

North Dakota Office of the State Auditor

PUBLIC SERVICE COMMISSION

Audit Report for the Biennium Ended June 30, 2019

Client Code 408



North Dakota State Auditor
Joshua C. Gallion



Why We Conducted this Audit

The purpose of this audit was to determine if financial transactions including expenditures were made in accordance with law and appropriation requirements.

What We Found

The audit identified one exception or default.



Lack of Blanket Bond Coverage

The Public Service Commission was not protected against potential losses incurred by unlawful or dishonest activity on the part of employees.
See page 2.

KEY PERSONNEL

State Auditor's Office Staff

Allison Bader, MBA, Audit Manager
Kristi Morlock, MBA, Audit Supervisor
Holly Runia, Lead Auditor
Richard Fuher, CPA, MBA, Senior Auditor
Paige Chapman, M.Acc, Auditor

Client Staff Contacts

Brian Kroshus, Commissioner
Julie Fedorchak, Commissioner
Randy Christmann, Commissioner
Steven Kahl, Executive Secretary
Jill Kringstad, CPA, Accounting Budget Specialist

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

September 9, 2019

The Honorable Brian Kroshus, Chairman of the Public Service Commission

We are pleased to submit this audit of the Public Service Commission for the biennium ended June 30, 2019. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Additionally, whenever possible additional audit objectives are included to increase responsiveness and effectiveness of state government.

Allison Bader was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Commissioner Kroshus and the Public Service Commission staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

cc: Legislative Audit and Fiscal Review Committee
Chris Kadrmas, Legislative Council Fiscal Analyst

Audit Results

Statutory Audit Requirements

The objective related to our statutory audit requirements is:

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conclusion

The Public Service Commission complied with law and appropriation requirements except for blanket bond coverage. See Finding 19-01.

Background Information and Results

Audit procedures included testing compliance with appropriation laws, evaluating the adequacy of blanket bond coverage, and performing various tests of compliance involving procurement and expenditures. Exceptions were noted for lack of blanket bond coverage which can be found in Finding 19-01.

Lack of Blanket Bond Coverage (Finding 19-01)

Condition:

The Public Service Commission did not have blanket bond coverage starting on January 1, 2018 through May 31, 2019. The Public Service Commission collected \$8,042,168 in revenue from January 1, 2018 until May 31, 2019. Blanket bond coverage is determined based on revenue collected by the Public Service Commission in addition to cash and investments.

Criteria:

North Dakota Century Code section 26.1-21-10(1) states each state agency shall apply to be bonded in the state bonding fund no less often than on a biennial basis or when a change in coverage is requested, whichever occurs first.

According to “Standards for Internal Control in the Federal Government”, ongoing monitoring should be built into the entity’s operations, performed continually, and responsive to change. Management should identify changes in the internal control system that either have occurred or are needed because of changes in the entity and its environment. (GAO-14-704G para. 16.04,16.10)

Cause:

The Public Service Commission was not aware of the blanket bond coverage lapse. Proper controls were not in place to ensure renewal of blanket bond coverage was completed.

Effect or Potential Effect:

The Public Service Commission was not protected against potential losses incurred by unlawful or dishonest activity on the part of employees.

Recommendation:

We recommend the Public Service Commission obtain blanket bond coverage and ensure that coverage is renewed on a biennial basis.

Agency Response:

We agree with the recommendation and have put a control in place to rectify this issue. We have listed the contact email address as a group PSC email that notifies multiple individuals. We believe this change will prevent future issues for renewal.

Internal Control

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified a deficiency in internal control that was significant within the context of our audit objectives and based upon the audit work performed. This deficiency is identified in Finding 19-01.

Scope

This audit of the Public Service Commission is for the biennium ended June 30, 2019.

The Public Service Commission's sole location is its Bismarck office which was included in the audit scope.

Methodology

To meet this objective, we:

- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the Public Service Commission's processes and procedures.

- Inspected documentary evidence.
- Tested compliance with appropriation laws and regulations. Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively and if laws were being followed consistently.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a sample of high-risk transactions, including expenditures purchased under state procurement laws and operating expenditures, for further testing. Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively and if laws were being followed consistently.

In aggregate, there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Authority and Standards

This biennial performance audit of the Public Service Commission has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$ 3,926,840	\$ 3,872,617
Licenses, Permits, Fees, and Fines	2,138,995	1,920,764
Interest and Investment Earnings	46,178	25,821
Miscellaneous Revenue	7,231	76,397
Transfers In	232,182	385,000
Total Revenues and Other Sources	<u>\$ 6,351,426</u>	<u>\$ 6,280,599</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 4,559,238	\$ 4,654,184
Professional Fees and Services	2,869,457	3,271,432
Refunds	594,977	1,184,688
Travel	260,936	274,768
Supplies	161,374	61,520
IT Data Processing and Communications	99,939	99,221
Equipment	99,924	6,892
Repairs	83,911	20,593
Operating Fees and Services	79,948	73,810
Professional Development	62,457	39,735
Rent	45,936	51,775
Miscellaneous Expenses	9,686	9,811
Grain Elevator Insolvency Payments		321,212
Transfers Out	6,821	8,804
Total Expenditures and Other Uses	<u>\$ 8,934,604</u>	<u>\$ 10,078,445</u>

* Statement includes revenues and expenditures within appropriated funds and funds with continuing appropriations.

Source: ConnectND Financials

Statement of Appropriations

For the Biennium Ended June 30, 2019

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Wages	\$ 9,197,284	\$ 8,737,987	\$ 459,297
Operating Expenses	1,829,826	1,391,712	438,114
Capital Assets	10,000	9,988	12
Grants	20,000	15,625	4,375
AML Contractual Services	6,000,000	4,149,243	1,850,757
Rail Rate Complaint Case	900,000		900,000
Reclamation & Grain Litigation	530,000	47,182	482,818
Railroad Safety Program	564,668	550,468	14,200
Total	<u>\$ 19,051,778</u>	<u>\$ 14,902,205</u>	<u>\$ 4,149,573</u>
Expenditures by Source:	Final Appropriation	Expenditures	Total
General	\$ 6,630,762	\$ 6,174,127	\$ 456,635
Other	12,421,016	8,728,078	3,692,938
Total	<u>\$ 19,051,778</u>	<u>\$ 14,902,205</u>	<u>\$ 4,149,573</u>

Source: ConnectND Financials

You may obtain audit reports on the internet at:

www.nd.gov/auditor

or by contacting the Office of the State Auditor at:

Email: ndsao@nd.gov

Phone: (701) 328-2241

Office of the State Auditor

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