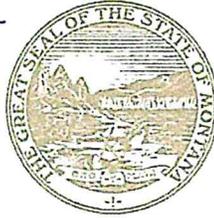


Montana Public Service Commission



Brad Johnson, Chairman
Bob Lake, Vice Chairman
Roger Koopman, Commissioner
Tony O'Donnell, Commissioner
Randall Pinocci, Commissioner

June 28, 2019

To: Chair Dee Brown, Vice Chair Denise Hayman, and members of the Legislative Audit Committee

From: Mandi Hinman, Administrator, Public Service Commission Centralized Services Division

RE: Public Service Commission Financial Audit Follow-Up Materials

Members of the Legislative Audit Committee:

As requested, please find the timeline relating to the six recommendations found in our audit report for fiscal years 2017 and 2018 respectively. Please do not hesitate to contact me if you would like further information or have questions relating to the enclosed materials. Thank you again for the time spent on our audit hearing.

Thank you,

A handwritten signature in blue ink that reads "Mandi Hinman".

Mandi Hinman, Administrator
Centralized Services Division
Montana Public Service Commission

CC: Angus Maciver, Legislative Auditor

Recommendation 1 - We recommend the Department of Public Service Regulation (PSC) develop and implement internal controls to ensure revenue estimates are accurate.

Agency Response: Concur

Corrective Action Plan: Errors that took place during the budget implementation phase have been identified. Steps have been taken to correct the revenue estimates for FY 2019 and to prevent these errors in future years.

Follow-Up Information/Corrective Action: The revenue estimate relating to our appropriation (to be collected by the Department of Revenue) is entered into the IBARS System for the PSC by the Department of Revenue (DOR). In this particular instance our Office of Budget and Program Planning (OBPP) Analyst, who was new to the process at that time, mistakenly entered our revenue estimate as well, resulting in two entries, which doubled our revenue estimates. This error that took place during the budget implementation phase has been identified and we will review our revenue estimates at the time they are entered to ensure that duplicate and/or incorrect entries are not made.

Recommendation 2 - We recommend the Department of Public Service Regulation develop and implement internal controls over note disclosure development.

Agency Response: Concur

Corrective Action Plan: The Department of Public Service Regulation has a CPA on staff, and will utilize this staff member's expertise in developing note disclosures for all future financial compliance audits.

Follow-Up Information/Corrective Action: As stated on page 5 of our audit report, traditionally the Centralized Services Division (CSD) staff have taken all responsibility for PSC financial audits. As I stated at our hearing, I have a new found understanding and appreciation for the process, and we will call upon appropriate department resources for assistance, including our CPA that we have on staff, to assist with preparing the notes to our financial schedules as well as calling upon the staff of the Department of Administration, Financial Services Division for assistance when necessary.

Recommendation 3 - We recommend the Department of Public Service Regulation develop and implement internal controls to ensure the completeness and accuracy of the rate charged and collected on the department's behalf.

Agency Response: Concur

Corrective Action Plan: We have met with the staff from the DOR and a plan has been agreed upon to allow the department to independently determine the completeness and accuracy of the fee charged and collected on behalf of the department. This process will take place each quarter leading up to the next year's calculation, which takes place in September of each year.

Follow-Up Information/Corrective Action: At our request, DOR will provide documentation that supports the cash collected each quarter by the utilities that we regulate. Documentation will be requested on January 31, April 30, July 31, and September 30 of each year.

Recommendation 4 - We recommend the Department of Public Service Regulation use controls as intended, to ensure timely reimbursement from the federal government.

Agency Response: Concur

Corrective Action Plan: This error has been identified, and will not happen during future requests.

Follow-Up Information/Corrective Action: We had been recording the expenses for the mid-year draw with the percentage factored in, rather than recording the full amount. Therefore, when the Pipeline and Hazardous Materials Safety Administration (PHEMSA) folks applied the percentage, the percentage was taken again, therefore, the percentage was factored in twice. This error has been identified, and will not happen during future requests.

Recommendation 5 - We recommended the Department of Public Service Regulation comply with state accounting policy by recording federal revenue, expenditures, and receivables in the fiscal year when the revenue is earned and expenditures are incurred.

Agency Response: Concur

Corrective Action Plan: Steps have been taken since the last audit to ensure that the necessary appropriation and cash are available to record expenditures in the fiscal year when the expenditures are incurred.

Follow-Up Information/Corrective Action: Anytime we are dealing with our federal grant, due to the timing of us receiving the cash, we are dealing with estimates only (fiscal year end=estimate; actual award receipt =actual cash). We will be more careful and thoughtful in estimating our federal award amounts at each fiscal year end, so the transactions can be recorded in the current year, rather than as a prior year expenses, and as accurately as possible.

Recommendation 6 - We recommended the Department of Public Service Regulation comply with state law when contracting with consultants hired to evaluate a public utility's electric supply resource procurement plans and proposed electricity supply resources by:

- A. Charging the utility a fee as required, and
- B. Recording the related revenues and expenditure in the State Special Revenue Fund.

Agency Response: Concur

Corrective Action Plan: All future situations in which this item is to occur, the department will comply with A and B above.

Follow-Up Information/Corrective Action: We knew going into this situation that we would not have the appropriation to cover these pass through expenses. Although the PSC does occasionally hire outside counsel, it is even rarer that the utility pay the cost for that outside counsel. Going forward, we will be prepared for when this situation may arise again, and will take the proper measures to follow proper procedure.