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An Audit Report on

Performance Measures at the Public Utility Commission of Texas

June 2007
Report No. 07-036



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Overall Conclusion

The Public Utility Commission of Texas (Commission) reported reliable results for 71 percent (five of seven) of the fiscal year 2006 and first quarter of fiscal year 2007 key performance measures audited. A result is considered reliable if it is certified or certified with qualification.

Specifically:

- The reported results for five of the key performance measures tested were certified with qualification.
- Reported results for two key performance measures—Number of Enforcement Investigations Conducted and Average Cost Per Enforcement Investigation Conducted—were inaccurate because the Commission did not follow the Automated Budget and Evaluation System of Texas (ABEST) methodology in calculating the two measures. Also, the Commission did not follow its internal written procedure to review the data prior to release in ABEST. As a result, auditors' recalculations of summary data provided by the Commission were inconsistent with the results reported to ABEST.

Table 1 summarizes the certification results for the seven key performance measures tested.

Background

Agencies report results for their key measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

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Table 1

Public Utility Commission of Texas (Agency No. 473)				
Related Objective or Strategy, Classification	Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results
A, Goal, Ensure Competition, Choice, Just Rates, and Reliable Quality Service (Outcome)	Average Price of Electricity Per Kilowatt Hour in Texas for Residential Customers from Competitive Suppliers as a Percentage of the National Residential Average	2006	137.1%	Certified with Qualification
A, Goal, Ensure Competition, Choice, Just Rates, and Reliable Quality Service (Outcome)	Average Annual Residential Electric Bill from Competitive Suppliers as a Percentage of the National Average	2006	186.1%	Certified with Qualification
A, Goal, Ensure Competition, Choice, Just Rates, and Reliable Quality Service (Outcome)	Average Annual Residential Telephone Bill in Texas as a Percentage of the National Average	2006	68.81%	Certified with Qualification
B, Goal, Education and Compliance	Number of Information Requests to Which Responses Were Provided	2006	93,103	Certified with Qualification
B.1.1, Strategy, Provide Facts About Changes (Output)		2007 (1st Quarter)	22,465	
B.1.1, Strategy, Provide Facts About Changes (Explanatory)	Number of Calls Completed through Relay Texas	2006	2,750,152	Certified with Qualification
B.2.1, Strategy, Investigations and Enforcement (Output)	Number of Enforcement Investigations Conducted	2006 2007 (1st Quarter)	253 10	Inaccurate
B.2.1, Strategy, Investigations and Enforcement (Efficiency)	Average Cost Per Enforcement Investigation Conducted	2006 2007 (1st Quarter)	\$421.68 \$2,537.00	Inaccurate
<p>A measure is Certified if reported performance is accurate within plus or minus 5 percent of actual performance and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.</p> <p>A measure is Certified With Qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.</p> <p>A measure is Inaccurate when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused more than a 5 percent difference between the number reported to ABEST and the correct performance measure result.</p> <p>A Factors Prevented Certification designation is used if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also will be used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result.</p>				

Summary of Management's Response

The Commission agreed with the recommendations in this report.

Summary of Information Technology Review

Auditors reviewed the Commission's systems and processes related to the seven key performance measures audited. Through interviews with key personnel, a walk-through of physical properties, and reviews of access lists and documentation related to the key performance measures tested, auditors identified controls and assessed their effectiveness.

The Commission has controls in place to protect its information resources related to the performance measures. In addition, the databases and processes used in the calculations of performance measures have controlled access and audit trails to ensure the integrity of the data.

Summary of Objectives, Scope, and Methodology

The objectives of the audit were to:

- Determine whether the Commission is accurately reporting selected key performance measures to the Automated Budget and Evaluation System of Texas (ABEST) database.
- Determine whether the Commission has adequate control systems in place over the collection, calculation, and reporting of selected performance measures.

The scope of this audit covered key performance measure results reported by the Commission for fiscal year 2006 and the first quarter of fiscal year 2007. Auditors also reviewed controls over the submission of data used in reporting the performance measures and traced performance measure information to the original source documents when possible.

The audit methodology included selecting seven key performance measures, identifying preliminary control information through a questionnaire completed by the Commission, and auditing calculations for accuracy and consistency with the agreed-upon methodology. Auditors also analyzed the flow of data to evaluate whether proper controls were in place and tested a sample of source documents to verify the accuracy of reported performance when possible. Auditors also conducted a review of the information systems supporting the performance measure data.

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Detailed Results

Chapter 1

Results the Commission Reported for Five of Seven Key Performance Measures Tested Were Reliable

The Commission Should Improve Processes and Policies for Calculating and Reporting Performance Measures

For the seven performance measures tested, the Commission does not have sufficient controls to ensure its reported performance measures are accurate.

Specifically, the Commission:

- Does not perform consistent supervisory review of performance measure calculations.
- Does not have written policies and procedures to document evidence of a supervisory review of performance measures.
- Does not consistently review data before it is released into the Automated Budget and Evaluation System of Texas (ABEST).
- Does not have written policies and procedures documenting data collection, entry, and calculation of performance measures.

This lack of supervisory review and written policies and procedures impairs the Commission's ability to ensure that accurate information is reported in the future.

Recommendations

The Commission should:

- Implement a supervisory review process to ensure that the data entry, calculation, and reporting of performance measure results are accurate before they are released to ABEST.
- Develop and implement written policies and procedures for data entry, calculation, and reporting of performance measures.
- Develop detailed written policies and procedures for supervisory review of performance measure information that requires supervisors to document the completion of this review.

Management's Response

The Commission will update and revise all its performance measure policies and procedures to address the concerns raised by the SAO and incorporate the recommendations in the report.

Bob Saathof, Director of Fiscal Services, will oversee implementation of the corrective action. The Commission plans to complete revisions to all performance measure written procedures by November 30, 2007. The Commission will begin implementing recommendations regarding supervisory review, documentation, and record keeping with our third quarter report for fiscal year 2007.

Key Measures

What Is a Reliable Result?

A performance measure is considered reliable if the results are determined to be "Certified" or "Certified with Qualification."

Results: Certified with Qualification

A measure is certified with qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

Average Price of Electricity Per Kilowatt Hour in Texas for Residential Customers from Competitive Suppliers as a Percentage of the National Residential Average

Average Annual Residential Electric Bill from Competitive Suppliers as a Percentage of the National Average

Average Annual Residential Telephone Bill in Texas as a Percentage of the National Average

These three key performance measures were determined to be certified with qualification because the Commission's policies and procedures for the collection, calculation, and reporting of the measure results were not sufficient to assure continued accuracy. The Commission has no documented evidence that it reviewed the measures' source documents or reviewed the measures' final calculations. In addition, the Commission's policy and procedural guidance needs updating because it contains outdated information for calculating these measures. These problems caused there to be differences between the amounts reported in ABEST and auditors' recalculations. The differences were less than 5 percent.

Recommendations

The Commission should:

- Update its policies and procedures to reflect accurate information for the calculation and reporting of performance measures.
- Include detailed procedures for documenting the review of source documents and the calculation of performance measure data.

Management's Response

The Commission will update and revise its policies and procedures as recommended.

Results: Certified with Qualification

A measure is certified with qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

Number of Calls Completed Through Relay Texas

This measure was certified with qualification. The Commission lacks formal policies and procedures that document the collection of data and the calculation and review of results for this measure. Additionally, there is no documented, formal review of the source documents used to calculate measure results or of the calculation itself. Auditors' recalculation of source documents revealed that monthly totals for 2 of the 12 months of fiscal year 2006 were reported incorrectly to ABEST. The Commission entered an incorrect total count into ABEST for one month; for the other month, the Commission obtained the wrong total from the Relay Texas vendor. Both of these mistakes resulted in less than a 5 percent difference between the recalculated totals and the totals reported to ABEST.

Recommendations:

The Commission should:

- Update its policies and procedures to include detailed instructions for the calculation, collection, and review of the performance measure results.
- Ensure source documents supporting a measure's calculation are maintained according to the Commission's retention schedule for measure information.
- Require that a measure's calculation and source data have documented reviews for accountability.
- Ensure that the personnel reporting measure information follow the measure's definition when submitting measure results.

Management's Response

The Commission will update and revise its policies and procedures as recommended. The new procedures will require documented reviews to ensure accurate calculations and adherence to the measure definition, and will specify records retention requirements.

Number of Information Requests to Which Responses Were Provided

Results: Certified with Qualification

A measure is certified with qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

This measure was certified with qualification. The Commission did not maintain all source documents for calculating the measure and did not follow the measure definition in ABEST when calculating the measure. The Commission's procedures did not detail the calculation, collection, or reporting of the performance measure information. Additionally, there are no documented reviews of the source documents or of the calculation results for this measure. Specifically, testing revealed that the results reported to ABEST included internal requests for information, which the measure definition states should not be included in the total number of information requests reported to ABEST. The resulting difference between the reported results and auditors' recalculations was less than 5 percent.

Recommendations

The Commission should:

- Update policies and procedures to reflect the collection, calculation, and review of the performance measure data.
- Include in its policies and procedures a requirement to document review of source documents used to calculate the measure results and of the final calculation.
- Maintain all source documents used in the measure calculation according to the Commission's retention schedule for measure information.
- Ensure that personnel reporting measure information follow the measure's definition when reporting measure results.

Management's Response

The Commission will update and revise its policies and procedures as recommended. The new procedures will require documented reviews to ensure accurate calculations and adherence to the measure definition, and will specify records retention requirements.

Number of Enforcement Investigations Conducted

This measure was determined to be inaccurate because auditors' recalculation of the summary documentation provided by the Commission did not support the results reported to ABEST. The recalculated results deviated from the Commission's reported results by more than 5 percent for the fiscal year 2006 reported totals. Additionally, the reported results for the first quarter of fiscal year 2007 were also inaccurate.

Results: Inaccurate

A measure is inaccurate when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused more than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

ABEST defines an enforcement investigation as a systematic inquiry and examination undertaken by the Legal and Enforcement Division (Division) that is separate from the informal complaint process.

The ABEST methodology for this measure states that the Division will query the enforcement database at the end of the reporting period to identify and calculate the total number of enforcement investigations completed during the period. ABEST also states that an investigation is initiated only when a tracking number is assigned.

A recalculation by auditors, however, found that 30 completed investigations conducted during the second quarter of fiscal year 2006 were also included in the Commission's reported totals for the first quarter of fiscal year 2006, thereby counting these investigations twice. Auditors also found that one investigation counted in the results for the first quarter of fiscal year 2007 instead should have been included in the Commission's results for the fourth quarter of fiscal year 2006.

Auditors calculated that 223 investigations were completed during fiscal year 2006, versus the 253 investigations reported by the Commission in its annual report to ABEST. In addition, 9 investigations were completed during the first quarter of fiscal year 2007, but 10 investigations were reported to ABEST. Both of these miscalculations by the Commission resulted in error rates of more than 5 percent.

Furthermore, the Commission did not follow its internal procedures for the review and recalculation of reported information. The Commission's procedures state: "For measures reported quarterly, prior to submission of the annual performance measure report, analysts should recalculate all previous quarters' performance from scratch." If this had been done, the Commission would have noticed and corrected the discrepancy in its first-quarter reported totals and would have been able to update its final annual reported performance in ABEST.

Recommendations

The Commission should:

- Strengthen controls over the review of performance data and document the review of information prior to final submission of data into ABEST.
- Ensure that personnel assigned responsibility to review final ABEST results follow the documented procedures to recalculate from scratch the quarterly totals prior to the submission of annual reported performance to ABEST.
- Update its policies and procedures to specify that reviews be dated and coded in some way to indicate completion of the required review.

Management's Response

The Commission will update its policies and procedures as recommended. The new procedures will require documented reviews to ensure accurate calculations and adherence to the measure definition.

Average Cost Per Enforcement Investigation Conducted

This measure was determined to be inaccurate because the Commission did not follow the measure's definition when calculating the total expenditures associated with investigations completed during a reporting period. The methodology in ABEST states that the Division should query the Commission's timekeeping system by investigation codes to determine the staff members who participated in a completed investigation and the number of hours they charged that investigation. These hours are then multiplied by the staff's hourly rate. This amount is then increased by non-salary direct costs, if applicable. This total is then to be multiplied by the percentage of applicable overhead.

Results: Inaccurate

A measure is inaccurate when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused more than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

Auditor testing of this measure, however, found that the Commission included payroll information for time charged to projects that were not investigations. Specifically, a test of payroll hours reported during fiscal year 2006 and the first quarter of fiscal year 2007 revealed that the Commission included payroll hours for projects that did not have a Staff Investigation Record Number (SIR #) assigned to them. A SIR # indicates that it is a formal investigation. The Commission's written procedures state that it is to include only payroll hours that are charged to a SIR # when calculating the total number of hours worked on an investigation for each staff member.

Also, by reporting 30 investigations twice in the first quarter of fiscal year 2006, the Commission also reported the payroll hours twice in calculating this measure. Because of these errors, the Commission's reported results for this

measure differed by more than 5 percent from the correct performance measure results.

Additionally, procedures for the measure do not address how to determine the amount of non-salary direct expenses and the budgeted percentage of overhead costs that are attributable to a completed investigation. Without these procedures, auditors were unable to recalculate these costs.

Recommendations

The Commission should:

- Develop controls and strengthen existing controls over the collection, calculation, and review of performance measure information.
- Implement a thorough, documented review and recalculation process. The policies and procedures for this performance measure should specify the documents and calculations to be reviewed. This review should be documented by noting the review date and the reviewer's name and title.
- Update written policies and procedures for the collection, calculation, and review of performance measure information.
- Ensure that employees are following the policies and procedures.

Management's Response

The Commission will update and revise its policies and procedures as recommended. The new procedures will require documented reviews and recalculations to ensure accuracy and adherence to the measure definition and procedures.

Appendix

Appendix

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine:

- The accuracy of the Public Utility Commission of Texas (Commission) performance measures data reported to the Automated Budget and Evaluation System of Texas (ABEST).
- The adequacy of related control systems over the collection and reporting of selected performance measures.

Scope

The scope of this audit covered fiscal year 2006 and the first quarter of fiscal year 2007. Auditors also reviewed controls over the submission of data used in reporting performance measures and traced performance information to the original source whenever possible.

Methodology

Auditors selected the seven key measures reported in ABEST. The Commission completed questionnaires related to its performance measurement processes to help identify preliminary control information.

Specific tests and procedures included:

- Auditing calculations for accuracy and to ensure that they were consistent with the methodology on which the Commission and the Legislative Budget Board agreed.
- Analyzing the flow of data to evaluate whether proper controls were in place.
- Testing a sample of source documents to verify the accuracy of reported performance.
- Performing a high-level review of all information systems that supported the performance measure data.

Project Information

Audit fieldwork was conducted during February 2007 and March 2007. This audit was conducted in accordance with generally accepted government auditing standards.

The following members of the State Auditor's staff performed the audit:

- Anthony T Patrick, MBA (Project Manager)
- Thomas Howe, MPAff
- Claudia Pena, BBA
- Stephen Randall, MBA
- Tony White, BBA
- Joe Kozak, CPA, CISA (Information Technology Auditor)
- Leslie P. Ashton, CPA (Quality Control Reviewer)
- Verma Elliott, MBA, CIA, CGAP (Audit Manager)

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Public Utility Commission of Texas

Mr. Paul Hudson, Chairman
Ms. Julie Caruthers Parsley, Commissioner
Mr. Barry T. Smitherman, Commissioner
Mr. Lane Lanford, Executive Director



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