AUDITOR GENERAL

WILLIAM O. MONROE, CPA

PUBLIC SERVICE COMMISSION

REGULATORY ASSESSMENT FEE AND OTHER MATTERS

Operational Audit

Summary

The audit of the Public Service Commission (PSC) focused on the regulatory assessment fee (RAF) rate that primarily funds PSC's regulatory operations and the Division of Consumer Affairs' "Call Center" operations related to consumer assistance. The audit included the period July 2001 through February 2003.

As summarized below, improvements need to be made by PSC management to ensure that regulatory costs are adequately funded and equitably distributed, audit resources are effectively expended, customer satisfaction measures are established, and legal provisions correspond to PSC's regulatory authority and organizational structure.

Finding No. 1: PSC management has not adjusted RAF rates over time for certain industries and sub-industries. Overall, this resulted in the accumulation of a significant cash balance in the Regulatory Trust Fund. Additionally, the positive cash balances accumulated for certain sub-industries have been used to subsidize industries or sub-industries whose annual RAFs have not covered regulatory costs or that continue to experience annual deficit cash balances.

Finding No. 2: In the event the PSC loses jurisdiction over significant water and wastewater utilities, the current maximum RAF rate allowed by law for funding water and wastewater utilities regulation may produce insufficient revenues to fund current regulatory costs, absent reductions in applicable regulatory costs.

Finding No. 3: Improvements in accounting for employee work time would promote a more equitable distribution of regulatory costs to the industries or sub-industries.

Finding No. 4: The Bureau of Auditing did not always employ a methodology for selecting companies for RAF audits that maximized the effective use of audit resources.

Finding No. 5: Contrary to the Florida Customer Service Standards Act, the PSC has not developed a customer satisfaction measure as part of its performance measurement system and, consequently, has not provided statistical data on customer satisfaction measures to external users of annual reports or other performance publications.

Finding No. 6: Certain provisions in Chapter 350, Florida Statutes, relating to railroads and the position of chief auditor no longer correspond to the Commission's regulatory authority and organizational structure. Additionally, the maximum regulatory assessment rates allowed are different than those specified in related statutes.

Background

The PSC is charged by statute with the regulation of (1) all investor-owned electric and gas, and telecommunications utilities in the State and (2) privately-owned water and wastewater utilities in those counties that have opted to transfer jurisdiction to PSC. PSC also has limited jurisdiction over rural electric cooperatives, municipally owned electric utilities, and municipally owned gas utilities. The number of companies regulated by PSC as of February 28, 2003, totaled 1,922 as shown on Exhibit A.

PSC is composed of five Commissioners appointed to four-year terms by the Governor from nominees recommended by the Florida Public Service Commission Nominating Council in accordance with the Florida Statutes.

The PSC Executive Director advises the Commission on all technical and policy matters under its jurisdiction and, in coordination with the Office of General Counsel, serves as the Commission's liaison with Federal and State agencies and the Florida Legislature. The Executive Director also has authority over all PSC divisions and offices, except the Offices of General Counsel and Inspector General, and directs activities, in part, through a Deputy Director.

The operations of the PSC are primarily funded by the RAF collected from the companies regulated by the PSC and deposited in the Regulatory Trust Fund pursuant to Chapter 350, Florida Statutes. For the 2001-02 fiscal year, PSC reported $30.5 million in RAF, as shown on Exhibit A.

Chapters 350, 364, 366, and 367, Florida Statutes, establish the maximum RAF rates, and PSC rules set the RAF rates currently assessed each regulated company-type, as shown on Exhibit A.

Section 350.113(3), Florida Statutes, requires that RAF, to the extent practicable, be related to the cost of regulating the type of regulated company. Through the language in this law, the Legislature has directed the PSC to implement a fee structure which, to the extent possible, is related to the costs of regulating each particular company-type.

Finding No. 1: Regulatory Trust Fund

The PSC generally accounts for revenues, expenditures, and employee time by sub-industry except for water and wastewater utilities. According to PSC records, the Regulatory Trust Fund cash balance at June 30, 2002, was approximately $18 million.[1] Our review of PSC cash balance records for the last five fiscal years (1997-98 through 2001-02) disclosed that the investor-owned electric and local exchange telecommunication sub-industries show large surplus cash balances while certain other sub-industries consistently showed deficit cash balances. An example of the implications of this situation is the local exchange telecommunications sub-industry cumulative operating surplus of $25 million at June 30, 2002. PSC has used this surplus to subsidize the unfunded cost of regulating other telecommunication sub-industries and, similarly, may have used it to subsidize the gas industry, as shown on Exhibit B.

Three key financial-related elements to appropriately assessing fees to recover regulatory costs by industry are:

- Effective utilization of the accounting and employee-time tracking systems to capture data by sub-industry;
- A reasonable methodology for allocating both direct and indirect costs; and
- A process to identify an appropriate rate structure by industry or sub-industry.

Our review of RAF rate changes and comparison of the current RAF rates charged to the statutory maximums, shown on Exhibit A, disclosed that:

[1] After Legislatively directed transfers totaling $5,000,000. See Exhibit B for details.

- Rates have not been adjusted for over 10 years, except for investor-owned electric and gas.
- Rates for three sub-industries with cash deficits are at the statutory maximum (municipal electric, rural electric cooperatives, and investor-owned gas).
- The PSC does not have statutory authority to establish a funding mechanism for one sub-industry (gas pipeline), as discussed below.

The PSC has developed an annual review process and a complex, multi-step methodology to assess RAF and allocate costs between regulated industries and sub-industries. Ultimately, the Executive Director receives a memorandum describing the results of the analysis of RAF and regulatory costs of each industry and sub-industries and a recommendation regarding RAF rate revisions, if any. Memoranda were prepared in the 2000 and 2001 calendar years, but not in the 2002 calendar year. Our review of the two memoranda disclosed the following:

- The November 2000 memorandum recommended RAF rate decreases for the investor-owned electric and local exchange telecommunications sub-industries (those with the largest cash balances); however, the recommendations were not implemented by PSC management. As a result, collections of RAF continued to increase for these sub-industries, as shown on Exhibit A.
- The November 2001 memorandum indicated that the investor-owned electric RAF rate was still too high but recommended delaying a rate-reduction decision until March 2002 due to the impact of September 11, 2001, a downturn in tourism, and uncertainty about the State's economy. However, the recommended rate reduction was not reevaluated in March 2002. Absent a RAF reduction, reported revenue increased by approximately $1 million or 13 percent during the 2001-02 fiscal year. No RAF rate adjustment was recommended for the telecommunication industry because of litigation pending before the Supreme Court of Florida.
- For the sub-industries with cash balance deficits (see Exhibit B), neither memorandum made recommendations to increase RAF rates. The memoranda indicated that the investor-owned gas RAF rate had been increased in the prior year to the statutory maximum and that the increase was projected to cover the regulatory cost of the industry in the near future (although not eliminate cash deficits). Also, since companies that connect to an interstate gas pipeline[2] were not subject to a RAF, no recommendations were made on how to recover related regulatory costs.

The failure to periodically adjust RAF rates has resulted in the accumulation of a significant cash balance in the Regulatory Trust Fund and the subsidization of regulatory costs for those sub-industries that generate insufficient RAF or continue to experience annual deficit cash balances. A similar finding was noted in audit report No. 13107 dated December 16, 1997. We recognize that it may not be practicable for RAF collections to equal the costs of regulation on a yearly basis; however, over time the RAF collections within each sub-industry should approximate the cost of regulating that sub-industry.

Recommendation

PSC management should consider the following:

- **For sub-industries with insufficient annual RAF or recurring cash deficits, review regulatory functions to determine if cost reductions can be made where practicable.**
- **Approve periodic adjustments to the RAF rates, where practicable, after appropriate cost reductions have been made, to ensure that revenues approximate the cost of the regulatory functions. As part of the decision to adjust RAF, PSC personnel**

[2] An interstate Federal gas pipeline enters the State from which lateral pipelines are connected. These lateral pipelines do not meet the definition of an intrastate gas pipeline pursuant to Chapter 368, Part II, Florida Statutes. Therefore, a RAF is not assessed to the companies that own the laterals. However, PSC incurs regulatory costs related to the pipeline since the laterals (104) must have safety inspections.

should determine a reasonable cash operating reserve necessary to ensure continuity of the regulatory functions. If no adjustments are deemed necessary, PSC management should document, as a matter of public record, the reasons for not taking any action.

- **Seek amendments to Chapters 350 and 366, Florida Statutes, to increase the maximum RAF rates for the municipal and rural electric sub-industries and investor-owned gas sub-industry, respectively, to provide an opportunity for revenue increases in the absence of a cost reduction associated with these sub-industries.**

Finding No. 2: Water/Wastewater Assessment Fee Revenue

As of February 2003, the PSC regulated 226 water and wastewater utilities and assessed a RAF rate of 4.5 percent of specifically defined gross utility revenues, which is the legal maximum rate allowed.[3] For the 2001-02 fiscal year, the PSC reported $7.1 million in total water and wastewater utilities RAF revenue. As of June 2002, the cash balance for water and wastewater utilities totaled $3.6 million.

As described in the Background section, the PSC regulates privately owned water and wastewater utilities in counties where the Board of County Commissioners has officially transferred jurisdiction. However, the PSC does not have jurisdiction over water and wastewater utilities owned by separate legal entities created by municipalities and counties.[4] The following situations are indicative of revenue fluctuations associated with jurisdictional changes:

- In December 2001, United Water Florida Incorporated (UWF), a major water and wastewater utility, was sold to the Jacksonville Electric Authority and is no longer under PSC jurisdiction. The RAF paid by UWF in the 2000-01 fiscal year totaled $1.37 million, which represented 20 percent of the total RAF for the water and wastewater utilities reported for that fiscal year.
- The Florida Water Services Corporation (FWS) has recently announced the sale of the majority of its assets to Florida governmental entities. Remaining water systems will also be sold to other governmental entities or private buyers. The impact on future PSC revenues is dependent on what type of entity buys the systems, the terms and conditions of the sale, and how jurisdictional authority is assigned. When sold to local governments or public authorities, the PSC will likely no longer have jurisdiction. However, if some of FWS's systems are sold to private utilities, PSC jurisdiction over those systems would continue. The RAF paid by FWS's companies[5] in the 2000-01 fiscal year totaled $2.14 million or 31 percent of the total reported RAF for water and wastewater utilities for that fiscal year.

Regulatory activity fluctuates throughout the year based on the size of the utility and the nature and frequency of the regulatory activities. Even with the loss of regulatory responsibilities for FWS water and wastewater companies, PSC personnel indicated that PSC workload would not decrease significantly since FWS makes one annual filing of reports and other information for all of its systems and has infrequent rate cases.

Our review, using PSC data, disclosed that a deficit cash balance within the Regulatory Trust Fund could occur in the near future for the water and wastewater industry if PSC lost jurisdiction over several systems, such as those of the FWS. Such an occurrence would cause PSC to be in noncompliance with the Florida Statute which prohibits the use of fees collected from other regulated industries to pay the regulatory costs of water and wastewater systems.[6] Since the currently assessed water and wastewater RAF rate is at the

[3] Section 367.145(1), Florida Statutes.

[4] Section 163.01(7)(g)1., Florida Statutes.

[5] 20 water and 17 wastewater companies.

[6] Section 367.145(3), Florida Statutes.

statutory maximum, the PSC has no legal authority to utilize future rate increases to ensure legal compliance by avoiding a cash deficit position.

Recommendation

The PSC should carefully examine its cost structure and cost allocation methodology to ensure that only necessary and appropriate regulatory costs are allocated to this industry (see Finding No. 3 related to cost allocations). Absent a cost reduction solution, we recommend that the PSC seek an amendment to Section 367.145(1), Florida Statutes, to increase the maximum water and wastewater RAF rate in order to timely recover applicable regulatory activity costs.

Finding No. 3: Employee Work Time

PSC uses TimeDIRECT, an automated time reporting system, to accumulate employee work hours spent on regulatory and support activities. Employee time serves as the basis for cost allocation procedures utilized to assign regulatory costs to each applicable industry, sub-industry, and activity group. PSC established a TimeDIRECT Manual (Manual) that provides employees with guidelines for recording time by industry, sub-industry, and activity. The Manual defines direct time as time that can be attributed to a specific sub-industry and indirect time as time that cannot be attributed to a specific sub-industry.

The Manual instructs employees to charge as much direct time as is reasonably possible and accurate. However, the following PSC divisions and offices are instructed to charge work hours as indirect time:

- Commissioners and their immediate staff and Scheduling Coordinator;
- Executive Director, Deputy Director, and Inspector General's Offices;
- Division of Commission Clerk and Administrative Services; and
- Division of Consumer Affairs' work time related to the handling and processing of consumer complaints, which cannot be charged to direct.

The allocation of PSC total operating costs for each fiscal year is based on the percentage of time charged directly to each sub-industry after reallocation of indirect time based on direct time charged. For the 2001-02 fiscal year, PSC operating costs of $26.3 million were allocated to the sub-industries, as shown below:

Sub-Industry	Total Hours Charged	Revised Direct Hours %	Allocated Operating Costs (1)
Telecommunications	151,979	37.22%	$ 9,800,926
Water and Wastewater	94,126	23.05%	6,072,256
Investor-Owned Electric	134,733	33.00%	8,690,067
Municipal Electric	1,907	0.47%	122,367
Rural Electric Coop.	2,883	0.71%	185,354
Investor-Owned Gas	18,872	4.62%	1,217,532
Municipal/District Gas	3,183	0.78%	205,182
Gas Pipelines	602	0.15%	38,735
Direct Sub-Total	408,285	100.00%	$ 26,332,419
Indirect Time (2)	247,951		
Total	656,236		

(1) Does not include transfers allocated to a specific industry.

(2) For the 1999-00 through 2001-02 fiscal years, indirect hours ranged from 37 to 38 percent of the total hours charged by PSC staff.

When significant quantities of indirect hours exist that could have legitimately been charged to sub-industries, allocated regulatory costs will be misstated and adversely affect RAF rate analysis. Our review disclosed instances in which indirect time should not have been charged pursuant to the Manual; areas in which direct time would be more appropriate than current Manual instructions; or, in certain instances, a more effective method of allocating indirect time should be considered. Examples of TimeDIRECT related issues noted were:

- The Office of Public Information (OPI) consists of three full-time employees whose responsibilities include specific activities that direct work time could be charged to a particular sub-industry, such as: (1) compiling and relaying information about PSC's activities to local, State, and Federal agencies and media representatives; and (2) assisting the Commissioners with presentations and meetings. For the 2001-02 fiscal year, staff in

OPI charged 3,375 indirect hours, which is 97 percent of the total hours charged by OPI. The Manual provides that OPI should normally charge direct time.

- The Commissioners and their immediate staff's responsibilities include involvement with specific companies or sub-industry issues (17 full-time employees with annual salary costs totaling $1.26 million based on February 2003 payroll). For the 2001-02 fiscal year, the Commissioners and their staff charged 32,147 indirect hours, or 13 percent of the total indirect hours (247,951) charged.
- Staff in the Division of Consumer Affairs are instructed by the Manual to charge their work time directly to the sub-industry the work relates to, whenever possible; however, we noted that six of nine Regulatory Specialists who worked on resolving complaint cases during the period July 2002 through December 2002 charged their total work time as indirect.

Also, for the 2001-02 fiscal year, 12,689 of 12,900 complaint-intake hours (98.4 percent) were charged as indirect time by staff in the Division of Consumer Affairs. Our review also showed that for the audit period, July 2001 through February 2003, the majority (65 percent) of complaints received by the Division of Consumer Affairs related to telecommunications. Since this Division's indirect time is allocated to each sub-industry based on direct time charged to all sub-industries, a more accurate method of allocating the Division's complaint-intake indirect time may be by the percentage of each sub-industry complaints received to total complaints received.

The law provides that the RAF, to the extent practicable, be sufficient to recover the cost of regulating each company-type. Given the significant levels of indirect hours and the current PSC methodology, improvements are needed to provide additional assurances that costs are properly identified and equitably allocated.

Recommendation

Accurate accumulation of regulatory costs by sub-industry would enable PSC management to make more informed decisions regarding the necessity of RAF rate adjustments. We recommend that PSC management consider the following:

- **Determining, in consultation with the Commissioners, whether having the Commissioners and their staff charge work time directly to sub-industries significantly impacts allocated costs and, if so, revising the Manual accordingly.**
- **Ensuring that staff in the OPI and Division of Consumer Affairs who resolve complaints charge their time directly to sub-industries as required by the Manual.**
- **Reviewing alternate methods for allocating indirect time for complaint intake staff in the Division of Consumer Affairs.**

Finding No. 4: RAF Audits

The Bureau of Auditing (Bureau) within the Division of Auditing and Safety can conduct as many as 16 different audit types, including annual RAF audits of companies regulated by PSC. The Bureau consists of 33 full-time employees in four field offices with annual salary costs in excess of $1.3 million (based on February 2003 payroll). By law[7], the differences, if any, between the RAF paid by a regulated company and the RAF determined by PSC to be due shall, upon notification by PSC, be immediately paid or refunded.

Bureau personnel indicated that the current practice for the selection of companies for RAF audits and the time frame for conducting such audits are as follows:

- The largest telecommunication companies and their affiliates are audited on a three-year cycle;
- The investor-owned electric and gas companies are audited on a three-to-five year

[7] Section 350.113(3), Florida Statutes.

cycle in conjunction with all rate case and surveillance audits; and

- The remaining company-types (smaller telecommunication companies, rural electric cooperatives, municipal electric utilities, and gas safety companies) usually form the population from which an annual random sample of 80 companies is selected based on specific selection criteria.

Our review of the Bureau's practice for selecting companies for RAF audits included an analysis of the audits performed in relation to the total RAF paid in the 2000 and 2001 calendar years for the above companies. The results of our analysis for the 2001 calendar year, as shown below, indicated that the 80 companies audited represented only a small percentage of the total RAF paid, but 93 percent of the total companies regulated.

	RAF Paid in 2001 Calendar Year			
RAF Audit Type	Amount	% of Total	No. of Companies	% of Total
Audits Performed on a 3 to 5 Year Cycle (1)	$ 21,494,459	92%	117	7%
Annual Audits of the 80 Companies (2)	1,814,762 (3)	8%	1,568	93%
Total	$ 23,309,221	100%	1,685	100%

Notes: (1) 14 largest telecommunication companies (including their affiliates) and investor-owned electric and gas companies.

(2) Smaller telecommunication companies, rural electric cooperatives, municipal electric utilities, and gas safety companies.

(3) Dollars related to the population from which the 80 companies are selected.

The results of our analysis for RAF audits conducted in the 2002 calendar year, as shown below, indicated a small net overpayment by the companies subject to audit.

	Net (Over) Payments for 2002 Calendar Year		
RAF Audit Type	RAF Amount	% of Total RAF Paid in 2001	No. of Companies
Audits Performed on a 3 to 5 Year Cycle	($442,277) (1)	1.90%	53
Annual Audits of the 80 Companies (3)	(24,862) (2)	0.11%	16

Notes: (1) Amount includes a $460,080 overpayment made by a telecommunication company and its affiliates.

(2) As of the end of our audit fieldwork, three RAF audits had not been completed.

(3) The RAF paid by the 80 companies totaled $343,565, or 1.5 percent of the above total RAF paid in the 2001 calendar year.

For calendar years 2000 and 2001, RAF paid and the PSC audit results for the 80 companies, respectively, were similar to the above findings.

The table below shows the number of audited hours charged to the 80 RAF audits and RAF work performed in other audit types each of the two previous years. The intangible benefits derived and the actual overpayments/underpayments detected from these audits may not fully justify the resources expended.

Audit Type	2001		2002	
	Audit Hours	% of Total Hours	Audit Hours	% of Total Hours
80 Company RAF Audits	2,800	70%	3,124	52%
RAF Work Included in Other Audit Types	1,200	30%	2,876	48%
Total	4,000	100%	6,000	100%

Data Source: Bureau of Auditing

Recommendation

Given the immaterial RAF amounts paid by certain audited companies and the low net under/overpayment results over the past two years, the PSC should reevaluate the audit methodology used in selecting the quantity and type of companies selected solely for RAF auditing purposes. A more appropriate methodology may be a risk-based methodology that includes components such as: a weighting system to select more companies from higher RAF brackets; riskier industries, or complaint-prone utilities; and a system to ensure Statewide audit coverage.

Finding No. 5: Customer Satisfaction Measures

One of the goals of the PSC is to inform utility consumers regarding utility matters and expedite resolution of disputes between consumers and utilities[8]. The primary structure utilized to process communications from consumers and to facilitate the complaint resolution process is the Division of Consumer Affairs' dedicated Call Center (Center). The Center employs seven full-time and two part-time employees to handle incoming inquiries and complaints by phone, E-mail, internet, mail, or facsimile and eight employees to coordinate the timely resolution of consumer complaints. Annual salary costs associated with the Center totaled in excess of $400,000 (based on February 2003 payroll). For the 2001-02 fiscal year, the Division reported receiving 29,333 inquiries and complaints and closing 32,730 complaints.

The Florida Customer Service Standards Act (the Act) was enacted by the 2001[9] Legislature for the purpose of directing departments within the executive branch of State government and the PSC to practice and employ all the service measures established by the Act. The Act identifies numerous measures to be implemented by State entities, including the:

- Development of customer satisfaction measures as part of the performance measurement system; and
- Reporting of statistical data on customer satisfaction measures in annual reports or other performance publications, and the use of this data when conducting management and budget planning activities.

The Act defines customer as any member of the public who uses or requests services or information provided by a State department or who is required by statute to interact with the department.

The PSC has implemented many measures required in the Act; however, our review of PSC records and procedures disclosed that the PSC had not developed a customer satisfaction measure as part of its performance measurement system and, consequently, could not provide statistical data on customer satisfaction measures.

Even though the PSC had not developed customer satisfaction measures, PSC staff had conducted surveys in the 2000-01 through 2002-03 fiscal years to identify consumer's sentiments about PSC service. We noted that the results of these surveys had not been compiled and reported in annual reports or other performance publications.

PSC management indicated that the survey instrument used in 2000-01 fiscal year and the survey method used in 2001-02 fiscal year did not adequately measure PSC complaint-handling performance. Further impacting this issue, the consumer survey function was transferred to another bureau within the Division during the 2002-03 fiscal year. PSC staff indicated that telephone surveys would be conducted and the results reported to PSC management monthly, used for training purposes, and used in reaching conclusions regarding the quality of staff responses to consumer complaints.

Measuring and analyzing customer satisfaction is an important component for improving customer service. The benefits of measuring customer service include learning strategies for improving service, learning customer expectations, identifying common reasons for customer dissatisfaction, and uncovering missed opportunities to demonstrate the agency's capacity to solve problems and gain citizen's confidence.

[8] PSC Long Range Program Plan.

[9] Section 23.30, Florida Statutes.

Recommendation

The development and implementation of properly designed customer satisfaction measures promotes public confidence in government's ability to solve problems. Therefore, we recommend PSC management:

- **Develop customer satisfaction measures as part of the PSC's performance measurement system in consultation with the Executive Office of the Governor and the applicable Legislative Committees.**
- **Review its existing survey format and redesign the consumer satisfaction surveys to adequately capture customer satisfaction data to enhance customer assistance effectiveness and communicate results in reports and publications.**

Finding No. 6: Statutory Revisions

Chapter 350, Florida Statutes, establishes the PSC and describes its general structure and operations. During our audit we noted that some sections of Chapter 350, Florida Statutes, relating to the railroad industry, the position of chief auditor, and maximum regulatory assessment rates, were no longer reflective of current PSC practices. For example:

- Sections 350.011, 350.113(3)(a), and 350.117(2), Florida Statutes, define a regulated company, establish the Regulatory Trust Fund and specify the moneys to be deposited therein, and identify reports and audits that can be required by PSC, respectively. Each of these Statutes includes requirements related to railroads; however, PSC jurisdiction over the railroad industry ended with the industry's deregulation in 1985.
- Section 350.051, Florida Statutes, specifies the qualifications of the chief auditor and directs that the auditor serve as the director of the PSC accounting department. In the current organizational structure, the accounting department has become the Bureau of Auditing, which is supervised by a Chief of Auditing.
- The regulatory assessment rate maximums for the telecommunications, gas, and water and wastewater industries, as identified in Section 350.113, Florida Statutes, contradict the rate assessment maximums specified in individual industry Statutes, as shown below.

Industry	Maximum Assessment Rates %	
	350.113(3) Florida Statutes	Florida Statutes*
Telecommunications	0.125	0.250
Gas	0.125	0.500
Water and Wastewater	2.500	4.500

*Assessed rates pursuant to Sections 364.336, 366.14(2), and 367.145(1), Florida Statutes, respectively.

Recommendation

PSC should seek amendments to Chapter 350, Florida Statutes, to eliminate outdated or inappropriate requirements and change regulatory assessment rate maximums inconsistent with industry statutes.

Scope, Objectives, and Methodology

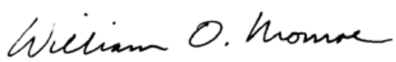
This operational audit focused on the Public Service Commission's regulatory assessment fee rate process and the Division of Consumer Affairs' "Call Center" operations related to consumer assistance. Our objectives were:

- To determine if the regulatory assessment fee rate process was appropriately designed, properly documented, and generated sufficient revenues to fund regulatory functions for the various industries and sub-industries.
- To determine if the performance measures for the Call Center were met and how costs for the Center were used in the regulatory fee rate process, and evaluate the adequacy and effectiveness of the workload training system.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the reliability of records and reports; and the safeguarding of assets.

In conducting our audit, we interviewed PSC personnel, observed processes and procedures, examined transactions and records (as well as events and conditions), and performed various other procedures as deemed necessary in the circumstances. Our audit included examinations of various transactions (as well as events and conditions) occurring during the period July 2001 through February 2003.

Authority

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



William O. Monroe, CPA
Auditor General

Auditee Response

As required by law, our preliminary and tentative findings were provided to the Executive Director of the Public Service Commission. In a letter dated August 26, 2003, the Executive Director provided a written response that generally concurred with our findings and recommendations. The response is included as Exhibit C to this report.

To promote accountability in government and improvement in government operations, the Auditor General makes operational audits of selected programs, activities, and functions of State agencies. This operational audit was made in accordance with applicable Government Auditing Standards issued by the Comptroller General of the United States. This audit was conducted by Karen C. Glymph, CPA, and supervised by Marcella A. Strange, CPA. Please address inquiries regarding this report to Larry Noda, CPA, Audit Manager, via E-mail at **larrynoda@aud.state.fl.us** or by telephone at (850) 487-9112.

This report and audit reports prepared by the Auditor General can be obtained on our Web site (**http://www.state.fl.us/audgen/**); by telephone ((850) 487-9024); or by mail (G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450).

EXHIBIT A

Regulatory Assessment Fees for the 1998-99 through 2001-02 Fiscal Years							
Industry	**Regulated Companies***	**RAF Rate (Percentage)**	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**Percentage of Total RAF 2001-2002**
Telecommunications:							
Pay Telephone Providers	511	0.150000	$ 219,138	$ 173,987	$ 190,549	$ 143,589	0.47%
Shared Tenant Service Providers	29	0.150000	2,484	9,184	10,814	9,052	0.03%
Interexchange Communications	614	0.150000	1,861,130	1,996,544	2,146,185	1,393,559	4.57%
Local Exchanges	10	0.150000	7,900,293	8,446,929	8,689,040	8,952,040	29.35%
Alternative Local Exchanges	381	0.150000	72,029	362,810	752,476	825,406	2.71%
Alternative Access Vendors	38	0.150000	70,828	28,113	88,976	99,325	0.33%
Total - Telecommunications	1,583	NA	$ 10,125,902	$ 11,017,567	$ 11,878,040	$ 11,422,971	37.45%
Electric:							
Investor-Owned	5	0.072000	$ 8,564,939	$ 7,198,512	$ 7,633,726	$ 8,670,761	28.43%
Municipals	33	0.015625	326,459	329,223	338,581	370,468	1.21%
Rural Electric Cooperatives	17	0.015625	158,501	157,910	168,596	185,224	0.61%
Total - Electric	55	NA	$ 9,049,899	$ 7,685,645	$ 8,140,903	$ 9,226,453	30.25%
Gas:							
Investor-Owned	7	0.500000	$ 1,325,335	$ 1,751,362	$ 2,054,657	$ 2,330,161	7.64%
Municipals and Districts	51	0.191900	269,075	264,940	306,322	413,065	1.35%
Gas Pipeline	NA	NA	-	-	-	-	-
Total - Gas	58	NA	$ 1,594,410	$ 2,016,302	$ 2,360,979	$ 2,743,226	8.99%
Water & Wastewater	226	4.500000	$ 8,268,511	$ 7,519,143	$ 7,219,326	$ 7,110,511	23.31%
Total	1,922	NA	$ 29,038,722	$ 28,238,657	$ 29,599,248	$ 30,503,161	100.00%

* Pursuant to Master Commission Directory of Utilities as of February 28, 2003.

Data Source: Regulatory Assessment Fee Cost Allocation and Cash Flow Analysis Worksheets, Fiscal Services Section.

Regulatory Assessment Fee Changes and Statutory Maximums					
Industry	**Cash Balance Surplus/Deficit June 30, 2002**	**Fiscal Year That Last RAF Rate Change Made**	**No. of RAF Rate Changes Made From 1989 Through 2002**	**Current RAF Rate (Percentage) (1)**	**Statutory Maximum Rate(2)**
Telecommunications:					
Pay Telephone Providers	Deficit	1991-1992	1	0.150000	0.250000
Shared Tenant Service Providers	Deficit	1991-1992	1	0.150000	0.250000
Interexchange Communications	Deficit	1991-1992	1	0.150000	0.250000
Local Exchanges	Surplus	1991-1992	1	0.150000	0.250000
Alternative Local Exchanges	Deficit	1991-1992	1	0.150000	0.250000
Alternative Access Vendors	Surplus	1991-1992	1	0.150000	0.250000
Electric:					
Investor-Owned	Surplus	1999-2000	3	0.072000(3)	0.125000
Municipals	Deficit	1989-1990	0	0.015625	0.015625
Rural Electric Cooperatives	Deficit	1989-1990	0	0.015625	0.015625
Gas:					
Investor-Owned	Deficit	1999-2000	2	0.500000(4)	0.500000
Municipals and Districts	Surplus	1990-1991(5)	0	0.191900	0.250000
Pipelines	Deficit	NA	NA	NA	NA
Water and Wastewater	Surplus	1991-1992	1	4.500000	4.500000

Notes: (1) The RAF is calculated by multiplying the company's gross operating revenues derived from intrastate business by the applicable rate (percentage).

(2) Rates pursuant to Chapters 350, 364, 366, and 367, Florida Statutes.

(3) Rate decreased from .0833 percent.

(4) Rate increased from .0833 percent.

(5) Initial year that RAF was assessed.

EXHIBIT B

The cash balances in the Regulatory Trust Fund illustrated below show that the local exchange telecommunication and investor-owned electric sub-industries subsidize the unfunded cost of regulation of other sub-industries within their industries and the gas industry.

Cash Balances for the Fiscal Years Ended June 30, 1998, through June 30, 2002

Industry	FYE 6/30/98	FYE 6/30/99	FYE 6/30/00	FYE 6/30/01	FYE 6/30/02
Telecommunications:					
Pay Telephone Providers	$ (4,598,491)	$ (5,461,218)	$ (6,633,624)	$ (7,729,979)	$ (8,521,143)
Shared Tenant Service Providers	(375,270)	(515,666)	(506,771)	(501,314)	(495,052)
Interexchange Communications	(4,730,609)	(5,342,716)	(5,523,902)	(5,734,174)	(6,572,627)
Local Exchanges	11,954,420	15,276,888	18,848,849	22,519,775	25,650,353
Alternative Local Exchanges	(898,840)	(1,119,376)	(1,879,368)	(2,602,944)	(3,494,171)
Alternative Access Vendors	(22,679)	21,326	(21,645)	31,063	111,747
Total - Telecommunications	$ 1,328,531	$ 2,859,238	$ 4,283,539	$ 5,982,427	$ 6,679,107
Electric:					
Investor-Owned	$ 14,473,493	$ 15,657,937	$ 15,507,198	$ 15,957,696	$ 13,451,115
Municipals	(534,318)	(541,731)	(406,337)	(350,614)	(118,593)
Rural Electric Cooperatives	(1,713,534)	(1,863,219)	(1,865,815)	(1,819,836)	(1,829,606)
Total - Electric	$ 12,225,641	$ 13,252,987	$ 13,235,046	$ 13,787,246	$ 11,502,916
Gas:					
Investor-Owned	$ (3,363,469)	$ (3,916,467)	$ (3,824,390)	$ (4,184,372)	$ (3,165,552)
Municipals and Districts	(68,459)	(133,447)	(161,295)	(80,592)	110,335
Gas Pipeline	(364,681)	(406,984)	(430,449)	(465,353)	(505,070)
Total - Gas	$ (3,796,609)	$ (4,456,898)	$ (4,416,134)	$ (4,730,317)	$ (3,560,287)
Water & Wastewater	$ 3,124,132	$ 2,752,469	$ 2,451,897	$ 2,763,484	$ 3,567,394
Total	$ 12,881,695	$ 14,407,796	$ 15,554,348	$ 17,802,840	$ 18,189,130

Data Source: Cash Flow Analysis Worksheets, Fiscal Services Section.

For the 2001-02 through 2003-04 fiscal years, the Legislature appropriated the following transfers from the Regulatory Trust Fund that were unrelated to normal operations. The sub-industry cash balances to which the transfers are applied is determined by PSC management. For example, transfers to the Department of Law Enforcement were applied to investor-owned electric since they were for security assessments of the State's infrastructure.

Legislative Appropriated Transfers

Receiving Agency or Fund	2001-2002	2002-2003	2003-2004	Total
Department of Law Enforcement (Infrastructure Security Assessments)	$ 500,000	$ 500,000	$ -	$ 1,000,000
Department of Children and Family Services (Lifeline Enrollment)	500,000	-	-	500,000
State Working Capital Fund	4,000,000	3,500,000	5,000,000	12,500,000
Totals	$ 5,000,000	$ 4,000,000	$ 5,000,000	$ 14,000,000

EXHIBIT C
AUDITEE RESPONSE

STATE OF FLORIDA

COMMISSIONERS:
LILA A. JABER, CHAIRMAN
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES. M. DAVIDSON

EXECUTIVE DIRECTOR
MARY ANDREWS BANE
(850) 413-6055

Public Service Commission

August 26, 2003

Mr. William O. Monroe, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Monroe:

We are pleased to respond to the preliminary and tentative audit findings and recommendations of your operational audit of the Public Service Commission Regulatory Assessment Fee and Other Matters for the Period July 2001 through February 2003. As required by Section 11.45(4)(d), Florida Statutes, our response is as follows:

Finding No. 1: Regulatory Trust Fund

The Commission agrees, and has begun an agency-wide review of regulatory functions to determine what, if any, cost reductions are appropriate, and to assess whether duties should be realigned, streamlined, or eliminated. In addition, the Commission will determine, utilizing the current standardized process, whether revisions to RAF rates are warranted at this time. After implementation of appropriate cost reductions, the Commission will consider recommended RAF revisions as necessary. Where no adjustments are made, the Commission will document the basis for that decision. For those sub-industries requiring additional revenue, but with RAF rates currently at statutory limits, the Commission will develop statutory revision language and supporting documentation to increase maximum rates and provide it to appropriate Legislative committees.

Finding No. 2: Water/Wastewater Assessment Fee Revenue

The Commission agrees, and as part of the review of regulatory costs referenced in our response to Finding #1, we will assess what cost reductions may be feasible in water and wastewater regulation. The Commission will also review its methodology for allocating costs to all industries, including water and wastewater, and make appropriate adjustments. At that time, if warranted, the Commission will develop statutory revision language and supporting documentation to increase the maximum water and wastewater RAF rates, and provide it to appropriate Legislative committees.

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EXHIBIT C (CONTINUED)
AUDITEE RESPONSE

Mr. William O. Monroe, CPA
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August 26, 2003

Finding No. 3: Employee Work Time

The Commission agrees, and has begun an analysis of whether direct charging of time by Commissioners and staff would significantly impact the current allocation of costs. If direct charging would result in a more valid allocation, the Commission will revise its procedures accordingly. Staff in the Division of Consumer Affairs who resolve complaints and in the Office of Public Information have been instructed to consistently charge time directly as required by the Manual. The Commission will also review alternate methods, such as the percentage of complaints by sub-industry, for allocating indirect time for complaint intake staff in the Division of Consumer Affairs.

Finding No. 4: RAF Audits

The Commission agrees, and will reevaluate its methodology for selecting companies for RAF audits. The current process for sampling companies is based on maintaining statistical validity to the overall population; however, we agree that consideration of additional factors in the sampling methodology may provide a more effective use of audit resources.

Finding No. 5: Customer Satisfaction Measures

The Commission has begun an analysis of possible customer service satisfaction measures, and will consult with the Executive Office of the Governor and applicable Legislative committees, as well as other state agencies that are using such measures. In addition, the Commission will review its existing survey format, and determine how a revised survey or other measures can be used to collect valid customer satisfaction data, for inclusion in annual reports or other performance publications.

Finding No. 6: Statutory Revisions

The Commission agrees that statutory changes should be sought to eliminate outdated references to the railroad industry, to conform the position of the Chief of Auditing to the current organizational structure, and to eliminate inconsistent statutory caps on regulatory assessment fees. Amendment language will be developed by Commission staff and provided to appropriate Legislative committees.

EXHIBIT C (CONTINUED)
AUDITEE RESPONSE

Mr. William O. Monroe, CPA
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August 26, 2003

We appreciate the efforts of you and your staff to assist in improving our operations. If you require further assistance, please contact our Inspector General, Steven Stolting, at 413-6338.

Sincerely,

Mary Andrews Bane

Mary Andrews Bane
Executive Director

MAB/ba

cc: Mr. Steven Stolting

STATE OF FLORIDA

INTEGRITY INDEPENDENCE OBJECTIVITY

AUDITOR GENERAL