



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Public Utility District No. 1 of
Jefferson County

For the period January 1, 2015 through December 31, 2016

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Pat McCarthy

January 16, 2018

Board of Commissioners
Public Utility District No. 1 of Jefferson County
Port Townsend, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Audit Summary	4
Summary Schedule Of Prior Audit Findings	5
Related Reports	7
Information About The District	8
About The State Auditor's Office	9

AUDIT SUMMARY

Results in brief

In the areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

About the audit

This report contains the results of our independent accountability audit of the Public Utility District No. 1 of Jefferson County from January 1, 2015 through December 31, 2016.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Accounts payable disbursements
- Credit card disbursements
- Safeguarding of small & attractive assets
- Safeguarding of materials inventory
- Payroll disbursements
- Contract monitoring – Townsend Bay Property Management
- Utility billing – cash receipting
- Financial condition

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Public Utility District No. 1 of Jefferson County January 1, 2016 through December 31, 2016

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of Public Utility District No. 1 of Jefferson County. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: January 1, 2013 – December 31, 2014	Report Ref. No.: 1017233	Finding Ref. No.: 2014-001
Finding Caption: The District did not have adequate internal controls to safeguard public funds.		
Background: District management is responsible to establish effective internal controls to ensure public funds and assets purchased with those funds are adequately safeguarded. During the audit period, we noted the following: <ul style="list-style-type: none"> • Multiple general disbursements and credit card disbursements did not have approval, adequate support, and/or were unallowable. • Payroll disbursements were not subject to a secondary review which resulted in a three-day overpayment and failing to recover on other unallowable payments. • Small and attractive assets were not being monitored or tracked as there was no policy or inventory listing. • Materials inventory had multiple discrepancies between quantities per inventory listing and quantities per physical count. • More than 100 work orders had not been processed causing significant discrepancies in materials inventory. • The District's contract with NoaNet was not being monitored, which resulted in \$100,000 of management fees being paid to NoaNet on behalf of the District without their knowledge or consent. 		
Status of Corrective Action: <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <ul style="list-style-type: none"> • <i>The PUD installed accounting software that allows electronic approval of invoices to those employees responsible for approving purchases. A copy of the invoice is</i> 		

forwarded to the employee electronically so he/she can review before approving. An electronic approval is better documentation for approval than a hard copy of an invoice bearing an employee's initials. The employee must use their assigned user name and password to approve. All A/P disbursements must have adequate support and approval. As a final review, those charged with signing A/P checks are provided the hard copies of invoices so that they can ensure that the invoice supports JPUD's operations and has been approved for payment.

- *Payroll disbursements require the supervisor's approval on number of hours worked, type of pay, and the account numbers to charge the time. The PUD's accounting software allows for electronic reporting by the employees and supervisory approval. The Controller or CFO reviews all payroll reports and spot checks some of the calculations to ensure accuracy before a pay period is processed.*
- *The PUD developed a policy to define small and attractive assets and how they will be monitored. There is a data base that tracks the item and where each is located. The Accounts Payable Clerk closely monitors A/P invoices to determine if any item should be added to the data base.*
- *The PUD implemented the A-B-C method of managing its inventory. "A" items have a unit cost of at least \$500 each and include all poles. "A" items are physically counted each month. "B" items are valued at less than \$500 per unit but more than \$20 and include wire. All "B" items are counted once per year with 1/12th counted each month. Approximately 65% of the total value of electric line inventory is counted each month. Discrepancies between the count and perpetual inventory are researched immediately. The Assistant Manager signs off on the physical count once the research is complete. Accounting posts the adjustments. If there are any "B" items that are off substantially, they are elevated to a temporary "A" status and counted monthly until the discrepancies disappear.*
- *Materials are to be charged out of inventory when they leave the warehouse. "Open" (not completed) work orders will have inventory costs charged to them when items were taken out of the warehouse to be used on the work order. When unused materials are returned to stock, the cost of the materials charged to the work order is reduced. "Open" work orders should not impact the accuracy of the inventory records.*
- *The contract with NoaNet was related to administering the BTOP Grant for JPUD. As I understand, they had charged their administrative fees against this grant without first seeking approval from JPUD to do so. The BTOP Grant and related contract for administrative services expired August 2013.*

RELATED REPORTS

Financial

Our opinion on the District's financial statements is provided in a separate report, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Public Utility District No. 1 of Jefferson County supplies water to approximately 4,300 customers on water systems throughout Jefferson County. The District also operates community septic systems and monitors alternative drain fields. In April 2013, the District expanded operations and now supplies electricity to approximately 19,200 customers throughout Jefferson County.

An elected, three-member Board of Commissioners governs the District. The Board appoints a Manager to oversee the District's daily business operations as well as its approximately 47 employees. For 2016, the District operated on an annual budget of approximately \$34.6 million.

Contact information related to this report	
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Information current as of report publish date.

Audit history

You can find current and past audit reports for Public Utility District No. 1 of Jefferson County at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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