



PUBLIC UTILITY DISTRICT NO. 1  
of Jefferson County

January 8, 2018

**Special Board Meeting:  
State Auditor's Exit Conference for  
Financial Statement Audit  
January 1, 2016 through December 31, 2016  
and  
Accountability Audit  
January 1, 2015 through December 31, 2016**

Final Minutes

The Special Meeting of Public Utility District No.1 of Jefferson County (PUD) was called to order by the President of the Board of Commissioners (Board) at 11:00 a.m. at the PUD Operations Center at 310 Four Corners Road, Port Townsend, WA 98368. Present:

Commissioner Jeff Randall, President  
Commissioner Wayne King, Vice President

Kevin Streett, Assistant General Manager  
Bill Graham, Resource and Conservation Manager  
Debbie Lund, Human Resources and Communications Manager  
Tammy Lehman, Interim Financial Director  
Will O'Donnell, Communications Manager  
Annette Johnson, Executive Assistant and Records Administrator  
Richard Hughes, General Counsel  
Don McDaniel, Consultant

Cammy Brown, Recorder

Carol Ehlinger, Program Manager, State Auditor's Office  
Kendra Huson, Assistant State Auditor, State Auditor's Office  
Amy Strzalka, Assistant Audit Manager, State Auditor's Office

**Meeting Purpose:**

To receive and discuss the Washington State Auditor's Office (SAO) audit results and draft reporting for Financial State Audit January 1, 2016 through December 31, 2016 and Accountability Audit January 1, 2015 through December 31, 2016.

**Auditor's Office Presentation and Discussion:**

Kendra Huson and Amy Strzalka gave a slide presentation, "Exit Conference presented to Jefferson County Public Utility District 1 ". *(Note: The presentation will be linked to its upload on the PUD website.)* There were no questions from the general public.

**Financial Statement Audit  
January 1, 2016 through December 31, 2016**

- Issued an "Unmodified Opinion" also known as a clean opinion on the 2016 financial statements;
- Issued an "Exit Item " recommendation regarding capital assets;
- Issue – Water system assets depreciation expense and accumulated depreciation were based on an incomplete and inaccurate asset list as there was a variance between the general ledger and the asset listing spreadsheet used to calculate depreciation.

Recommendations:

- Continue to improve internal controls to ensure capital asset balances are adequately tracked and supported.
- Ensure calculations for depreciation expense and accumulated depreciation are based on a complete and accurate asset listing.

**Required Communications**

Uncorrected misstatements in the audited financial statements are summarized below:

**Description**

Note 9 – Segment reporting should only present Electric & Water divisions. Administrative Division should be allocated between the electric and Water divisions according to the District's cost allocation plan. (Statement: Notes the Financial Statements).

2016 Depreciation Expense (for water assets) likely understated by between \$88,903 and \$252,648 due to assets in the District's depreciation calculation spreadsheet that were under depreciated by a net of \$68,310, plus more than \$900,000 of water assets that were not included in the spreadsheet. (Statement: Statement of Revenues, Expenses and Changes in Net Position).

Accumulated depreciation (for water assets) likely understated by between \$441,757 and \$1,141,923 due to an identified net understatement of accumulated depreciation for assets included in the depreciation calculation spreadsheet of \$332,261, plus the estimated accumulated depreciation for more than \$900,000 of water assets not included in the spreadsheet. (Statement: Statement of Net Position).

**There were no material misstatements in the financial statements corrected by management during the audit.**

**Financial Prior Audit Findings**

2014, 2013, and 2012 Issue: The District's internal controls over financial accounting and financial statement preparation were inadequate to ensure accurate and complete reporting.

Status of Corrective Action: **Fully Corrected.**

# Accountability Audit January 1, 2015 through December 31, 2016

## Accountability Exit Item Recommendations

Issue – The District does not have a written cost allocation plan to allocate administrative expenses between the utilities.

Recommendations:

- Create a written cost allocation plan.
- Allocate overhead expenses accordingly to ensure compliance with State law.

Issue – During testing of small and attractive assets, we noted areas for additional improvement.

Recommendations:

- Update location of items in a timely manner.
- Specifically assign items to the locations they are kept.
- Tag all small and attractive assets and enter them into the system.

Issue – During testing of Materials Inventory, we noted discrepancies between materials and fuel amounts per the system and per observation.

Recommendations:

- Implement controls to ensure materials inventory items are updated in the system accurately.
- Correctly program fuel tanks to accurately measure fuel usage.

Issue – During our review of the Port Townsend Bay Property Management contract monitoring, we noted the management company was not remitting payments to the District timely, and one tenant did not have a rental agreement. The District brought these issues to our attention and had resolved them by the conclusion of the audit.

Recommendations:

- Continue to improve internal controls to minimize potential noncompliance in the future.

## Accountability Prior Audit Findings

2014 and 2013 Issue: The District did not have adequate internal controls to safeguard public funds.

Status of Corrective Action: **Fully Corrected.**

## Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$56,000, plus travel expenses and actual audit costs will approximate that amount.

Next scheduled Audit (Estimated Cost: \$45,000).

- Financial Statement
- Accountability for Public Resources

Next year the State Auditor's Office will be looking at 2017 only.

The full auditors' report is available on the State Auditor's Office website at

<https://portal.sao.wa.gov/saoportal/Login.aspx>

**Adjournment:**

**MOTION:** Motion was made by Commissioner Wayne King; seconded by Commissioner Jeff Randall; and carried unanimously: to adjourn the January 8, 2018, Special Board Meeting at 11:19 a.m.

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Minutes prepared by Cammy Brown, District Recorder

Approved:

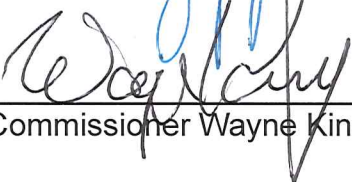
  
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Commissioner Kenneth Collins, Secretary

2-20-18  
Date

Attest:

  
\_\_\_\_\_  
Commissioner Jeff Randall, President

2-20-18  
Date

  
\_\_\_\_\_  
Commissioner Wayne King, Vice President

2-20-18  
Date

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