



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



PUBLIC SERVICE COMMISSION

REGULATORY AUDITS AND PERSONNEL ADMINISTRATION

Operational Audit

SUMMARY

This operational audit focused primarily on the Public Service Commission’s regulatory audit function and the processes applicable to personnel administration. The audit included the period July 2003 through February 2005, and selected actions taken through June 2005. Our audit disclosed that Commission operations could be improved through changes in certain procedures and methodologies, as described below:

Finding No. 1: Greater assurance of the quality and reliability of regulatory audits could be obtained through improved communication of the applicability of auditing standards and the objectives applicable to the various types of audits performed by the Bureau of Auditing. Additionally, revisions to audit guidance are necessary to account for changes in the Commission’s organizational structure and standard documents, and changes in the auditing profession over the last six years.

Finding No. 2: Commission procedures regarding auditor independence from regulated entities could be strengthened to provide for periodic updates which address all aspects of independence, including acceptance of gifts, personal relationships, financial interests, and offers of employment.

Finding No. 3: The Commission should take steps to ensure that established quality control procedures are followed for all audits.

Finding No. 4: Revised record keeping procedures are necessary to ensure the continued availability of documentation of employment reference checks completed for Commission employees.

Finding No. 5: As noted in audit report No. 2004-031, dated August 2003, 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 Public Service Commission (Commission) is responsible for regulatory oversight of all investor-owned electric and gas, and telecommunications utilities in the State, and privately owned water and wastewater utilities in those counties that have opted to transfer jurisdiction to the Commission. Additionally, the Commission has limited jurisdiction over rural electric cooperatives and municipally owned electric and gas utilities. The Commission’s responsibilities include, in part, ratemaking and earnings analysis; competitive market oversight; consumer assistance; collection of regulatory assessment fees; and monitoring of safety, reliability, and service issues.

As of June 2005, the Commission had 361.50 authorized positions. The Commission’s organizational structure is shown on Exhibit A. The Commission’s activities are funded entirely by the Regulatory Trust Fund, which is comprised of regulatory fees paid by Commission-regulated entities. During the period July 2003 through February 2005, the Commission’s expenditures and transfers totaled approximately \$50.1 million.

FINDINGS AND RECOMMENDATIONS

Regulatory Audits

Pursuant to State law¹, the Commission may require regulated entities to provide financial reports deemed necessary to fulfill its regulatory obligations. Additionally, the Commission may perform management and operation audits of regulated companies. State law defines a “management and operation audit” as an appraisal, by a public accountant or other professional person, of management performance, including a testing of adherence to governing policy and profit capability; adequacy of operating controls and operating procedures; and relations with employees, customers, the trade, and the public generally. The results of these audits may be considered by the Commission in establishing rates and making other regulatory decisions.

The Commission’s Bureau of Auditing (Bureau), within the Division of Regulatory Compliance and Consumer Assistance is responsible for the regulatory audit function. The number and types of audits conducted by the Bureau during the audit period are described on Exhibit B. Some audits are conducted on an annual basis, while others are initiated upon request from applicable Commission staff. Approximately 2,000 entities are subject to regulation by the Commission. During the audit period, the Bureau conducted 160 audits.

As part of our audit, we reviewed the Commission’s quality controls applicable to the regulatory audits conducted by the Bureau. We performed tests to evaluate the Bureau’s processes applicable to auditor independence, proficiency of audit staff, audit planning and supervision, and sufficiency of evidence to support audit conclusions. Examples of professional auditing standards and descriptions of various types of procedures applicable to these issues are included on Exhibit C.

Finding No. 1: Auditing Standards and Objectives

The Commission, in making its regulatory decisions, considers the results of audits of regulated companies conducted by the Bureau of Auditing pursuant to Section 350.117, Florida Statutes. In order to appropriately consider audit results, the Commission needs a clear understanding of the specific audit objectives and the extent to which auditing standards and established policies and procedures were followed in the conduct of the audit².

Guidance, including the discussion of auditing standards and descriptions of policies and procedures, is included in the Florida Public Service Commission Audit Manual (Audit Manual). Other policies and procedures relevant to the regulatory audit function, such as independence from regulated entities, employee training, and handling confidential information, are described in the Administrative Procedures Manual (APM) and the Division of Regulatory Compliance and Consumer Assistance Standard Operating Procedure (SOP).

We reviewed the audit guidance provided to audit staff and performed various procedures and analyses, including a review of 38 audit reports and the supporting working papers. Our review disclosed the following:

- Inconsistencies exist between the Audit Manual and standard language included in audit reports regarding the applicability of professional auditing standards. The Audit Manual provides that the auditing standards established by the American Institute of Certified Public Accountants are the minimum guidelines that set the tone for the audit and includes descriptions of policies and procedures applicable to the general and field work standards, as shown on Exhibit C. In contrast, audit reports generally include the statement: “This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to

¹ Section 350.117, Florida Statutes.

² State law does not specify that these audits be conducted in accordance with professional auditing standards.

assist the Commission staff in the performance of their duties. Substantial audit work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.”

As described in audit reports and as shown on Exhibit B, the objectives of the regulatory audits do not include audits of financial statements for public use. We also noted that the audit reports lacked descriptions of the relevant audit objectives. Additionally, while we recognize that generally accepted auditing standards place emphasis on issues important to public reliance on audits of financial statements, certain aspects of those standards, such as the general and field work standards, are relevant to audits with different objectives and scope, such as the audits conducted by the Bureau.

Clear communication of the auditing standards and the specific audit objectives relevant to the various types of regulatory audits, in both the audit reports and audit guidance, is necessary for the Commission to appropriately consider the context of audit results.

- The Audit Manual has not been updated since 1999. As a result, the Audit Manual includes references to other Commission documents, organizational units, and professional audit guidance which are no longer valid. During the last six years, the Commission has reorganized and made changes to various documents and manuals referred to in the Audit Manual. Additionally, the auditing profession has made changes in authoritative guidance, such as addressing fraud concerns and attestation engagements.

Recommendation: We recommend that the Bureau of Auditing, with counsel from the Commission, update its audit guidance to further ensure the quality of the regulatory audit function. Specifically, the updated guidance should clearly communicate the professional auditing standards and the related policies and procedures that apply to audits for the various audit types and regulated industries. Additionally, to provide users of the audits with information necessary to evaluate the audit results, we recommend that the Bureau revise its audit reports to include language which clearly describes the specific audit objectives and

the extent to which professional auditing standards apply to the audit.

Finding No. 2: Independence of Audit Staff

The integrity and reliability of audit results are contingent upon the objectivity and fairness of audit staff. To provide assurance regarding the objectivity and fairness of audit staff, audit organizations are responsible for implementing policies and procedures to ensure that auditors remain independent, both in appearance and in fact, of the organizations they audit. Examples of such procedures include requirements for audit staff to annually document his or her independence, and if applicable, to identify any entities for which he or she has an independence impairment, and requirements for audit working papers to include evidence that independence was verified for all audit staff assigned to the audit.

As part of our audit, we reviewed the Commission’s methodologies applicable to independence of audit staff. The Commission’s methodologies, applicable to audit staff, include the following:

- The Audit Manual emphasizes the importance of auditor independence and includes a prohibition against the acceptance of gifts, gratuities, preferential treatment, or anything that will transfer financial value to the auditor or which obligates a return favor to any person representing a regulated utility.
- Commission employees (including audit staff) are required to sign a “Standards of Conduct and Conflict of Interest” form (SCCI form) at the time of employment to document that they have received and read the Commission policies and procedures, including policies requiring that the employee must remain independent of the regulated entities. The SCCI form includes provisions that the employee must report any changes which may affect his or her independence for a regulated entity, such as the employment of a spouse, financial interests, acceptance of gifts, and offers of employment.
- Supervisors verbally remind audit staff of policies and procedures related to independence. Auditors are instructed to

promptly advise appropriate supervisors of any independence impairments.

As described above, the Commission’s methodologies provide for documentation of independence to be obtained at the time of employment. However, during the audit period, the Commission’s procedures did not provide for periodic updates to document auditor independence. Of the Bureau’s 21 professional audit staff employed during the audit period, none had documented their independence since their initial employment. We noted that these hire dates ranged from 1974 to 2002.

In response to our inquiries, the Commission indicated that new procedures regarding independence of all employees will take effect July 2005. Specifically, supervisors will discuss the standards of conduct, including independence of regulated entities, with employees as part of the annual performance review process. Each employee will be required to sign the PSC Employee Performance Review form (EPR form), which acknowledges that various issues were discussed, including the prohibition on acceptance of gifts from regulated entities and required disclosure of offers of employment. We noted that the EPR form, dated May 2005, did not include provisions to address other issues which could affect an auditor’s independence with regulated entities, such as personal relationships and financial interests.

Recommendation: Absent periodic assurance of auditor independence, independence impairments may go undetected and may diminish the credibility of the Commission’s regulatory audits. We recommend that the Commission continue to strengthen its policies and procedures regarding independence from regulated entities to provide for periodic updates for all aspects of independence, including acceptance of gifts, personal relationships, financial interests, and offers of employment.

Finding No. 3: Quality Controls

Quality controls are necessary to ensure that audits are properly planned and executed and the resulting conclusions are reliable for the intended users. We noted that the Bureau had established policies and

procedures designed to promote the quality of the audits conducted by audit staff. These policies and procedures are communicated through the Audit Manual, APM, and SOP, and informally, through daily supervision of audit work.

Pursuant to the Audit Manual, all audits are subject to a supervisory review. The supervisory review of the audit report and working papers is conducted by the applicable district supervisor, senior audit staff, or the Bureau Chief upon the completion of the audit. The Audit Manual includes an audit working paper review guide that describes the specific items to be addressed by the supervisory review. For example, the review includes a determination that the audit program was reviewed and approved by the supervisor, all cross-references are correct, all audit program steps are marked as completed, and all audit exceptions are fully supported. An audit program sets forth in reasonable detail the audit procedures necessary to accomplish the objectives of the audit.

As part of our audit procedures, we reviewed the working papers for 38 regulatory audits to evaluate the Bureau’s quality controls. During our review of these working papers, we noted that all of the reports and working papers included evidence of supervisory review. However, as described below, we noted multiple instances in which established procedures were not followed:

- For 9 audits (24 percent), the working papers lacked evidence of the supervisory review and approval of the audit programs.
- For one audit (three percent), the working papers did not include an audit program. No alternative documentation was included to evidence that required steps were approved by the supervisor and executed by the auditor.
- For 12 audits (32 percent), the audit program included steps that had not been marked as completed by the auditor. Additionally, these blank steps lacked any explanation as to why the specific procedure was not applicable or not completed.
- For 5 audits (13 percent), the audit reports did not include necessary references to supporting documentation. For 1 of these 5 audit

reports, the report included inaccurate references.

Absent the inclusion of properly approved and completed audit programs in the working papers, the Commission lacks assurance that the audit was appropriately conducted and reviewed. Additionally, specific references to applicable supporting documentation are necessary for all reported findings to provide a basis for an appropriate conclusion and to facilitate supervisory review.

Recommendation: We recommend that the Commission take steps to strengthen the effectiveness of the review process applicable to regulatory audits to ensure that established policies and procedures are followed for all audits.

Personnel Administration

The Commission’s personnel activities are governed by State law and rules promulgated by the Department of Management Services. Additionally, the Commission is subject to the record retention rules promulgated by the Department of State (DOS).

Oversight of the Commission’s personnel responsibilities is primarily handled by the Human Resources Office within the Division of the Commission Clerk and Administrative Services. However, effective September 2004, certain aspects of personnel administration, such as benefit administration, payroll and leave, employee recruitment, and record keeping, became the shared responsibility of the Commission and Convergys Customer Management Group, the vendor responsible for the State’s PeopleFirst System.

As part of our audit, we performed various tests and analyses, and reviewed applicable records, to evaluate the aspects of personnel administration for which the Commission remains responsible.

Finding No. 4: Employment Reference Checks

Employment reference checks are an effective tool in the final employee selection process. Prospective employers can obtain information regarding an individual’s past job performance which may be useful

for verifying applicant qualifications prior to making final employment decisions. Employment reference checks can provide the employer assurance that information provided by the applicant is true.

State agencies have the authority to establish specific policies and procedures to supplement requirements specified in State law and rule. The Commission has established requirements that employment reference checks must be completed for applicable candidates and the results of such checks must be considered in the final selection process.

The Commission utilizes a standardized form to document the completion of an employment reference check. The forms completed for candidates for a specific position are maintained with other selection records, in a file referred to as the selection package. Pursuant to the State of Florida General Records Schedule GSI-S for State Government Agencies (Schedule) issued by the DOS, the selection package has a 2-year retention requirement, while an employee personnel file must be maintained for 25 years after the employee’s separation or termination. The Schedule does not specifically address the retention period for documentation of completed employment reference checks for the candidates selected for employment, nor does it specify where the documentation should be maintained.

As part of our audit, we reviewed various records applicable to the selection and employment process and employee files. Our review of 16 recently hired employees disclosed that documentation of employment reference checks was maintained in the employee selection packages. As part of our review of 50 additional employee personnel files, we noted that documentation of employment reference checks was not available for 46 employees (90 percent). Other documents gathered as part of the selection and employment process, such as employment applications and evidence of education and professional certifications, were maintained in the employee personnel files. We noted that these 46 employees had been employed by the Commission for more than 2 years.

In response to our inquiries, the Commission explained that documentation of the employment reference checks was not available for these 46 employees because the selection packages, where the documentation had been maintained, had been destroyed. Absent documentation of completed employment reference checks beyond the initial two-year period, the Commission is unable to demonstrate the verification of employee qualifications.

The Commission indicated that the record keeping practices would be revised, effective July 2005, to ensure that documentation of employment reference checks for selected candidates is maintained in the personnel files to ensure availability beyond two years from the selection date.

Recommendation: We recommend that the Commission continue its efforts to ensure that documentation of employment reference checks is maintained as a required part of the employee personnel file.

OTHER MATTERS

Finding No. 5: Statutory Revisions

Chapter 350, Florida Statutes, establishes the Commission and describes the general structure and operations. In audit report No. 2004-031, dated August 2003, we noted that some sections of Chapter 350, Florida Statutes, relating to the railroad industry, the position of chief internal auditor, and maximum regulatory assessment rates, were no longer reflective of current Commission practices. As part of our audit, we made inquiries of Commission staff and reviewed various records to determine the status of the noted inconsistencies. Our review disclosed that the noted inconsistencies continue to exist. For example:

- The Commission’s jurisdiction over the railroad industry ended with the industry’s deregulation in 1985. However, Sections 350.011, 350.113(3)(a), and 350.117(2), Florida Statutes, continue to include references or requirements applicable to the railroad industry. For example, Section

350.113(3)(a), Florida Statutes, specifies the maximum fee amount applicable to railroads.

- Section 350.051, Florida Statutes, specifies the qualifications of the chief auditor and directs that the auditor serve as the director of the Commission’s accounting department. As shown on Exhibit A, the Commission’s current organizational structure does not include a Chief Auditor position or an accounting department. Instead, the organizational structure includes a Bureau of Auditing and an Office of Fiscal Services, supervised by a Chief of Auditing and Professional Accounting Specialist, respectively.
- The regulatory assessment rate maximums for the telecommunications, gas, and water and wastewater industries, as identified in Section 350.113(3), Florida Statutes, contradict the rate assessment maximums specified in individual industry-specific statutes, as shown below.

Industry	Maximum Assessment Rates	
	350.113, Florida Statutes	Florida Statutes (1)
Telecommunications	0.125%	0.250% (2)
Gas - Public Utilities	0.125%	0.500%
Gas - Municipal	0.125%	0.250%
Water and Wastewater	2.500%	4.500%

(1) Assessed rates pursuant to Sections 364.336, 366.14(2) and (3), and 367.145(1), Florida Statutes, respectively.
 (2) Effective June 2005, the minimum fee is \$1,000 pursuant to Chapter 2005-32, Laws of Florida.

In response to our inquiries, the Commission explained that statutory changes were proposed to appropriate Legislative Committees for the 2004 Legislative Session. However, we noted that the proposed statutory changes were not enacted during the 2004 or 2005 Legislative Sessions.

Recommendation: We recommend that the Commission continue to seek amendments to Chapter 350, Florida Statutes, to eliminate outdated or inappropriate requirements and change regulatory assessment rate maximums that are inconsistent with industry-specific statutes.

OBJECTIVES, SCOPE, AND METHODOLOGY

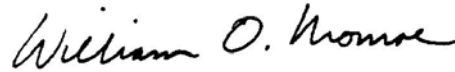
Our audit focused on the Commission’s regulatory audit function and the processes applicable to personnel administration. The objectives of the audit were:

- To evaluate the extent to which the Commission’s policies and procedures ensure the efficiency, effectiveness, and reliability of regulatory audits conducted by the Commission.
- To evaluate the effectiveness of the Commission’s internal controls applicable to personnel administration.
- To evaluate the extent to which the Commission had complied with controlling laws, administrative rules, and other guidelines.
- To determine if the Commission has corrected or is in the process of correcting all deficiencies disclosed in audit report No. 2004-031, dated August 2003, for those activities, functions, and classes of transactions within the scope of the audit.

In conducting our audit, we interviewed Commission personnel, observed selected operations, reviewed Commission records, and completed various analyses and procedures. Our audit included examination of various documents (as well as events and conditions) applicable to the period July 2003 through February 2005, and selected actions take through June 2005.

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

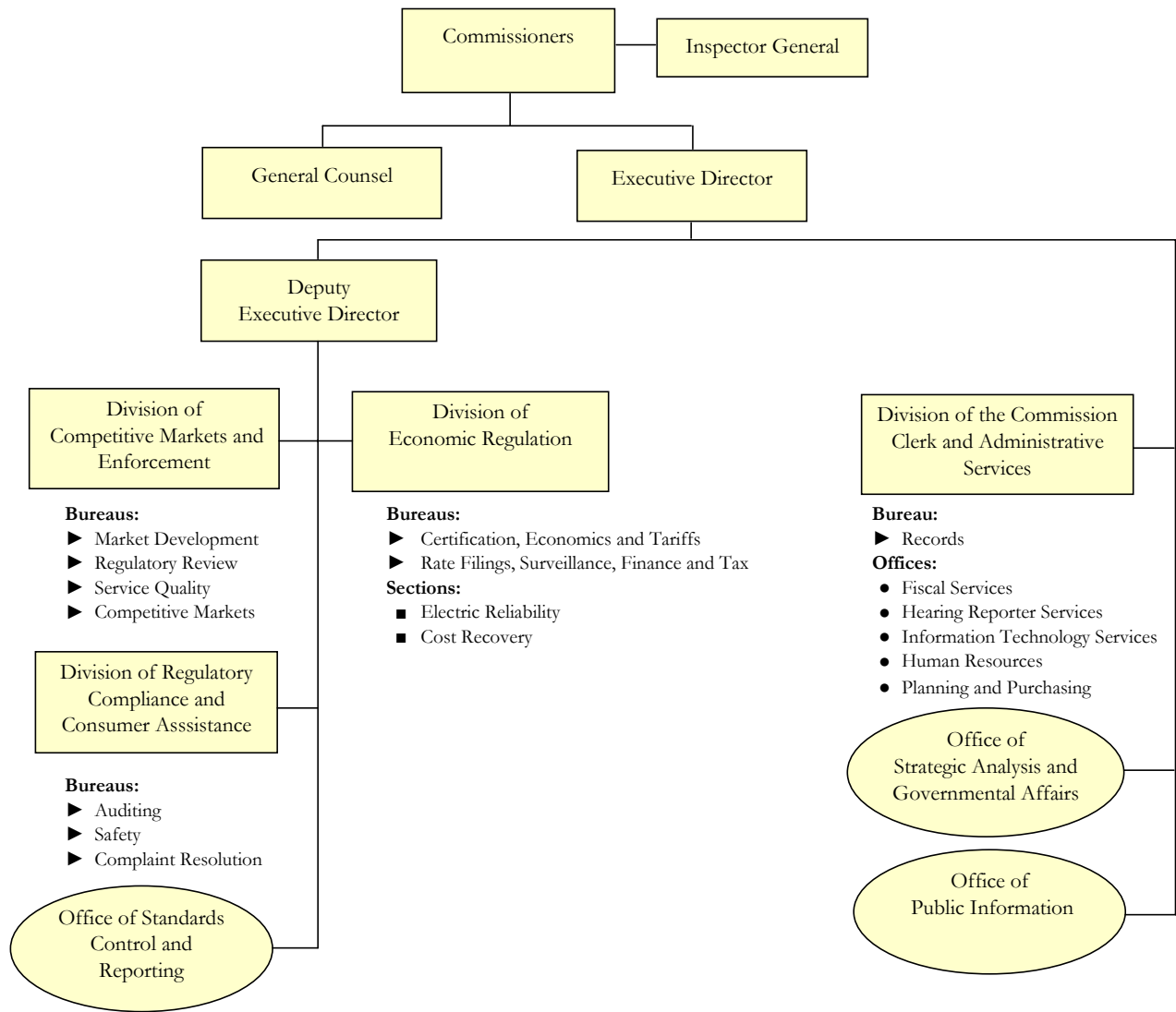
AUDITEE RESPONSE

In a letter dated August 31, 2005, the Executive Director concurred with our findings and recommendations and described corrective actions already taken or planned for future implementation. The letter is included in its entirety at the end of this report as Exhibit D.

Operational audits are conducted to promote accountability in government and improvement in government operations. This operational audit was conducted in accordance with applicable *Government Auditing Standards* issued by the Comptroller General of the United States. This audit was conducted by Elizabeth Annette Green, CPA, and Kathy Simmons and supervised by Jennifer Reeves, CPA. Please address inquiries regarding this report to David R. Vick, CPA, Audit Manager, via E-mail at davidvick@aud.state.fl.us or by telephone at (850) 487-9100.

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
ORGANIZATION CHART
AS OF JUNE 2005**



Data source: Prepared from Commission records.

EXHIBIT B
TYPES OF AUDITS CONDUCTED BY THE BUREAU OF AUDITING

Audit Type	Audits Completed		Companies Audited	Audit Objectives
	Total	Frequency		
1 Rate Case	11	By request of Commission staff	Electric, Gas, Water, and Wastewater	Analyze the components of rate base (net plant and working capital investments), capital structure and net operating income upon a utility's request for a rate increase.
2 Staff Assisted Rate Case	3	By request of Commission staff	Water and Wastewater	Assist the utility in compiling financial records necessary for a rate case (for utilities that have little or no formal system of financial records).
3 Earnings Review/Surveillance	3	By request of Commission staff	Electric, Gas, Water, and Wastewater	Evaluate the accuracy and completeness of the utility's monthly rate of return report. Determine that the report was prepared in compliance with industry rule.
4 Transfer/Establish Rate Base	20	By request of Commission staff	Water and Wastewater	Establish the rate base (net plant and working capital investments) of a Water or Wastewater utility upon transfer of ownership.
5 Fuel Adjustment	12	Annually	Electric	Verify that reported costs reconcile to the utility's financial records and comply with Commission rules and orders.
6 Capacity Cost	5	Annually	Electric	Verify that reported costs reconcile to the utility's financial records and comply with Commission rules and orders.
7 Environmental Cost Recovery	8	Annually	Electric	Verify that reported costs reconcile to the utility's financial records and comply with Commission rules and orders.
8 Purchased Gas Recovery	11	Annually	Gas	Verify that reported costs reconcile to the utility's financial records and comply with Commission rules and orders.
9 Conservation	19	Annually	Electric and Gas Companies with Conservation Programs	Verify that reported costs reconcile to the utility's financial records and comply with Commission rules and orders.
10 Investigation	18	By request of Commission staff	Telecommunications, Electric, Gas, Water, and Wastewater	Depends upon nature of investigation.
11 Continuing Property Records	0	By request of Commission staff	Electric, Gas, and Telecommunications	Verify the existence of assets recorded in the utility's financial records. Review the property records for conformity with the Uniform System of Accounts.
12 Contract and Construction Work-In-Progress	0	By request of Commission staff	Electric, Gas, and Telecommunications	Determine whether contractors conformed to contract provisions upon completion of the contract. Monitor the on-going construction for conformance to contract provisions for construction work-in-progress.
13 Allowance for Funds Used During Construction	0	By request of Commission staff	Electric and Gas	Analyze the components of the utility's capital structure.
14 Regulatory Assessment Fee	50	Periodically, by request, or upon refund request	All Industries	Evaluate the accuracy and completeness of the revenues reported on the regulatory assessment fee report. Reconcile the regulatory assessment fee report to the utility's financial records.
15 Affiliate Transactions	0	By request of Commission staff or as determined by Bureau of Auditing	All Industries	Examine the affiliate transactions of a regulated utility.
16 Joint Audits with the Bureau of Regulatory Review	0	By request of Commission staff	All Industries	Assist the Bureau of Regulatory Review with the financial portion of management and operation audits.
Total	<u>160</u>			

Data source: Prepared from Commission records for audits completed during the period July 2003 through February 2005.

EXHIBIT C
EXAMPLES OF AUDITING STANDARDS AND IMPLEMENTING PROCEDURES

Examples of Auditing Standards	
Generally Accepted Auditing Standards (1)	Generally Accepted Government Auditing Standards (2)
General Standards:	General Standards:
Adequate Technical Training and Proficiency as an Auditor	Independence
Independence	Professional Judgment
Due Professional Care	Professional Competency
	Quality Control and Assurance
Field Work Standards:	Field Work Standards:
Adequate Planning and Supervision	Adequate Planning and Supervision
Understanding of Internal Control	Understanding of Internal Control
Sufficiency of Evidence	Sufficiency of Evidence
	Detecting Material Misstatements and Abuse
	Audit Documentation
(1) Professional Auditing Standards adopted by the American Institute of Certified Public Accountants.	
(2) Government Auditing Standards promulgated by the United States Government Accountability Office.	

Example Standard	Example Procedures
<p><u>Training and Proficiency</u></p> <p>The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor. (AICPA Auditing Standard)</p>	<ul style="list-style-type: none"> • Policies and procedures are in place to ensure that each audit or attestation engagement is conducted by staff who collectively have the knowledge, skills, and experience necessary for that assignment. • Policies and procedures are in place to ensure the audit entity has a process for recruitment, hiring, continuous development and evaluation of staff to assist the organization in maintaining a workforce that has adequate knowledge.
<p><u>Independence</u></p> <p>In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors. (AICPA Auditing Standard)</p>	<ul style="list-style-type: none"> • Each auditor submits to supervisory staff an annual independence form disclosing all relevant independence impairments. • The working papers for each audit include a form executed by each auditor or by the audit supervisor, affirming independence.
<p><u>Planning and Supervision</u></p> <p>The work shall be adequately planned and assistants, if any, are to be properly supervised. (AICPA Auditing Standard) (WP 5-16, 15.2)</p>	<ul style="list-style-type: none"> • Audit Programs are reviewed and approved by supervisors prior to field work. • Evidence of supervisory review of audit work, such as initials and audit notes, is included in the working papers.

EXHIBIT D
AUDITEE RESPONSE

COMMISSIONERS:
BRAULIO L. BAEZ, CHAIRMAN
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
LISA POLAK EDGAR

STATE OF FLORIDA



EXECUTIVE DIRECTOR
MARY ANDREWS BANE
(850) 413-6068

Public Service Commission

August 31, 2005

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 Audits and Personnel Administration for the Period July 2003 through February 2005. As required by Section 11.45(4)(d), Florida Statutes, our response is as follows:

Finding #1: Auditing Standards and Objectives

Response: The Commission agrees and has begun a review of the Audit Manual used in the Bureau of Auditing to incorporate the noted changes to audit standards and Commission practices.

Finding #2: Independence of Audit Staff

Response: The Commission agrees and has begun the process of revising procedures and forms to ensure that all aspects of independence are addressed by periodic updates at the time of annual employee performance reviews.

Finding #3: Quality Controls

Response: The Commission agrees and will continue to take steps to ensure appropriate documentation of established quality control procedures.

Finding #4: Employment Reference Checks

Response: The Commission agrees, and as noted in the finding has implemented revised record keeping practices effective July 1, 2005, to maintain all background and reference check documentation in employee personnel files. This will include all new personnel files, as

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EXHIBIT D (CONTINUED)
AUDITEE RESPONSE

Mr. William O. Monroe, CPA
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well as the transfer of existing documentation to personnel files of current employees. These personnel files will be maintained in accordance with record retention rules promulgated by the Department of State.

Finding #5: Statutory Revisions

Response: The Commission agrees, and will continue to provide proposed statutory amendment information to appropriate Legislative Committee staff to eliminate outdated or inappropriate references in Chapter 350, Florida Statutes, and to ensure that statutory maximums for regulatory assessment fees are consistent.

We appreciate the efforts of you and your staff to evaluate Commission operations, and will fully implement the recommended improvements. If you require further assistance, please contact our Inspector General, Steven Stolting, at 413-6338.

Sincerely,



Mary Andrews Bane
Executive Director

MAB/ba

cc: Chairman Braulio Baez
Mr. Steven Stolting