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# Public Service Commission

December 23, 2010

Ms. Kathy DuBose, Staff Director  
Joint Legislative Auditing Committee  
111 W. Madison Street  
Tallahassee, Florida 32399-1400

Dear Ms. DuBose:

Pursuant to Section 20.055(5)(h), Florida Statutes, enclosed is a copy of my report to the Commission Chairman on the corrective actions taken in response to Auditor General Report No. 2011-001, Public Service Commission Operational Audit – Regulatory Assessment Fees and Prior Audit Follow-Up.

If you have questions or require additional information, please advise.

Sincerely,

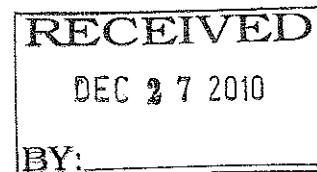
A handwritten signature in cursive script that reads "Steven J. Stolting".

Steven J. Stolting  
Inspector General

SJS:ld

Enclosure

Cc: Chairman Graham (w/o enclosure)  
Mr. Tim Devlin  
Mr. Curt Kiser  
Mr. Charles Hill






# Public Service Commission

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**DATE:** December 23, 2010  
**TO:** Art Graham, Chairman  
**FROM:** Steven J. Stolting, Inspector General   
**RE:** Status of Agency Actions Regarding Auditor General Report (OIG 10/11-20)

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Pursuant to Section 20.055(5)(h), Florida Statutes, the Office of Inspector General is required to report to you regarding the status of the Commission's response to recommendations by the Auditor General six months after issuance of the audit report. In July 2010, the Auditor General issued their Operational Audit of Regulatory Assessment Fees and Prior Audit Follow-up. It contained just one finding and corresponding recommendation for corrective action. The following provides the original finding and recommendation, our initial response, and summarizes our additional actions over the intervening six months to address the issue.

**Finding:** State law provides that, every six months, each regulated company under the jurisdiction of the Commission, shall pay to the Commission a fee based upon gross operating revenues for such period. The fee shall, to the extent practicable, be related to the cost of regulating such type of regulated company. Our audit disclosed that the Commission did not maintain documentation supporting a periodic review of the reasonableness of regulatory assessment fee rates.

**Recommendation:** We recommend that the Commission perform and maintain documentation of its periodic reviews of RAF rates. Based on these reviews, RAF rates should be adjusted to ensure that the fees relate to the costs of regulating each type of regulated company.

**Initial Response:** We agree that the Commission should improve documentation of its periodic analyses of revenue collections and cost trends for the purpose of assessing and adjusting RAF rates. While the report correctly points out that cash balances did accrue and increase in the trust fund, management determinations not to reduce RAF rates during the 2004 – 2009 period were based on indications that balances were largely due to short-term conditions that increased revenue or reduced Commission costs. These include spending restrictions and delays in filling positions required by past trust fund shortages, along with storm restorations surcharges and volatility in fuel prices that temporarily increased revenues. Such time-limited conditions did not warrant amendment of administrative rules to adjust rates. Our current review of detailed data from this period validates the correlation between increased trust fund

balances in specific industries and the duration of these conditions. On an ongoing basis, these data indicate that most RAF collections by industry correlate closely with the costs of regulation, and that revenues for more recent periods are stable to declining for many regulated industries. In addition, a significant portion of the prior accumulated balances in the trust fund have been transferred to general revenue. However, we appreciate the need to perform and document review of trust fund balances and RAF rates in a systematic and documented manner, and will initiate adjustments to those rates where warranted.

***Current Status: FULLY IMPLEMENTED.*** *In March 2010, the Commission adopted APM 9.01 K, which provided for an annual review process of all RAF balances and rates, and evaluation and amendment of those rates by Commission management where warranted. On September 1, 2010, Commission management held a meeting to conduct this evaluation and determined that no changes to RAF rates are currently warranted. This evaluation and the basis for the Commission's determination are documented.*

**Conclusion:** We found that Commission management and staff have put in place the necessary processes and controls to fully address the finding and recommendation. If you have any questions or need additional information regarding our response to this finding, please let me know.

SJS:ld