



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Public Service Commission

For the Biennium Ended June 30, 2021

Client Code 408





WHAT WE LOOKED AT AND WHY

North Dakota state law requires our team to identify any errors, internal control weaknesses, or potential violation of law in high-risk or significant functions of the agency.

WHAT WE FOUND

This audit did not identify any areas of concern.

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KEY PERSONNEL

Allison Bader
MBA, AUDIT MANAGER

Lindsey Schneider
AUDITOR

HAVE QUESTIONS? ASK US.

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Introduction

Public Service Commission

September 15, 2021

We are pleased to submit this audit of the Public Service Commission for the biennium ended June 30, 2021. 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. 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 the Public Service Commission staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

ConnectND: The accounting system for North Dakota.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusion to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency?

CONCLUSION

Our audit did not identify any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency.

INTERNAL CONTROL

As required by auditing standards, we planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. Specifically, our work related to internal control included the following components and underlying principles based on guidance issued by the U.S. Government Accountability Office.

COMPONENT: CONTROL ENVIRONMENT

Principal: Management should demonstrate a commitment to recruit, develop, and retain competent individuals.

COMPONENT: CONTROL ACTIVITIES

Principal: Management should design control activities to achieve objectives and respond to risks.

The specific internal control testing completed for this audit objective is identified below:

- Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Annual Comprehensive Financial Report.

- Selected a random sample of expenditures and inspected proper level of procurement training was completed by the purchasing employee.

- Selected random sample of state purchase card expenditures and inspected that related receipts were approved by the appropriate Division Director.

- Analyzed and selected high-risk and random sample of operating expenditures to ensure purchases were approved by the appropriate Division Director.

There were no deficiencies identified.

SCOPE

The audit of the Public Service Commission is for the biennium ended June 30, 2021.

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

METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population where appropriate.

- Interviewed appropriate agency personnel.

- Observed the Public Service Commission's processes and procedures.

- Inspected documentary evidence.

- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.

- Analyzed and tested expenditures to determine the Public Service Commission did not expend more than appropriated. (N.D.C.C. 54-16-03).
 - 2019 Session Laws Senate Bill 2008 Section 1.
- Analyzed accounts charged to each appropriation class to determine that expenditures were not charged to an inappropriate class to circumvent appropriation spending authority. (N.D.C.C. 54-16-03).
- Reviewed non-appropriated fund activity to ensure the Public Service Commission had legislative approval for non-appropriated expenditures. (N.D.C.C. 54-44.1-09).
 - Siting Process Recovery Fund (N.D.C.C. 49-22-22).
 - Public Service Commission Valuation Fund (N.D.C.C. 49-02-02(6), N.D.C.C. 49-21-01.7(6)).
 - Credit Sale Contract Indemnity Fund (N.D.C.C. 60-10-02).
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines. Evaluated blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10 (1)).
- Verified Public Service Commission spent \$77,358 of the available \$100,000, or so much of the sum as may be necessary, to pay expenses related to grain insolvency litigation. Analyzed and selected high-risk and random sample of expenditures to ensure expenses were related to grain insolvency litigation. (2019 North Dakota Session Laws Senate Bill 2008 Section 4).
- Verified Public Service Commission received transfer of \$294,509 in FY2020 and FY2021 into the Rail Safety Fund from special fuel excise taxes collected on sale of diesel fuel to a railroad. (2019 North Dakota Session Laws Senate Bill 2008 Section 6).
- Analyzed and selected random and high-risk samples of revenue, refund, and expenditure transactions related to special funds to ensure charges were in accordance with fund restrictions, accurate recording of payments in the

- state's accounting system related to appropriation class, funds, and account, and reasonableness of purchase.
 - Public Utility Evaluation Fund (N.D.C.C. 49-02-02(6), N.D.C.C. 49-21-01.7).
 - Siting Process Recovery Fund (N.D.C.C. 49-22-22).
 - Rail Safety Fund (N.D.C.C. 57-43.2-19).
- Selected a random sample of expenditures to ensure goods and services were properly procured. (N.D.C.C. Chapter 54-44.4-05, N.D.C.C. 48-01.2, N.D.A.C. Article 4-12, and OMB State Procurement Manual guidelines).
- Selected a random sample of purchase card expenditures to ensure receipts support individual purchase card charges and the purchase was reasonable related to the function of the agency.
- Selected a high-risk and random sample of operating expenditures to test accurate recording of payments in the state's accounting system related to appropriation class, funds, and account, and reasonableness of purchase. (N.D.C.C. 54-44.1-09, N.D.C.C. 44-08-05).

AUTHORITY AND STANDARDS

This biennial 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. 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 standards used to evaluate internal control are 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).



Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

Revenues, expenditures and appropriation information was not prepared by the Public Service Commission in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

2. WAS THERE COMPLIANCE WITH STATUTES, LAWS, RULES, AND REGULATIONS UNDER WHICH THE AGENCY WAS CREATED AND IS FUNCTIONING?

Yes.

3. WAS INTERNAL CONTROL ADEQUATE AND FUNCTIONING EFFECTIVELY?

Yes. We did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

4. WERE THERE ANY INDICATIONS OF LACK OF EFFICIENCY IN FINANCIAL OPERATIONS AND MANAGEMENT OF THE AGENCY?

No.

5. HAS ACTION BEEN TAKEN ON FINDINGS AND RECOMMENDATIONS INCLUDED IN PRIOR AUDIT REPORTS?

Public Service Commission has implemented the recommendation included in the prior audit report.

6. WAS A MANAGEMENT LETTER ISSUED? IF SO, PROVIDE A SUMMARY BELOW, INCLUDING ANY RECOMMENDATIONS AND THE MANAGEMENT RESPONSES.

No, a management letter was not issued.



LAFRC Audit Communications

7. IDENTIFY ANY SIGNIFICANT CHANGES IN ACCOUNTING POLICIES, ANY MANAGEMENT CONFLICTS OF INTEREST, ANY CONTINGENT LIABILITIES, OR ANY SIGNIFICANT UNUSUAL TRANSACTIONS.

There were no significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

8. IDENTIFY ANY SIGNIFICANT ACCOUNTING ESTIMATES, THE PROCESS USED BY MANAGEMENT TO FORMULATE THE ACCOUNTING ESTIMATES, AND THE BASIS FOR THE AUDITOR'S CONCLUSIONS REGARDING THE REASONABLENESS OF THOSE ESTIMATES.

The Public Service Commission's revenues, expenditures and appropriation information does not include any significant accounting estimates.

9. IDENTIFY ANY SIGNIFICANT AUDIT ADJUSTMENTS.

Significant audit adjustments were not necessary.

10. IDENTIFY ANY DISAGREEMENTS WITH MANAGEMENT, WHETHER OR NOT RESOLVED TO THE AUDITOR'S SATISFACTION RELATING TO A FINANCIAL ACCOUNTING, REPORTING, OR AUDITING MATTER THAT COULD BE SIGNIFICANT TO THE FINANCIAL STATEMENTS.

None.

11. IDENTIFY ANY SERIOUS DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT.

None.

12. IDENTIFY ANY MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION.

This is not applicable for audits conducted by the Office of the State Auditor.

13. IDENTIFY ANY MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS ABOUT AUDITING AND ACCOUNTING MATTERS.

None.

14. IDENTIFY ANY HIGH-RISK INFORMATION TECHNOLOGY SYSTEMS CRITICAL TO OPERATIONS BASED ON THE AUDITOR'S OVERALL ASSESSMENT OF THE IMPORTANCE OF THE SYSTEM TO THE AGENCY AND ITS MISSION, OR WHETHER ANY EXCEPTIONS IDENTIFIED IN THE SIX AUDIT REPORT QUESTIONS TO BE ADDRESSED BY THE AUDITORS ARE DIRECTLY RELATED TO THE OPERATIONS OF AN INFORMATION TECHNOLOGY SYSTEM.

ConnectND Finance and Human Capital Management (HCM) are high-risk information technology systems significant to the audit objective.

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2021	JUNE 30, 2020
Federal Revenue	\$ 4,209,332	\$ 3,827,637
Licenses, Permits, Fees, and Fines (Net of Refunds)	125,668	1,166,755
Miscellaneous and Other Revenue	75,407	25,074
Transfers In	299,958	366,418
Total Revenue and Other Sources	\$ 4,710,365	\$ 5,385,884

EXPENDITURES AND OTHER USES	JUNE 30, 2021	JUNE 30, 2020
Salaries and Benefits	\$ 4,688,447	\$ 4,430,736
Professional Fees and Services	2,424,212	2,475,360
Travel	225,740	186,831
Supplies	179,360	83,631
IT Data Processing/Communications	112,524	101,890
Equipment	83,669	22,866
Repairs	71,546	10,204
Operating Fees and Services	54,032	52,100
Rent	45,040	45,000
Professional Development	43,129	21,397
Miscellaneous Expenses	15,915	10,872
Transfers Out	7,739	4,502,756
Total Expenditures and Other Uses	\$ 7,951,353	\$ 11,943,643

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

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2021

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Expenditures by Line Item			
Salaries and Wages	\$ 9,495,560	\$ 8,653,658	\$ 841,902
Operating Expenses	1,763,826	\$1,281,817	482,009
Capital Assets	25,000	\$24,458	542
Grants	20,000	\$15,900	4,100
AML Contractual Services	6,000,000	3,619,693	2,380,307
Rail Rate Complaint Case	900,000	-	900,000
Railroad Safety Program	589,018	503,314	85,704
Specialized Legal Services	430,000	7,306	422,694
Grain Insolvency Litigation	100,000	77,358	22,642
Totals	\$ 19,323,404	\$ 14,183,504	\$ 5,139,900

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Expenditures by Source			
General	\$ 6,714,928	\$ 6,184,746	\$ 530,182
Other	12,608,476	7,998,758	4,609,718
Totals	\$ 19,323,404	\$ 14,183,504	\$ 5,139,900

Source: ConnectND Financials



Status of Prior Recommendations

Inadequate Procedures Surrounding Revenue Collections (Finding 19-01)

Implemented

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

Status: Implemented. Public Service Commission obtained adequate blanket bond coverage and has maintained it.



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
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