

Special Meeting Agenda
PUD Board of Commissioners
State Auditor's Exit Interview

Tuesday, April 2, 2024 3:00 PM
310 Four Corners Rd.
Port Townsend, WA 98368
And on line VIA ZOOM



To join online go to: <https://zoom.us/my/jeffcopud>. Follow the instructions to login. Meetings will open 10 minutes before they begin. TOLL FREE CALL IN #: 833-548-0282, Meeting ID# 4359992575#. Use *6 to mute or unmute. *9 to raise a hand to request to begin speaking.

1. Call to Order

JPUD will be offering both virtual on-line meetings as well as in-person meetings, unless advance notice is provided. Online participant audio will be muted upon entry. Please unmute at the appropriate time to speak. If you are calling in, use *6 to mute and unmute and *9 to raise a hand to request to speak.

2. Roll Call

Recommended Action: Approve a Motion to adopt agenda as presented

3. Agenda Review

4. State Auditor's Exit Interview

[Jefferson PUD Exit Packet.pdf](#) 

2 - 14

5. Adjourn



Exit Conference: Jefferson County Public Utility District No. 1

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2022 through December 31, 2022 – see draft report.

Audit Highlights

Working with Mike Bailey and Jefferson PUD 1 staff was a pleasure. We appreciate the open communication throughout the audit process and the positive attitude towards the audit process.

Recommendations not included in the Audit Reports

Management Letters

Management letters communicate control deficiencies, noncompliance, or abuse with a less-than-material effect on the financial statements or other items significant to our audit objectives. Management letters are referenced, but not included, in the audit report. We noted certain matters that we are communicating in a letter to management related to procurement of transformers.

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or noncompliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via email in a .pdf file. We also offer a subscription service that notifies you by email when audit reports are released or posted to our website. You can sign up for this convenient service at <https://portal.sao.wa.gov/SAOPortal>.

Management Representation Letter

We have included a copy of representations requested of management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$20,000 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in fall 2024 and will cover the following general areas:

- Accountability for public resources for January 1, 2023 through December 31, 2023

The estimated cost for the next audit based on 2024 rates is \$20,000 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

Working Together to Improve Government

Audit Survey

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally, this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation at the Office of the Washington State Auditor offers services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean process improvement, peer-to-peer networking, and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

Kelly Collins, CPA, CFE, Director of Local Audit, (564) 999-0807, Kelly.Collins@sao.wa.gov

Tina Watkins, CPA, Assistant Director of Local Audit, (360) 260-6411 Tina.Watkins@sao.wa.gov

Amy Strzalka, CPA, Program Manager, (360) 845-1476, Amy.Strzalka@sao.wa.gov

Megan McFarlane, Assistant Audit Manager, (360) 845-1492, Megan.McFarlane@sao.wa.gov

Danae Welty, Audit Lead, (360) 845-1489, Danae.Welty@sao.wa.gov



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Accountability Audit Report

Public Utility District No. 1 of Jefferson County

For the period January 1, 2022 through December 31, 2022

Published (Inserted by OS)

Report No. 1034537



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we're helping advance
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**Office of the Washington State Auditor
Pat McCarthy**

Issue Date – (Inserted by OS)

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 Office of the Washington State Auditor 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.

Attached is our independent audit report on the District’s compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, District operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

However, we noted certain matters related to procurement that we communicated to District management and the Board of Commissioners in a letter dated April 2, 2024. We appreciate the District's commitment to resolving those matters.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of Public Utility District No. 1 of Jefferson County from January 1, 2022 through December 31, 2022.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the District's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2022, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Procurement – purchases
- Accounts receivable – billing and adjustments
- Contract compliance – cash receipting and deposit timeliness
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's 2022 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

A firm of certified public accountants evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal program. That firm's 2022 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Preliminary Draft - Please do not duplicate, distribute, or disclose.

INFORMATION ABOUT THE DISTRICT

Public Utility District No. 1 of Jefferson County supplies water to approximately 4,500 customers on water systems throughout Jefferson County. The District also operates community septic systems and monitors alternative drain fields. The District also supplies electricity to approximately 19,950 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 55 employees. The District operated on an annual budget of approximately \$41 million for fiscal year 2022.

Contact information related to this report	
Address:	Public Utility District No. 1 of Jefferson County 310 Four Corners Road Port Townsend, WA 98368
Contact:	Mike Bailey, Finance Director
Telephone:	(360) 385-5800
Website:	https://www.jeffpud.org/

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 Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor’s Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

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Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov



**Office of the Washington State Auditor
Pat McCarthy**

[Letter Issue Date]

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

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of Public Utility District No. 1 of Jefferson County from January 1, 2022 through December 31, 2022. We believe our recommendations will assist you in improving the District's compliance in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to District officials and personnel. If you have any further questions, please contact me at (360) 845-1476.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for their cooperation and assistance during the audit.

Sincerely,

Amy Strzalka, CPA, Program Manager

Enclosure

Preliminary Draft - Please do not duplicate, distribute, or disclose.

Management Letter

Public Utility District No. 1 of Jefferson County
January 1, 2022 through December 31, 2022

Procurement

District management is responsible for establishing effective internal controls to ensure compliance with state procurement laws, which are intended to promote openness in government and prevent fraud, collusion and favoritism when awarding public contracts. RCW 39.04.280 requires that, if an emergency contract is awarded without competitive bidding, the governing body or its designee must enter an emergency declaration into public record within two weeks following the contract award.

During the audit period, the District used an emergency declaration to purchase transformers. However, we determined the District made four purchases totaling \$508,053 more than two weeks before entering the emergency declaration into record. The District made two additional purchases totaling \$318,629 after declaring the emergency. Although internal policy requires it, the District did not get Board approval for the purchase orders and did not enter into a contract with the vendor.

Additionally, we noted after the District opened bids for Project 2021-010 in January 2022, it placed the project on hold. In February 2022, the District requested updated bid specifications (updated lead times and costs) from all the original bidders. The District reevaluated the bids and awarded contracts to two bidders for purchases based on the updated specifications. Making changes after the bids have been opened but before contracts are awarded is considered negotiation, which is not permitted under state law.

We recommend the District improve its controls over procurement to ensure compliance with state law when making purchases. Specifically, the District should consider updating its procurement policies to ensure staff clearly understand the requirements to use bidding exemptions. We also recommend the District ensure internal policy compliance by obtaining Board approval and entering into contracts with vendors when required.

LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD

April 2, 2024

Office of the Washington State Auditor
3200 Capitol Blvd
P.O. Box 40031
Olympia, WA 98504-0031

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of Jefferson County Public Utility District No. 1 for the period from January 1, 2022 through December 31, 2022. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.

2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.
3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. Except as reported by the audit, we have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records.

(Signature)
Kevin Streett
General Manager

(Signature)
Mike Bailey
Finance Director