

Effective Regulatory Monitoring: Audits

Mission Statement

The WUTC protects consumers by ensuring that utility and transportation services are fairly priced, available, reliable, and safe.

Fifth Partnership Activity of the WUTC & The Kyrgyz NAAPDC

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Purpose of Audit

The utility is allowed to recover in rates legitimate, recurring, and reasonable expenses.

The audit analysis works to determine if booked expenses meet those criteria.

A general guideline;
is the asset or expense used and useful to deliver the public service.

Authority to Audit Utility Records

Washington law gives the Commission the right, at any time, to inspect the accounts, books, papers and documents of any public service company.

The commission also prescribes the form of the accounts, records and memoranda.

The records and accounts of the utility must be kept so that the operations within Washington can be separated from the utility's business in other states

Prescribed Accounting System

Washington uses the federal Uniform System of Accounts (USoA) for Washington utilities.

This chart of accounts is standard for electric and gas utilities throughout the US.

While the USoA sets the general “form” of the accounts, the utilities’ computer programs vary in important ways.

Accounting Records

The company provides:

- computer printouts of summarized activity;
- general ledger printouts; and
- other non- accounting data on request.

Source documents are available for inspection.

Monthly Activity

Staff reviews printouts or spreadsheets of summarized monthly activity by account.

Staff reviews abnormally high or low levels of expense for errors or mis-postings.

The first and last months of a year must be reviewed for out-of-period expenses.

Findings at this stage direct the next level of discovery.

General Ledger

The details of all transactions are found in the general ledger.

Accounting activities are reviewed to assure compliance with regulations, not for fraud or accounting errors.

However, the auditor should point out any abnormalities when found.

General ledger entries will lead to the review of specific source documents.

Source Documents

A source document is a document that originates a transaction, such as an invoice for goods.

Most utilities allow staff to research the document files.

But some utilities do not allow access to original documents. These companies require us to state exactly which document we want to see. The utility then provides only that document.

Confidential Information

The utility may designate certain information as confidential.

Confidential information is generally “valuable commercial information, including trade secrets or confidential marketing, cost, or financial information or customer-specific usage.”

The commission will release confidential information in ten days if the utility does not obtain a superior court order protecting the records as confidential.

Use of Source Document

An original invoice, properly signed and paid, is the best proof that a transaction occurred.

Documents are inspected for timing, proper coding, and proper allocation to utility accounts.

A source document provides more details about the expense, but often still not enough.

Digging Deeper

The clues from the invoice lead us to ask about the type of expense; why the expense was charged to the utility; or if more similar expenses exist.

We also ask for all the expenses from the same vendor, and/or for the same project.

Use of Audit Data

Often the auditor's curiosity is satisfied by the utility's answers and no further questioning is necessary.

A "data request" is necessary to take specific information or copies of documents back to the office.

The data request and the response will become public information unless the company declares the response confidential.

Materiality versus Policy

The auditor may determine a given expense should not be recovered in rates, but it is not reasonable to look for every single som. The threshold of materiality may vary; judgment is needed.

On the other hand, expenses that are clearly illegal, should be removed regardless of amount.

Expenses not allowed by law must also be excluded, regardless of amount.

Expenses Not Recoverable in Rates

Washington law does not allow utilities to recover from customers expenses to influence lawmakers or government policy, to promote electric or gas consumption, or to enhance the image of the utility.

Generally charitable donations are also excluded from rates.

The audit should look for such items.

Audit Results

The utility often will accept the auditors comments and make appropriate changes. The utility appreciates hearing about its own staffs' errors.

If not, the results may be presented as formal testimony in a general rate case.

Differences of opinion are often legitimate, and may require the Commission's decision.

Conclusion

An audit of utility books is necessary to establish a meaningful baseline.

The commission must have unfettered access to the utilities' books and records.

Staff audits are for regulatory compliance, not for financial presentations or investment purposes.

The staff auditor's opinion may be contested by the utility. Both parties welcome the opportunity to present their side to the Commission for a ruling.

Thank You.



I am available for any questions.