



Lawrence F. Alwin, CPA

May 30, 2001

A Review of Selected Controls at the Public Utility Commission of Texas

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Members of the Legislative Audit Committee:

The Public Utility Commission of Texas (Commission) has implemented key legislation, improved its oversight of the Texas Universal Service Fund, and improved its reporting of performance measures. Under deregulation and increased competition in the electric and telecommunications industries, the Commission's role is shifting from rate-setting to customer protection. Because our review focused primarily on the Commission's current administrative operations, we cannot provide assurances regarding the future of those industries.

We made the following specific observations:

- The Commission has adopted rules to implement the following bills from the 76th Legislature: Senate Bill 7 (electric deregulation), Senate Bill 86 (customer protection), and Senate Bill 560 (telecommunications deregulation).
- The Commission has improved its financial management practices, including cash management, since our initial visit in 1999.
- The Commission has improved its reporting on key performance measures since our most recent performance measures certification audit in 1997.
- In fiscal year 2000, the Commission faced a relatively high staff turnover rate of approximately 33 percent. The statewide average for fiscal year 2000 was 21 percent.

We also noted that, during our review, the Commission improved its monitoring of the Texas Universal Service Fund (Fund) for telecommunications. However, we may propose further audit work regarding the size and location of the Fund balance and whether the Commission's current disclosure of Fund activities is sufficient.

The Commission contracts with the National Exchange Carriers Association (Association) to administer the Fund. The Fund was created in 1987 to ensure the availability of basic telephone services throughout the state. During fiscal year 2000, the Commission increased the charge for financing the Fund from 0.79 percent of all taxable telecommunications receipts to a high of 3.96 percent effective March 1, 2000.

Objective, Scope, and Methodology

Our objective was to seek assurance that the Commission collects and reports reliable data; safeguards and uses assets efficiently; complies with significant laws and regulations; and achieves progress toward its goals and objectives.

We conducted our fieldwork between September 1999 and June 2000. We kept the project active after June 2000 to accommodate possible legislative interest. Because of the unique nature of this project, we did not perform all of the procedures necessary to meet certain auditing standards. Therefore, we do not consider this letter to be an audit report.

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The Commission subsequently reduced the charge to 3.60 percent effective January 1, 2001. For the fiscal year ending August 31, 2000, the Fund had revenues of \$560.8 million, disbursed \$505.5 million primarily to local carriers, and had a balance of \$76.9 million. The Association manages the Fund through the First Union Bank of New Jersey.

We appreciate the Commission's cooperation and responsiveness to our suggestions during this project. The Commission generally agrees with our observations. (See the attachment for the full text of the Commission's response.) If you have any questions, please contact Joanna Peavy, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

cbg

Attachment

cc: Public Utility Commission of Texas:
Mr. Pat Wood, Chairman
Mr. Brett Perlman, Commissioner
Mr. W. Lane Lanford, Executive Director

Management's Response

Pat Wood, III
Chairman

Brett A. Perlman
Commissioner

W. Lane Lanford
Executive Director



Public Utility Commission of Texas

May 18, 2001

Mr. Lawrence Alwin, CPA
State Auditor
Robert E. Johnson Building
1501 N. Congress Avenue, Suite 4.224
Austin, Texas 78701

Dear Mr. Alwin:

The Commission agrees with and appreciates your observations resulting from the detailed review of selected management controls. Voluminous material reflecting a broad range of management practices was compiled for the review, and numerous staff met with the auditors for periodic detailed discussions over nearly 18 months. The auditors' thorough approach was helpful and we attribute the lack of disruption in agency operations to their auditing experience.

For three years, we have devoted special efforts to strengthening management controls and oversight as agency operations are increasingly critical for implementing major statutory reforms. While cash transactions comprise a very minor portion of the agency's total budget, improvement in that area is reflective of systematic financial management changes within the agency, including monitoring Universal Service Fund (USF) activity. The Commission continues to review the level of the USF for its required purposes. After a lengthy process to improve the agency's performance measures, these tools have become useful in providing management information for a range of agency processes. Your staff and the Legislative Budget Board staff continue to be helpful in refining the measures for more effective internal agency use.

Sincerely,


W. Lane Lanford
Executive Director

Cc: Chairman Pat Wood, III
Commissioner Brett Perlman



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