term of four years. After each general election, one of the commissioners is elected by the commission to serve as chairman until the next general election. The chairman exercises authority on behalf of a majority of the commissioners. The department's responsibility is to assure the public receives safe, adequate, and economical utility and transportation services at just and reasonable rates. The department is responsible for the regulation of certain public utilities, motor carriers, railroads, and pipelines within the state.

The department has 43 full-time equivalent (FTE) positions that include five commissioners, a Communications and Research Director, and the following three divisions:

- ♦ The Regulatory Division exercises general control over public utilities, including rate determination and safety standards, and exercises general supervisory control over the activities of motor carriers and railroads (22 FTE).

- ♦ The Centralized Services Division provides administrative support to the department (7 FTE).
- ♦ The Legal and Consumer Division advises the commission on matters requiring a legal interpretation or opinion, represents the commission in legal proceedings, and assists with customer complaints and issues (8 FTE).

The department is primarily funded by a tax that is levied on regulated companies based on funding appropriated by the legislature for a specific fiscal year as required by §69-1-402, MCA. The tax is based upon a percentage of the gross operating revenue of all activities regulated by the commission for the calendar quarter of operation.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues, and Schedules of Total Expenditures of the Department of Public Service Regulation for each of the fiscal years ended June 30, 2012, and 2011. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Public Service Regulation for each of the fiscal years ended June 30, 2012, and 2011, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

October 29, 2012

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2011	\$ <u>0</u>	\$ <u>894,282</u>	\$ <u>0</u>
ADDITIONS			
Budgeted Revenues		45,466	184,888
Nonbudgeted Revenues	500	20,534	
Prior Year Revenues Adjustments			62
Direct Entries to Fund Balance	<u>(500)</u>	<u>3,582,007</u>	<u>184,950</u>
Total Additions	<u>0</u>	<u>3,648,007</u>	<u>184,950</u>
REDUCTIONS			
Budgeted Expenditures		3,325,708	184,950
Nonbudgeted Expenditures		<u>18,312</u>	
Total Reductions	<u>0</u>	<u>3,344,020</u>	<u>184,950</u>
FUND BALANCE: June 30, 2012	\$ <u>0</u>	\$ <u>1,198,269</u>	\$ <u>0</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2010	\$ <u>55,963</u>	\$ <u>0</u>
ADDITIONS		
Budgeted Revenues	37,838	240,606
Nonbudgeted Revenues	1,683	55
Direct Entries to Fund Balance	<u>4,214,147</u>	
Total Additions	<u>4,253,668</u>	<u>240,661</u>
REDUCTIONS		
Budgeted Expenditures	3,397,735	240,341
Nonbudgeted Expenditures	18,761	320
Prior Year Expenditures Adjustments	<u>(1,148)</u>	
Total Reductions	<u>3,415,348</u>	<u>240,661</u>
FUND BALANCE: June 30, 2011	\$ <u><u>894,283</u></u>	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES BY CLASS				
Licenses and Permits		\$ 13,090		\$ 13,090
Taxes			\$ 62	62
Charges for Services		33,681		33,681
Fines and Forfeits	\$ 500			500
Inception of Lease/Installment Contract		19,229		19,229
Federal			184,888	184,888
Total Revenues	<u>500</u>	<u>66,000</u>	<u>184,950</u>	<u>251,450</u>
Less: Nonbudgeted Revenues	500	20,534		21,034
Prior Year Revenues Adjustments			62	62
Actual Budgeted Revenues	<u>0</u>	<u>45,466</u>	<u>184,888</u>	<u>230,354</u>
Estimated Revenues		50,500	351,834	402,334
Budgeted Revenues Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (5,034)</u>	<u>\$ (166,946)</u>	<u>\$ (171,980)</u>
BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits		\$ 3,590		\$ 3,590
Charges for Services		(8,624)		(8,624)
Federal			\$ (166,946)	(166,946)
Budgeted Revenues Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (5,034)</u>	<u>\$ (166,946)</u>	<u>\$ (171,980)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES BY CLASS			
Licenses and Permits	\$ 8,285		\$ 8,285
Taxes	198	\$ 55	253
Charges for Services	31,038		31,038
Federal		240,606	240,606
Total Revenues	39,521	240,661	280,182
Less: Nonbudgeted Revenues	1,683	55	1,738
Actual Budgeted Revenues	37,838	240,606	278,444
Estimated Revenues	23,700	323,834	347,534
Budgeted Revenues Over (Under) Estimated	\$ 14,138	\$ (83,228)	\$ (69,090)
BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ (2,215)		\$ (2,215)
Charges for Services	16,353		16,353
Federal		\$ (83,228)	(83,228)
Budgeted Revenues Over (Under) Estimated	\$ 14,138	\$ (83,228)	\$ (69,090)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PROGRAM (ORG) EXPENDITURES	Public Service Regulation Program
Personal Services	
Salaries	\$ 2,205,884
Employee Benefits	667,321
Total	<u>2,873,205</u>
Operating Expenses	
Other Services	116,617
Supplies & Materials	32,746
Communications	51,288
Travel	100,122
Rent	237,183
Repair & Maintenance	3,882
Other Expenses	93,565
Total	<u>635,403</u>
Equipment & Intangible Assets	
Capital leases - equipment	14,282
Total	<u>14,282</u>
Debt Service	
Capital Leases	6,080
Total	<u>6,080</u>
Total Expenditures	<u>\$ 3,528,970</u>
EXPENDITURES BY FUND	
State Special Revenue Fund	\$ 3,344,020
Federal Special Revenue Fund	184,950
Total Expenditures	<u>3,528,970</u>
Less: Nonbudgeted Expenditures	18,312
Actual Budgeted Expenditures	<u>3,510,658</u>
Budget Authority	4,362,458
Unspent Budget Authority	<u>\$ 851,800</u>
UNSPENT BUDGET AUTHORITY BY FUND	
State Special Revenue Fund	\$ 382,642
Federal Special Revenue Fund	469,158
Unspent Budget Authority	<u>\$ 851,800</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Public Service Regulation Program
PROGRAM (ORG) EXPENDITURES	
Personal Services	
Salaries	\$ 2,333,101
Employee Benefits	690,757
Total	<u>3,023,858</u>
Operating Expenses	
Other Services	125,828
Supplies & Materials	35,410
Communications	67,759
Travel	78,502
Rent	226,821
Repair & Maintenance	5,058
Other Expenses	81,516
Total	<u>620,894</u>
Equipment & Intangible Assets	
Equipment	5,177
Total	<u>5,177</u>
Debt Service	
Capital Leases	6,080
Total	<u>6,080</u>
Total Expenditures	<u>\$ 3,656,009</u>
EXPENDITURES BY FUND	
State Special Revenue Fund	\$ 3,415,348
Federal Special Revenue Fund	240,661
Total Expenditures	3,656,009
Less: Nonbudgeted Expenditures	19,081
Prior Year Expenditures Adjustments	(1,148)
Actual Budgeted Expenditures	3,638,076
Budget Authority	4,516,266
Unspent Budget Authority	<u>\$ 878,190</u>
UNSPENT BUDGET AUTHORITY BY FUND	
State Special Revenue Fund	\$ 330,592
Federal Special Revenue Fund	547,598
Unspent Budget Authority	<u>\$ 878,190</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Public Service Regulation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2012

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue and Federal Special Revenue). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenues sources (other than private-purpose trust or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include a fund to account for general operating revenues and expenditures and a fund to account for Qwest performance monitoring.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds account for the Federal Natural Gas Safety Program and ARRA funds.

2. Direct Entries to Fund Balance

Direct entries to fund balance in the Special Revenue fund includes entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

The majority of the direct entries to fund balance in the State Special Revenue Fund relates to the collection of utility gross operating tax by the Montana Department of Revenue.

DEPARTMENT OF PUBLIC
SERVICE REGULATION

DEPARTMENT RESPONSE



MONTANA PUBLIC SERVICE COMMISSION

B-1

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Travis Kavulla, Chairman
Gail Gutsche, Vice-Chair
Bill Gallagher, Commissioner
Brad Molnar, Commissioner
John Vincent, Commissioner

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DEC 04 2012

LEGISLATIVE AUDIT DIV.

December 4, 2012

Tori Hunthausen, Legislative Auditor
Office of the Legislative Auditor
State Capitol Building, Room 160
PO Box 201705
Helena, Montana 59620-1705

Dear Ms. Hunthausen:

We have reviewed your Financial Compliance Audit completed for the two fiscal years ending June 30, 2012, and have no comments or exceptions to your report.

As chairman, I, on behalf of the Commission and staff, would like to take this opportunity to thank you and your staff of professional auditors for your hard work and careful examination during this audit. We always look upon the audit process as an opportunity to improve our operations and performance, and this year was no exception.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Kavulla", written over a horizontal line.

Travis Kavulla, Chairman
Montana Public Service Commission