

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

REVIEW REPORT
OF
UTILITY REGULATORY COMMISSION
STATE OF INDIANA
February 1, 2012 to December 31, 2013



FILED
07/11/2014

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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chairman	James D. Atterholt (Vacant)	10-05-10 to 05-18-14 05-19-14 to 05-20-14
Commission Chair	Carol A. Stephan	05-20-14 to 04-30-17



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE UTILITY REGULATORY COMMISSION

We have reviewed the activities related to the receipts, disbursements, and assets of the Utility Regulatory Commission for the period of February 1, 2012 to December 31, 2013. The Utility Regulatory Commission's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports. Federal programs are included in the scope of our statewide single audits as reflected in the Statewide Single Audit Reports.

Based on our review, nothing came to our attention that caused us to believe that the activities related to the receipts, disbursements, and assets of the Utility Regulatory Commission are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, and applicable laws and regulations except as stated in the review comments.

The Utility Regulatory Commission's response to the Review Comments identified in our review is described in the accompanying section of the report entitled Official Response. We did not review the Utility Regulatory Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Utility Regulatory Commission's management and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the Indiana State Board of Accounts and of the office reviewed.

STATE BOARD OF ACCOUNTS

May 15, 2014

UTILITY REGULATORY COMMISSION
REVIEW COMMENTS
December 31, 2013

INTERNAL CONTROLS OVER RECEIPTS

Our testing of receipts revealed the following deficiencies in the internal control structure at the Utility Regulatory Commission (URC):

- URC did not maintain a daily cash log which would include the date collections were received.
- Checks were not endorsed for deposit upon receipt.
- Checks were not being held in a secure location.
- There is a lack of segregation of duties over receipts due to one URC employee endorses, stamps the checks, enters the receipts into the agency's internal electronic case management system (ECMS), creates the Report of Collections, makes the deposits, and records the receipts into ENCOMPASS.
- Receipts received in June were not deposited until July, when the new state fiscal year started, and were incorrectly recorded as current revenue, not as prior period revenue in the new state fiscal year.
- Receipts were not deposited timely when the URC employee that processes the receipts was out of the office. Receipts were not deposited until that individual returned to work and receipts received in June were not deposited until July.

Indiana Code 5-13-6-1(b) states in part: ". . . all public funds . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - General Guidelines & Policy)

INTERNAL CONTROLS OVER THE USE OF STATE OWNED VEHICLES AND GAS CARDS

Our review of the use of state owned vehicles and gas cards revealed the following deficiencies in the internal control structure at the Utility Regulatory Commission (URC):

- No written policy was in place over the use of state owned vehicles and gas cards providing guidance to staff for proper usage and proper reporting of usage.
- Gas card bank statements were not reviewed against the gas card receipts nor the mileage logs to ensure that URC's gas card expenses incurred were accurate and not being used for personal use.

UTILITY REGULATORY COMMISSION
REVIEW COMMENTS
December 31, 2013
(Continued)

- Mileage Log forms did not document the destinations staff were travelling to and from to allow management to properly determine proper use.
- Mileage Log forms used by staff do not contain a spot to document management's review of the mileage logs; therefore, we were unable to determine if the mileage logs were reviewed timely.
- Mileage Log forms were not timely submitted for management review. One individual had not submitted the mileage logs for each month to the URC office during the time period reviewed and two individuals had not submitted two months of mileage logs to the URC office.

Each state agency should establish controls to ensure that all payments and reimbursements for travel expenses are legitimate, accurate and in compliance with State travel rules and regulations. Travel reimbursements should not be made for travel of a personal nature. All claims for reimbursement should be approved by an authorized person. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10.2)

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview – General Guidelines & Policy)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An Agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview – General Guidelines & Policy)

CAPITAL ASSET INVENTORY

During our review of the Utility Regulatory Commission, we found that an annual physical inventory of assets owned had not been conducted.

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter 8.4)

UTILITY REGULATORY COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on May 28, 2014, with Carol A. Stephan, Commission Chair; Danielle M. McGrath, Executive Director of External Affairs; and Mary M. Becerra, Controller. The Official Response can be seen on pages 7 through 9.

A copy of the review comments were sent by email on May 28, 2014, to James D. Atterholt, Chairman.



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To: Paul Joyce, CPA
State Examiner

From: Carol A. Stephan, Commission Chair
Indiana Utility Regulatory Commission

Date: June 9, 2014

Re: Official Response to Audit Report

This memorandum is in response to the State Board of Accounts Audit Report and exit conference. The audit results were presented to the Indiana Utility Regulatory Commission ("IURC") by Field Examiner Matthew Stone and Field Examiner David Parker on May 28, 2014.

The IURC appreciates the opportunity to receive constructive feedback to further improve our existing processes. We are committed to addressing the areas of concern found during the audit and are prepared to make adjustments necessary to align our agency with Generally Accepted Accounting Practices and the State of Indiana's Governmental Accounting Standards and Guidelines. Each observation found during the audit is discussed below and includes a course of action to correct the deficiencies involved.

1. Internal Controls Over Receipts

Mr. Stone and Mr. Parker identified deficiencies in internal controls regarding receipts. Specifically, the IURC did not maintain a daily cash log; checks were not immediately endorsed upon receipt; checks were not held in a secure location when the staff member responsible for receipts was out of office; there is a need for more in-depth separation of duties; receipts received in June were not deposited until July; and receipts were not deposited in a timely fashion when the employee that processes receipts was out of the office. The IURC fully addressed all of these deficiencies during the audit by implementing the following changes:

- Effective March 20, 2014, all checks received in office are immediately endorsed "for Deposit Only" by the receptionist. The checks are delivered to the IURC's Controller and accompanied by a cash log developed by the receptionist either the

same day or the following day dependent upon what time the U.S. Mail is delivered. If the IURC's Controller is not in the office, the checks are given to the Executive Director to enter the Report of Collections into the Encompass System. The cash log includes individual dates of receipt and check numbers, and each check must be verified by either the Controller or the Executive Director. In situations when it is not possible to process a Report of Collections that same day, the checks are locked in either the Controller or the Executive Director's individual desk drawers until the Report of Collections is completed the following work day.

- Historically, the IURC has held on to checks received for the next fee bill cycle (i.e., checks received in June attributable to July's appropriation are deposited on July 1st). However, effective this fiscal year, revenues will be deposited upon receipt regardless of which fiscal year they are attributed.

2. Internal Controls Over the Use of State Owned Vehicles and Gas Cards

Mr. Stone and Mr. Parker identified deficiencies in internal controls over the use of State owned vehicles and gas cards relative to the IURC's Pipeline Safety Division. Specifically, there was no written policy for either, gas bank card statements were not reviewed against receipts, mileage log forms were not properly documented and reviewed by management, nor were they submitted in a timely manner by Pipeline Safety staff. The IURC agrees with State Board of Accounts' assessment in this area and will make efforts to correct the deficiencies as follows:

- The Pipeline Safety Director, Office of the Controller and Office of General Counsel will collaboratively develop an IURC Vehicle Use Policy. Our goal is to have the policy developed and implemented on or before July 15, 2014.
- The Pipeline Safety Director and Office of the Controller will work collaboratively to develop a plan to have staff turn in gas receipts to the division representative on a monthly basis, have the division representative review the receipts against mileage logs, and turn the receipts over to the Office of the Controller to be included with the monthly gas card statement.

3. Capital Asset Inventory

Mr. Stone and Mr. Parker found that the IURC had not conducted an annual physical inventory count of assets owned. The IURC agrees with State Board of Accounts' assessment and will conduct annual physical inventory counts while maintaining proper separation of duties. Annual physical audits of assets will begin July 1, 2014 and continue on that day in subsequent years by an individual who is not assigned to any financial responsibilities in

PeopleSoft Financials. The Office of the Controller will maintain the records and results of the physical audit and will provide those records in subsequent audits.

It is our hope that this response to the Audit Report sufficiently addresses the issues raised in the exit interview. Should you have any questions regarding this matter, please do not hesitate to contact me.