

PUBLIC TESTIMONY SUMMARY

I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

Mid-Columbia Public Utility Districts (May 19, 2010)

As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits
on June 16, 2010

The performance audit being discussed at this hearing was conducted solely and independently by the office of the State Auditor, under the authority of legislation approved by the voters in Initiative 900. The State Auditor is elected directly by the people of the State of Washington and operates independently of the Legislature and the Joint Legislative Audit & Review Committee. Staff to the Joint Legislative Audit & Review Committee prepare a summary of public testimony on State Auditor reports. These summaries are for informational purposes only, and do not serve as an assessment by committee staff of the findings and recommendations issued by the State Auditor nor do they reflect a staff opinion on legislative intent.

Title: Mid-Columbia Public Utility Districts

Audit Scope and Objectives:

The mid-Columbia Public Utility Districts (PUDs) are the Chelan County PUD, the Douglas County PUD, and the Grant County PUD.

The report indicates that the audit encompasses the nine elements in Initiative 900. The report further indicates that the State Auditor's Office identified the following five additional objectives:

1. Assess the effectiveness of the Public Utility Districts at providing citizens:
 - Financial, performance and policy information that is useful, understandable and enables citizens to assess the Public Utility District's accountability across all services and operations
 - True and accurate project costs, project cost estimates, financing cost estimates and changes to the original scope for its construction projects
 - Sufficient notice of special and routine public meetings
 - Board meetings at a time and place that is convenient to citizens and accommodates people with special needs
 - Requested public records in a prompt and cooperative manner

If not effective, what are the impacts on accountability and transparency and what can be done to correct them?

2. For the most recent three-year period, assess the extent to which the Public Utility Districts achieved effective, efficient, and economical planning, designing, and construction management (based on best practices) in order to:
- Minimize all costs associated with their construction projects, including but not limited to engineering, land acquisition, environmental review, permitting, and construction
 - Minimize unnecessary change orders and delays that result in extra costs
 - Keep projects on schedule
 - Minimize risk by identifying it, eliminating it, minimizing it or sharing it with the contractor through good contract terms and contractor management
 - Obtain the best quality, timeliness and value
- If not effective, efficient and economical, what are the impacts over past and future periods and what can be done to address those impacts?
3. Determine how effective the PUDs have been at soliciting, procuring, and managing their engineering, consulting, and construction management contracts in order to maximize the value and quality of services provided
- If not effective, what are the impacts over past and future periods and what can be done to address those impacts?
4. Determine how economically and efficiently PUDs have managed administrative operations, administrative costs, administrative salaries, travel and administrative staffing levels. Determine how effectively Public Utility Districts have managed administrative services performed by contract.
- If not economical and efficient or effective, what are the impacts over past and future periods and what can be done to address those impacts?
5. Determine how efficiently and economically PUDs have managed operational expenses (includes operational costs associated with power generation, power transmission, facilities and power-lines, as applicable).
- If not efficient and economical and effective, what are the impacts over past and future periods and what can be done to address those impacts?
- The report indicates that the scope of the audit included the three PUDs from January 1, 2006 through December 31, 2008.

| SAO Findings: | SAO Recommendations: |
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| <p>The report indicates the auditors identified several opportunities to improve the management and operations of the mid-Columbia PUDs and to reduce their costs, in the following areas:</p> <ul style="list-style-type: none"> • Governance and strategic planning (Douglas and Grant) • Performance measurement (Douglas) • Contracts for construction, goods and services (Chelan, Douglas and Grant) | <p>The report includes specific recommendations to each of the three PUDs and the following overarching recommendations:</p> <ul style="list-style-type: none"> • The three PUDs will need to work in partnership to leverage their purchasing power and operational efficiencies • Each PUD will need to adopt policies, procedures and practices or revise those they already have |

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| <p>SAO Findings (continued):</p> <ul style="list-style-type: none"> • Span of control (Chelan, Douglas and Grant) • Line crew operations (Chelan, Douglas and Grant) • Asset management (Douglas and Grant) • General and administrative functions (Chelan, Douglas and Grant) • Analysis and forecasting related to the expansion of fiber optic services (Grant) | <p>SAO Recommendations (continued):</p> <ul style="list-style-type: none"> • Good strategic planning and governance should help the three PUDs address the findings in this report and improve performance in other areas too • The state Legislature will need to revise state laws that require all line work over \$150,000 to be performed by contract |
| <p>Agency Responses in Audit Report?</p> | <p>Yes, in Appendix F.</p> |
| <p>Legislative Action Requested?</p> | <p>Yes. The report recommends that the Legislature consider increasing the threshold for RCW 54.04.070(2). In the overarching recommendation above, the report describes this as revising state laws that require all (utility) line work over \$150,000 to be performed by contract.</p> |

Agencies Testifying:

- Chelan County Public Utility District (Rich Riazzi, General Manager)
- Douglas County Public Utility District (Bill Dobbins, General Manager)
- Grant County Public Utility District (Tim Culbertson, General Manager)

Summary of Testimony from Audited Agencies:

Chelan County PUD has demonstrated its commitment to controlling costs while providing reliable services to our utility customers. There’s always a delicate balance between meeting customer needs and controlling costs, a balance which we constantly review. The PUD operates under a philosophy of continuous improvement, with a culture that is open to considering new and innovative ways to improve our processes; we have considered the recommendations from this audit in that spirit. In some cases, we were implementing recommendations even before the audit was finished and realizing those savings. For the balance of the recommendations, you can see a response to each one in the PUD’s written submission. We are in the process of further evaluation of those recommendations, again considering that balance between service and costs. We have held the required public hearing in the service area and received no comments from the public.

Initiative 900’s stated purpose is to ensure that tax dollars are spent as cost-effectively as possible. A reader of this report will not find potential savings in tax dollars because Douglas County PUD does not use tax revenue to fund its operation. Nevertheless, the PUD fully engaged in the audit process. Past audits of the PUD have measured compliance with well-established criteria, known well in advance. Very little was known in advance about the criteria to be used in this audit. In fact, the PUD’s introduction to the topics to be covered in the audit

came during the audit itself. Fieldwork took more than a year, and a draft of the audit arrived for review one year after the conclusion of the fieldwork. As requested, the PUD provided comment on the draft; some, but not all of the identified corrections were applied to the report. We provided thousands of pages of documents, participated in 68 interviews, meetings or calls related to the audit, and dedicated some 2,500 high-level staff hours. We conducted the public hearing in June; no members of the public attended, and no written comment was received.

If performance audits are to be continued, Douglas County PUD offers the following for consideration: 1) Clear expectations should be set out in advance, and entities should be provided a reasonable time to meet the expectations; 2) A consistent process should be developed for all performance audit contractors, including audit phases and timelines; 3) The burden should be kept to a minimum by limiting document requests to only those necessary for conducting the audit; 4) Contractors should be properly qualified; and 5) Retain deference for local control. These audits should remain advisory in nature to avoid incurring burdensome costs stemming from recommendations out of touch with local demands.

Grant County PUD operates under a mission to generate and deliver power to its customers. Its low-cost power is a driving force in the local and Pacific Northwest economy. We will and have already begun to consider many of the recommendations in the report. Regarding a recommendation on governance and organization management, Commissioners adopted a new governance policy in August 2009. We appreciate the SAO commendation related to our excellent position descriptions and performance evaluations and the recognition that we operate within span-of-control best practices. With regard to the recommendation to work with the Legislature to increase a particular threshold in statute, our PUD and others worked with the Legislature to increase that threshold in 2008 (ESSB 6560). In terms of construction management and procurement, the PUD started an Excellence in Procurement program in 2008 and has been working to improve procurement, contracting, and project management practices.

With regard to the audit's recommendations on shared service opportunities with the other two PUDs, Grant County PUD believes that any consolidation of services must be carefully considered in light of factors such as distance, cost of implementation, customer needs, and Commission priorities. Currently our PUD is pursuing efficiencies and savings in addition to what is included in the audit report, including collaborations with others. We offer one significant improvement to the SAO performance audit process. The length of time taken to assess the utilities and provide meaningful feedback was too long. A shortened process would limit the amount of time, staff, and economic impacts future participants may expend, would limit the risk of recommendations becoming stale, and would improve efficiencies and reduce costs for both the entity being audited and the State Auditor's Office.

Other Parties Testifying:

(No other parties signed in to testify.)

Summary of Testimony from Other Parties:

(No other parties signed in to testify.)