

PUBLIC SERVICE COMMISSION

Selected Administrative Activities
and Prior Audit Follow-Up



Sherrill F. Norman, CPA
Auditor General

The Public Service Commission and Executive Director

The Public Service Commission is established by Chapter 350, Florida Statutes. The Commission consists of five Commissioners appointed to 4-year terms by the Governor, subject to confirmation by the Senate, selected from the nominees recommended by the Florida Public Service Commission Nominating Council. The following individuals served as Commissioners during the period of our audit:

Art Graham	From July 16, 2010, Chair from January 2, 2018
Julie Imanuel Brown	From January 2, 2011, Chair January 2, 2016, through January 1, 2018
Ronald A. Brisé	July 23, 2010, through January 1, 2018
Gary F. Clark	From September 15, 2017
Lisa Polak Edgar	January 2, 2005, through December 16, 2016
Andrew Giles Fay	From February 2, 2018
Jimmy Patronis	January 2, 2015, through June 25, 2017
Donald J. Polmann	From January 2, 2017

The Executive Director is selected by the Commissioners and advises the Commissioners on all technical, administrative, and policy matters under the Commission's jurisdiction. In addition, the Executive Director oversees all Commission divisions and offices, except the General Counsel, and is responsible for the Commission's daily operations, including regulatory, internal management, and budgetary matters. Braulio L. Baez served as Executive Director during the period of our audit.

The team leader was Bryce R. Carroll and the audit was supervised by Barry L. Bell, CPA.

Please address inquiries regarding this report to Barry L. Bell, CPA, Audit Manager, by e-mail at barrybell@aud.state.fl.us or by telephone at (850) 412-2752.

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PUBLIC SERVICE COMMISSION

Selected Administrative Activities and Prior Audit Follow-Up

SUMMARY

This operational audit of the Public Service Commission (Commission) focused on selected Commission administrative activities and included a follow-up on the findings noted in our report No. 2016-022. Our audit disclosed the following:

Selected Administrative Activities

Finding 1: The Commission could not demonstrate that the results of the 2016-17 fiscal year physical property inventory were reconciled to Commission property records, all required information was captured during the inventory, or that property custodians had not personally inventoried property items for which they were responsible.

Finding 2: Commission controls regarding the accuracy of the information needed to accurately report and maintain accountability over Commission property, and demonstrate compliance with applicable Department of Financial Services rules, need enhancement.

Finding 3: The Commission did not always ensure that contract managers received required training for accountability in contracts and grants management, or that all individuals involved in the contract award process attested, in writing, that they were independent of, and had no conflicts of interest related to, the contractors selected.

Finding 4: The Commission did not timely deactivate user access privileges to the Florida Accounting Information Resource Subsystem upon an employee's separation from Commission employment.

Florida Energy Efficiency and Conservation Act

Finding 5: As similarly noted in our report No. 2016-022, the Commission did not fully implement requirements of the Florida Energy Efficiency and Conservation Act for natural gas utilities.

BACKGROUND

The Public Service Commission (Commission) is responsible for regulating investor-owned electric utilities, gas utilities, certain water and wastewater utilities, and telecommunications companies in the State. Additionally, the Commission has limited jurisdiction over publicly owned rural electric cooperatives and municipally owned electric and gas utilities. The Commission's regulation of investor-owned electric, natural gas, and water and wastewater utilities is commonly referred to as rate base or rate-of-return regulation, and includes rate setting responsibilities, earnings oversight, monitoring quality of service, and resolving consumer complaints. For the 2017-18 fiscal year, the Legislature appropriated approximately \$24.6 million to the Commission and authorized 267 positions.

FINDINGS AND RECOMMENDATIONS

SELECTED ADMINISTRATIVE ACTIVITIES

As part of our audit, we evaluated selected Commission administrative activities and controls, including those related to property, contracts, and Florida Accounting Information Resource Subsystem (FLAIR) access privileges.

Finding 1: Property Inventory

Effective controls for the management of tangible personal property¹ require that property items be adequately controlled, safeguarded, and accounted for by Commission management. Department of Financial Services (DFS) rules² require State agencies to record all tangible personal property with a value or cost of \$1,000 or more and a projected useful life of 1 year or more in the FLAIR Property Subsystem. DFS rules³ also require the Commission to complete a physical inventory of all tangible personal property at least once each fiscal year and specify that the form used to record the physical inventory results should evidence, among other things, the name of the custodian responsible for each property item and the model of the item, if applicable. DFS rules specify that property custodian delegates are to not personally inventory items for which they are responsible and that, upon completion of a physical inventory, the results are to be reconciled to Commission property records and noted differences are to be investigated and corrected, as appropriate.

According to Commission records, as of June 30, 2017, the Commission was responsible for 644 tangible personal property items with acquisition costs totaling \$2,748,688. As part of our audit, we examined the Commission's 2016-17 fiscal year physical inventory records, including records for 25 tangible personal property items with acquisition costs totaling \$169,372, to determine whether the Commission appropriately conducted, and reconciled the results of, the physical inventory. Our examination disclosed that:

- The Commission could not demonstrate that the results of the physical inventory had been reconciled to Commission property records.
- 5 tangible personal property items, with acquisition costs totaling \$36,641, were inventoried by the custodians responsible for the items. The items included a motor vehicle and 2 laptop computers.
- Model information for 5 tangible personal property items, with acquisition costs totaling \$23,546, was not recorded on the Commission's inventory forms. Consequently, the Commission could not demonstrate whether the model of the inventoried property items was accurately recorded in Commission property records.

In response to our audit inquiry, Commission management indicated that staff oversight and insufficient inventory procedures contributed to the deficiencies noted.

¹ Tangible personal property is defined in applicable laws and rules as State-owned equipment, fixtures, and other tangible personal property of a nonconsumable or nonexpendable nature, the value or cost of which is \$1,000 or more and the projected useful life of which is 1 year or more.

² DFS Rule 69I-72.002, Florida Administrative Code.

³ DFS Rules 69I-72.003 and 69I-72.006, Florida Administrative Code.

Periodic physical inventories conducted and documented in accordance with DFS rules are necessary to ensure proper accountability for and safeguarding of State-owned property.

Recommendation: We recommend that Commission management enhance procedures to ensure that annual physical inventories of Commission property are conducted, and the results reconciled to Commission property records, in accordance with DFS rules.

Finding 2: Property Record Information

DFS rules⁴ require that, for each tangible personal property item, State agency property records include, among other things, the make or manufacturer and manufacturer's serial number. According to Commission records, as of March 30, 2018, the Commission was responsible for 649 tangible personal property items with acquisition costs totaling \$2,838,623. Our analysis of Commission property records disclosed that the records did not include the serial number for 79 property items or the make or manufacturer for 22 property items. According to Commission management, the property information was missing due to employee oversight.

As part of our audit, we also attempted to physically observe 25 tangible personal property items, with acquisition costs totaling \$119,965, recorded in Commission property records as active as of March 30, 2018. Our audit procedures disclosed that:

- 8 property items, with acquisition costs totaling \$42,666, were not at the locations listed in the property records but were found in other locations. The items included laptop computers, desktop computers, and a server.
- A laptop computer and robotic camera head, with acquisition costs totaling \$4,689, could not be physically located.

We also physically observed eight property items to determine whether information for the property items was accurately recorded in Commission property records. Our audit procedures disclosed that:

- Three digital and analog signal processors had not been recorded in Commission property records.
- A laptop computer and server, with acquisition costs totaling \$3,141, were observed in locations other than the locations listed in the property records.

According to Commission management, employee turnover and insufficient training contributed to the deficiencies noted.

Absent effective tangible personal property controls, Commission management cannot demonstrate compliance with applicable DFS rules and has reduced assurances regarding the accuracy of the information needed to correctly report and maintain proper accountability over Commission property.

Recommendation: We recommend that Commission management enhance tangible personal property controls, including providing training to staff with property accountability responsibilities, to ensure that Commission property records are accurately maintained in accordance with DFS rules.

⁴ DFS Rule 69I-72.003(3), Florida Administrative Code.

Finding 3: Contract Awards

State law⁵ requires that, for each contractual services contract, the Commission designate an employee to function as contract manager who is responsible for enforcing performance of the contract terms and conditions and serving as a liaison with the contractor. Each contract manager responsible for contracts in excess of \$35,000 must, at a minimum, complete training conducted by the Chief Financial Officer (CFO) for accountability in contracts and grant management. Further, State law⁶ requires that, for procurements in excess of \$35,000 and accomplished without competition, the individuals taking part in the development or selection of criteria for evaluation, the evaluation process, and the award process attest in writing that they are independent of, and have no conflicts of interest related to, the entities evaluated and selected.

According to the Florida Accountability Contract Tracking System (FACTS),⁷ during the period July 2016 through February 2018, the Commission was responsible for 15 contracts, totaling \$4,518,505, that were procured without competition and subject to contract manager training requirements. As part of our audit, we evaluated Commission policies and procedures and examined Commission records for 5 of the contracts, totaling \$1,114,599, and noted that:

- Commission policies and procedures did not address contract manager training or conflict of interest requirements, which contributed to the deficiencies noted on audit.
- Commission records did not evidence that the two contract managers for three contracts, totaling \$302,596, had completed the required training for accountability in contracts and grant management.
- For all five contracts, the Commission had not required the individuals taking part in the contract award process to attest, in writing, that they were independent of, and had no conflicts of interest related to, the contractors selected.

Absent documentation demonstrating that contract managers receive required CFO training for accountability in contracts management, the Commission has reduced assurance that contracts will be appropriately managed and that contract terms and conditions will be properly enforced. In addition, the completion of conflict of interest attestations by all individuals involved in applicable Commission contract awards reduces the appearance of and opportunity for favoritism and provides greater assurance that contracts are impartially procured and awarded.

Recommendation: We recommend that Commission management enhance policies and procedures to ensure that all designated contract managers complete the required CFO training for accountability in contracts management and all individuals involved in the procurement and awarding of applicable contracts complete conflict of interest attestations and that such attestations are retained in Commission records.

⁵ Section 287.057(14) and (14)(a), Florida Statutes.

⁶ Section 287.057(19), Florida Statutes.

⁷ FACTS is an online tool developed by the DFS that provides users and the public access to State contract and grant financial information.

Finding 4: FLAIR Access Controls

The Commission utilizes FLAIR to authorize payment of Commission obligations and to record and report financial transactions. Controls over employee access to FLAIR are necessary to help prevent and detect any improper or unauthorized use of FLAIR access privileges and should include the prompt deactivation of FLAIR access when employees separate from Commission employment.

Commission procedures⁸ specified that, upon receipt of a resignation letter, notice of termination, or employee retirement, the Commission's Human Resource Section was to process a Separation Personnel Action Request in People First, the State's human resource information system, by entering the effective date of the separation and the employee's reason for leaving, if available. The separation date was also to be entered into the Personnel Data System,⁹ which sends an e-mail regarding the employment separation to all applicable employees, including Fiscal Services staff responsible for deactivating employee FLAIR access privileges within 24 hours of separation from Commission employment.

As part of our audit, we evaluated whether FLAIR access privileges were timely deactivated upon a user's separation from Commission employment. Our examination of FLAIR access and People First records for the three Commission employees with FLAIR access privileges who separated from Commission employment during the period July 2016 through February 2018 disclosed that:

- The FLAIR access privileges for two employees remained active 10 and 22 business days, respectively, after the employees' separation dates.
- The FLAIR access privileges for the other employee remained active as of February 2018, although the employee separated from Commission employment in July 2017. Subsequent to our audit inquiry, the former employee's access privileges were deactivated on April 25, 2018, or 205 business days after the employee separated from Commission employment.

In response to our audit inquiry, Commission management indicated that the delays in deactivating FLAIR access privileges were due to miscommunication and oversight during the transition in the Fiscal Services supervisor.

The prompt deactivation of FLAIR access privileges upon an employee's separation from Commission employment reduces the risk of unauthorized disclosure, modification, or destruction of Commission data.

Recommendation: We recommend that Commission management strengthen controls to ensure that FLAIR access privileges are deactivated immediately upon an employee's separation from Commission employment.

FLORIDA ENERGY EFFICIENCY AND CONSERVATION ACT

Sections 366.80 through 366.83, and 403.519, Florida Statutes, collectively constitute the Florida Energy Efficiency and Conservation Act (FEECA). The Legislature has specified¹⁰ that it is critical to utilize the

⁸ Commission Standard Operating Procedures 1193, *Processing Employee Separations*.

⁹ The Commission utilizes the Personnel Data System to maintain and report employee data and determine employee access rights to other custom database systems.

¹⁰ Section 366.81, Florida Statutes.

most efficient and cost-effective demand-side renewable energy systems¹¹ and conservation systems to protect the health, prosperity, and general welfare of the State and its citizens. The Legislature further specified that the Commission was the appropriate agency to adopt goals and approve plans related to the promotion of demand-side renewable energy systems and the conservation of electric energy and natural gas usage.

Finding 5: FEECA Implementation for Natural Gas Utilities

State law¹² requires the Commission to adopt appropriate goals for increasing the efficiency of energy consumption and increasing the development of demand-side renewable energy systems. Specifically, the goals are to include those designed to:

- Increase the conservation of expensive resources, such as petroleum fuels.
- Reduce and control the growth rates of electric consumption.
- Reduce the growth rates of weather-sensitive peak demand.
- Encourage development of demand-side renewable energy resources.

In developing the goals, State law¹³ specifies that the Commission is to evaluate the full technical potential of all available demand-side and supply-side conservation and efficiency measures, including demand-side renewable energy systems. In establishing the goals, the Commission is to take into consideration the costs and benefits to customers participating in the measure, the costs and benefits to the general body of ratepayers as a whole, the need for incentives to promote energy efficiency and demand-side renewable energy systems, and the costs imposed by State and Federal regulations on the emission of greenhouse gases.

Following the adoption of goals, State law¹⁴ specifies that the Commission is to require each utility¹⁵ to develop plans and programs to meet the overall goals within its service area. For each affected utility, the Commission is to set goals for increasing the efficiency of energy consumption and the development of demand-side renewable energy systems once every 5 years.¹⁶ Following the establishment of each utility's goals, the Commission is to consider and approve each utility's demand-side management plan, which is to comprise specific conservation programs designed to meet the utility's approved goals.¹⁷

¹¹ Section 366.82(1)(b), Florida Statutes, defines "demand-side renewable energy" to mean a system located on a customer's premises generating thermal or electrical energy using State renewable energy resources that is primarily intended to offset all or part of the customer's electricity requirements, provided the system does not exceed 2 megawatts.

¹² Section 366.82(2), Florida Statutes.

¹³ Section 366.82(3), Florida Statutes.

¹⁴ Section 366.82(7), Florida Statutes.

¹⁵ Section 366.82(1), Florida Statutes, specifies that for the purposes of FEECA, "utility" means any person or entity that provides electricity or natural gas at retail to the public, specifically including municipalities or instrumentalities thereof and cooperatives organized under the Rural Electric Cooperative Law and specifically excluding any municipality or instrumentality thereof, any cooperative organized under the Rural Electric Cooperative Law, or any other person or entity providing natural gas at retail to the public whose annual sales volume is less than 100 million therms or any municipality or instrumentality thereof and any cooperative organized under the Rural Electric Cooperative Law providing electricity at retail to the public whose annual sales as of July 1, 1993, to end-use customers is less than 2,000 gigawatt hours.

¹⁶ Commission Rule 25-17.0021(2), Florida Administrative Code.

¹⁷ Commission Rule 25-17.0021(4), Florida Administrative Code.

In our report No. 2016-022 (Finding 3), we noted that the Commission had not adopted goals for energy conservation and demand-side renewable energy systems for natural gas utilities with annual sales of at least 100 million therms¹⁸ as required by State law. As part of our follow-up audit procedures, we reviewed Commission records and performed inquiries of Commission management to determine whether the Commission had established the required energy conservation and demand-side renewable energy system goals. Our audit procedures disclosed that, as of December 2018, the Commission had not adopted goals for energy conservation and demand-side renewable energy systems for natural gas utilities with annual sales of at least 100 million therms as required by State law.

In response to our audit inquiry, Commission management indicated that the Commission sought legislative clarification regarding the applicability of FEECA requirements to natural gas utilities. However, the Legislature did not amend FEECA. As of May 3, 2019, the Commission was in the process of conducting a proceeding for the one natural gas utility currently subject to FEECA requirements to establish goals for energy conservation and demand-side renewable energy systems.

The exclusion of natural gas utilities for the purposes of fully implementing FEECA may limit the Commission's ability to verify that affected utilities attain all statutorily required goals for increasing the efficiency of energy consumption and increasing the development of demand-side renewable energy systems.

Recommendation: We again recommend that Commission management fully implement FEECA specifically as it applies to natural gas utilities.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Commission had taken corrective actions for the findings included in our report No. 2016-022.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from March 2018 through February 2019 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.

This operational audit of the Public Service Commission (Commission) focused on selected administrative activities. The overall objectives of the audit were:

¹⁸ Commission Rule 25-7.003(15), Florida Administrative Code, specifies that "therm" denotes a unit of heating value equivalent to 100,000 British thermal units. Commission Rule 25-7.003(14), Florida Administrative Code, defines "British thermal unit" to mean the quantity of heat required to raise the temperature of 1 pound of water 1 degree Fahrenheit.

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all deficiencies noted in our report No. 2016-022.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, Commission policies and procedures, and other guidelines, and interviewed Commission personnel to obtain an understanding of financial management and selected administrative activities controls.
- Examined the Commission's 2016-17 fiscal year physical inventory records, including records for 25 selected tangible personal property items with acquisition costs totaling \$169,372, to determine whether Commission property was properly inventoried, the inventory results were

timely reconciled to Commission property records, and appropriate actions were taken to follow up on any items not located during the physical inventory.

- Analyzed Commission property records as of March 30, 2018, and examined Commission expenditure records for 14 selected tangible personal property items, with acquisition costs totaling \$161,394, to determine whether Commission property records were accurate and complete and whether the Commission appropriately accounted for property in accordance with Department of Financial Services (DFS) Rules, Chapter 69I, Florida Administrative Code. As of March 30, 2018, the Commission was responsible for 649 tangible personal property items with acquisition costs totaling \$2,838,623.
- From the population of 649 tangible personal property items the Commission was responsible for as of March 30, 2018, we identified 580 tangible personal property items, with acquisition costs totaling \$2,500,144, located in Tallahassee and attempted to physically observe 25 selected property items, with acquisition costs totaling \$119,965, to determine whether the Commission appropriately accounted for property in accordance with DFS Rules, Chapter 69I, Florida Administrative Code.
- Physically observed and traced 8 property items to Commission property records to determine whether information for the property items was accurately recorded in Commission property records.
- From the population of 39 tangible personal property items, with acquisition costs totaling \$211,914, purchased by the Commission during the period July 2016 through February 2018, examined Commission records for 5 selected tangible personal property items, with acquisition costs totaling \$39,319, to determine whether the items were appropriately recorded in Commission property records.
- From the population of 53 tangible personal property items, with acquisition costs totaling \$157,613, that were disposed of during the period July 2016 through February 2018, examined Commission records for 5 selected tangible personal property items, with acquisition costs totaling \$15,240, to determine whether the Commission appropriately accounted for, and disposed of, the property items in accordance with Section 273.055, Florida Statutes, DFS Rules, Chapter 69I, Florida Administrative Code, and Department of Management Services (DMS) Rules, Chapter 60B, Florida Administrative Code.
- From the population of 28 motor vehicles, with acquisition costs totaling \$420,865, maintained by the Commission as of March 30, 2018, examined Commission records for 5 selected vehicles, with acquisition costs totaling \$69,826, to determine whether Commission records accurately reflected motor vehicle usage and cost information.
- Examined Commission records for the two contracts, totaling \$262,000, awarded by the Commission during the period July 2016 through February 2018, to determine whether the Commission awarded the contracts in accordance with Chapters 112 and 287, Florida Statutes, Section 215.422, Florida Statutes, DFS Rules, Chapter 69I, Florida Administrative Code, and DMS Rules, Chapter 60A, Florida Administrative Code. In addition, we examined Commission records for three additional contracts, with award amounts totaling \$852,599, that were active during the period July 2016 through February 2018, to determine whether the contract manager had been trained and certified in accordance Section 287.057(14)(a), Florida Statutes, and whether the contract manager had attested in writing they were independent of, and had no conflicts of interest related to, the contracted entities, in accordance with Section 287.057(19), Florida Statutes.
- Examined Commission records for the one real property lease amended during the period July 2016 through February 2018 to determine whether the Commission established and maintained controls, procedures, and records to ensure and demonstrate the proper management of real property leases.

- Determined through an examination of Commission records whether selected Commission expenditures were in correct amounts and adequately documented; made in accordance with applicable laws, rules, and contract terms; and properly authorized and approved. Specifically, the expenditures subject to testing included:
 - 25 purchase transactions, totaling \$229,111, selected from the population of 9,634 purchase transactions, totaling \$1,832,830, made during the period July 2016 through February 2018.
 - 30 contract expenditure transactions, totaling \$415,403, selected from the population of 3,314 contract expenditure transactions, totaling \$4,616,312, made during the period July 2016 through February 2018.
- Evaluated Commission actions to correct the findings noted in our report No. 2016-022. Specifically, we:
 - From the population of the two nuclear power plant project management internal control audits completed during the period July 2016 through February 2018, examined Commission records for one selected audit to determine whether the audit was adequately planned, conducted, and reviewed, and all requested records were received and reviewed in accordance with Commission policies and procedures, and whether the audit report clearly described the professional standards followed.
 - From the population of eight audit reports (five Energy Conservation Cost Recovery (ECCR) and three Nuclear Cost Recovery (NCR)) issued during the period July 2016 through February 2018, selected and examined Commission records for two ECCR audit reports and one NCR audit report to determine whether the Commission conducted the audits in accordance with Commission policies and procedures.
 - Performed inquiries of Commission management and reviewed Commission records to determine whether the Commission had established energy conservation and demand-side renewable energy system goals for natural gas utilities with annual sales of at least 100 million therms and required natural gas utilities to offer energy audits to residential customers, in accordance with State law.
 - Evaluated Commission policies and procedures and examined Commission records to determine whether the Commission adequately monitored the affected utilities' implementation of energy conservation programs, energy audit requirements, and demand-side renewable energy systems programs.
 - Reviewed Commission purchasing card procedures to determine whether the procedures specified the manner and time frame for timely canceling purchasing cards upon a cardholder's separation from Commission employment.
 - Examined Commission records for the four purchasing cardholders who separated from Commission employment during the period July 2016 through February 2018 to determine whether the Commission timely canceled the employees' purchasing cards upon the cardholders' separation from Commission employment.
- Interviewed Commission management, examined Commission forms, and evaluated Commission compliance with applicable statutory requirements for collecting and utilizing individuals' social security numbers.
- Observed, documented, and evaluated the effectiveness of selected Commission processes and procedures for:
 - Budgetary activities; managing FLAIR, Case Management System, and Regulatory Assessment Fee system access privileges; settlement agreements; fixed capital outlay; and financial reconciliations.

- The assignment and use of wireless devices with related costs totaling \$61,483 during the period July 2016 through February 2018.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

COMMISSIONERS:
ART GRAHAM, CHAIRMAN
JULIE I. BROWN
DONALD J. POLMANN
GARY F. CLARK
ANDREW GILES FAY

STATE OF FLORIDA



EXECUTIVE DIRECTOR
BRAULIO L. BAEZ
(850) 413-6463

Public Service Commission

June 18, 2019

Ms. Sherrill F. Norman
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

As required by Section 11.45(4)(d), Florida Statutes, enclosed is the Commission's response to the preliminary and tentative findings and recommendations contained in your Operational Audit of the Public Service Commission - Selected Administrative Activities and Prior Audit Follow-Up. This response includes specific actions taken or planned to address the identified findings.

We appreciate your review and believe the audit information will assist us as we work to improve Commission operations. If additional information is needed, please contact our Inspector General, Steven Stolting, at (850) 413-6071.

Sincerely,

A handwritten signature in blue ink, appearing to read "Braulio L. Baez".

Braulio L. Baez
Executive Director

Enclosure

Cc: Mark Futrell, Deputy Executive Director, Technical
Apryl C. Lynn, Deputy Executive Director, Administrative
Steven J. Stolting, Inspector General

RESPONSE TO OPERATIONAL AUDIT OF THE PUBLIC SERVICE COMMISSION,
SELECTED ADMINISTRATIVE ACTIVITIES AND PRIOR AUDIT FOLLOW-UP

Selected Administrative Activities:

Finding 1: The Commission could not demonstrate that the results of the 2016-17 fiscal year physical property inventory were reconciled to Commission property records, all required information was captured during the inventory, or that property custodians had not personally inventoried property items for which they were responsible.

Recommendation: We recommend that Commission management enhance procedures to ensure that annual physical inventories of Commission property are conducted, and the results reconciled to Commission property records, in accordance with DFS rules.

Response: The Commission agrees with the recommendation, and has implemented the following changes to address this finding, which will be incorporated into written procedures:

- The FLAIR inventory printout used by staff to conduct the physical inventory now includes all data fields required by DFS rules, including the name of the custodian and model of the item, if applicable. This will help ensure that required data is recorded accurately in Commission property records, and any incorrect or missing fields are updated.
- After the physical inventory, fiscal staff will verify the completed inventory printout for accuracy. If a record requires no modification, fiscal staff will initial next to the individual item on the physical inventory printout. If changes are needed, the specific property item will be marked with an asterisk and initials on the printout, indicating that the FLAIR inventory has been updated.
- Fiscal staff then creates a spreadsheet documenting all transactions that required a change to FLAIR data, and if paperwork such as a property transfer form is required to support the change, it will be scanned into the spreadsheet.
- Commission procedures will prohibit property custodians from conducting the physical inventory.

Finding 2: Commission controls regarding the accuracy of the information needed to accurately report and maintain accountability over Commission property, and demonstrate compliance with applicable Department of Financial Services rules, need enhancement.

Recommendation: We recommend that Commission management enhance tangible personal property controls, including providing training to staff with property accountability responsibilities, to ensure that Commission property records are accurately maintained in accordance with DFS rules.

Response: The Commission agrees with this recommendation, and has implemented the following changes to address the finding:

- Management has provided training to staff with property accountability responsibilities, including review of specific DFS requirements for maintenance of property records.

- Enhanced procedures as outlined in response to Finding 1 will help ensure compliance with DFS property inventory rules.

Finding 3: The Commission did not always ensure that contract managers received required training for accountability in contracts and grants management, or that all individuals involved in the contract award process attested, in writing, that they were independent of, and had no conflicts of interest related to, the contractors selected.

Recommendation: We recommend that Commission management enhance policies and procedures to ensure that all designated contract managers complete the required CFO training for accountability in contracts management and all individuals involved in the procurement and awarding of applicable contracts complete conflict of interest attestations and that such attestations are retained in Commission records.

Response: The Commission agrees with this recommendation, and all staff designated as contract managers have currently completed required CFO training. Written policies and procedures will be amended to include this requirement, as well as to require all individuals involved in procurement and awarding of contracts to complete conflict of interest attestations, which will be retained in Commission records.

Finding 4: The Commission did not timely deactivate user access privileges to the Florida Accounting Information Resource Subsystem upon an employee's separation from Commission employment.

Recommendation: We recommend that Commission management strengthen controls to ensure that FLAIR access privileges are deactivated immediately upon an employee's separation from Commission employment.

Response: The Commission agrees with this recommendation, and will implement and update procedures to address this finding. Information technology staff will add a new feature to the Personnel Data System (PDS) to track employees with FLAIR access, generating an automated message specifically to staff responsible for deactivation of FLAIR access privileges. In addition, fiscal staff will conduct and document monthly audits to confirm the timely removal of FLAIR access rights when employees separate from the agency.

Florida Energy Efficiency and Conservation Act:

Finding 5: As similarly noted in our report No. 2016-022, the Commission did not fully implement requirements of the Florida Energy Efficiency and Conservation Act for natural gas utilities.

Recommendation: We again recommend that Commission management fully implement FEECA specifically as it applies to natural gas utilities.

Response: The Commission's actions to fully implement FEECA as it applies to natural gas utilities are underway and nearing completion. Peoples Gas System is the only investor-owned natural gas utility that meets the sales threshold in FEECA and is thus the only gas utility subject to FEECA. To comply with the Auditor General's finding in Report 2016-022 concerning implementation of FEECA requirements for natural gas utilities, Commission staff requested that Peoples Gas System develop and file with the Commission a petition for approval of proposed goals and an energy audit program. Commission staff has conducted extensive discovery and is currently completing its final review of Peoples Gas Systems' petition to establish conservation goals and an energy audit program. Commission staff expects to file its recommendation on these issues for Commission consideration at the August 6, 2019 Agenda Conference.