

Mid-C Performance Audit – Summary

Chelan County PUD perspective, May 2010

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What happened?

In 2008, outside auditors hired by the Washington State Auditor's Office looked at past operations of Chelan County PUD, Douglas County PUD and Grant County PUD to determine if there were more efficient, less costly ways of operating the three Mid-C utilities. The final audit report based upon the consultants' input is now being released by the state auditor. The report includes Chelan PUD's detailed responses.

Why did they do this?

In 2005, voters approved Initiative 900 which granted the state auditor authority to do performance audits of state and local agencies.

What are the results?

The audit team made numerous recommendations for each utility based on interviews and research during their review. The final report has separate chapters for each PUD, plus a chapter on ideas to consider for sharing services among all three utilities. Following is a summary of the audit conclusions and Chelan PUD's responses.

Overall response to the audit from Chelan County PUD General Manager Rich Riazzi:

- “Chelan PUD has demonstrated its commitment to controlling costs while providing reliable utility services to our customers, having electric rates that are the second lowest in the nation. Chelan PUD is open to considering new and innovative ways to improve our operations, and we have considered these recommendations in that spirit. However, we also believe the 60-plus years of operational experience has given us valuable insight and experience.”

- “We believe it is important to note that Chelan PUD has made changes in its operations, staffing levels and processes in the 16 months that have passed since the end of the audit review period (Dec. 31, 2008). The report in many respects is outdated.”

- “Our responses also highlight aspects of the recommendations that need further consideration, including the costs to implement, practical implications and other factors not considered by the auditors.”

- “We will make changes where recommendations appear well-founded. We will continue to evaluate areas where further study is warranted. And we will continue to use the methods the auditors have applauded that enable us to provide reliable utility services at the most efficient cost.”

Summary of audit recommendations (for all three Mid-C utilities):

- Recommendations for cooperative shared services
The auditors suggest that the three Mid-C PUDs form a task force, steering committee and work groups to evaluate fully shared service opportunities, including:
 - Consider a shared approach to negotiating, administering and contracting for insurance
 - Standardize IT systems and centralize support staff
 - Cooperatively provide for facilities, parks and real estate services

- Share services for procurement

Chelan PUD response (see full report for details when posted by state): While the three Mid-C PUDs perform many similar functions in neighboring counties, consolidating services should be considered carefully in light of distance, costs of implementation, management philosophies, customer needs and expectations, and varying priorities and practices that come with locally elected commissioners in each county. Mid-C utilities have cooperated with each other in the past and will continue to look for opportunities when practical.

Summary of audited items and recommendations for Chelan County PUD, specifically:

- Commendations

Auditors commended Chelan PUD commissioners and management for the following:

- Having the board governance policies necessary to provide leadership and oversight
- Having effective strategic planning and performance management procedures
- Having organizational structure that provides consistent authority and responsibility
- Chelan PUD has a generally well developed asset management program that it should refine
- The PUD effectively uses purchase cards for goods and services, minimizing payment transaction costs

Chelan PUD response (see full report for details): The PUD appreciates the commendations and recognition.

- Recommendations for operations and labor management

Chelan PUD could reduce costs by hiring more line crews and reducing crew size, rather than contracting for outside crews. Labor costs could decrease by shrinking PUD staff and expanding supervisory span of control.

Chelan PUD response (see full report for details): The auditors' analysis of crew size, overtime costs and labor costs was based on an unusual year (2007) when a major, long-term, weather-related outage distorted many costs. PUD points out that labor costs (including overtime) have been significantly lower in the period after the audit review. Changes in state law would be needed to allow PUD crews to do more work. PUD staff in 2009 was reduced to the lowest FTE level of the past five years through a variety of proactive steps.

- Recommendation for construction management

Reduce costs with detailed independent reviews of architectural and engineering firms' cost proposals and change orders.

Chelan PUD response (see full report for details): Chelan PUD agrees some recommendations make sense, and the PUD has already established new practices for change orders and other construction management steps.

- Recommendation for procurement

Chelan PUD should increase inventory turnover rate for materials and supplies.

Chelan PUD response (see full report for details): Cutting inventories by the recommended amount is unrealistic and would reduce customer service. However, the PUD will look at increasing the turn-ratio of its supplies and materials to a realistic goal in light of costs of implementation and customer expectations.

What happens next?

Once audit recommendations are posted on the State Auditor's Office website, each PUD must consider the recommendations at a public meeting within 30 days. Each PUD must also submit a report to the Joint

Legislative Audit and Review Committee by July 1 each year detailing steps to carry out audit recommendations or explain why not. Each PUD may also be requested to testify at a meeting of the committee in Olympia.