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Subject: Jefferson County Public Service District, WV
Reported To: The County Commission of Jefferson County, WV



perryforensic investigations

A Division of Perry & Associates Certified Public Accountants A.C.



Assignment

By Letter of Engagement dated September 28, 2017, The County Commission of Jefferson County, WV (the “County Commission”) engaged our firm to investigate and write a report to Management and the Commissioners documenting the details of any misappropriation or mismanagement identified at the Jefferson County Public Service District, WV (the “PSD”). This report summarizes procedures performed and the findings of those procedures. In an effort to add value for your services, we have also included recommendations for improvements based upon our many years of experience. Those recommendations are suggestions only meant to assist your government. We have not assessed the cost effectiveness of implementation of such.

We have organized this report into three sections. The first section addresses specific concerns communicated to us by the County Commission. The second section includes general procedures typically used to identify misappropriation, waste, and / or abuse in high risk areas. The third section is a section intended to add value to the engagement by offering general insights noted during our engagement and the results of analytical procedures performed.

In October 2017 we visited the Jefferson County Public Service District and were provided financial documents, bank statements, receipt and disbursement source documentation to conduct an in-depth forensic review. Per the Engagement Letter on page 1 second to last paragraph, the County Commission and the PSD provided us with all inquiry responses, observation and documentation requests. There was nothing requested that was not provided.

Resources Assigned

The engagement was assigned to Jodey L. Altier. Altier is a Certified Public Accountant and has her Certification in Financial Forensics (CFF) and is the managing partner of Perry & Associates CPA’s A.C. where she’s responsible for hundreds of governmental audits annually. She has provided litigation support to many local governments and attorneys in the areas of fraud and forensic financial reporting. Altier also serves on the Peer Review Committee of Ohio and performs peer reviews and quality control training and consultation to public accounting firms in Ohio, West Virginia and Maryland.



A team of four experienced associates assisted Altier with on-site and off-site procedures as follows.

Methodology

- We inquired of Stephanie Grove, County Administrator and Josh Compton, County Commissioner as to specific concerns. We performed procedures to address those concerns in Section 1.
- It was also communicated to us there were general concerns of potential misappropriation, mismanagement, waste and / or abuse. We performed procedures typically used to identify such in Section 2.

- One general concern that was identified as precipitating this engagement was the public perception that the PSD sewer rates were too high. We gained some perspective of that concern during our engagement. We've documented our observations in Section 3.

We interviewed the County Administrator, a County Commissioner, the PSD Board Chairman, the PSD General Manager, the PSD's auditing firm, the attorney for the PSD, the PSD Operations Manager and personnel from the Public Service Commission of West Virginia (the "PSC"). In addition to interviewing, we observed the entire PSD infrastructure and physical plant and reviewed years of bank statements, accounting records and source documents relative to the testing procedures performed. We also obtained financial records from other PSDs and performed an analytical comparison analysis.

Please note, in an attempt to make this report easily understood, we've underlined the sections and procedures and have double underlined our results so that they are identifiable.

Section 1 - Specific identifiable concerns you communicated to us.

Items identified in the Letter of Engagement - A) working capital reserve; B) replacement and repair; C) utilization of the sewer customer account to pay for water expenses.

Items identified during conversation with Josh Compton, Commissioner - D) engineering and legal fees; E) special expenses; F) miscellaneous revenues

A) Working Capital Reserve

Results: The PSD has the required balance of working capital funds on hand for the sewer fund.

According to the PSC final order Case No. 15-1338-PSD-42R-PC ("the PSD Order") the PSD's Working Capital Fund Requirement is \$262,549. Based upon our conversation with PSC personnel and review of PSC guidance it is permissible for the PSD to maintain the rate increment of \$202,317 annually for two years to build-up a working capital reserve of the targeted amount which for the PSD was \$525,099. It's our understanding that the twenty-four month period expired on August 15, 2017 for the PSD.

We reviewed the PSDs calculation of Working Capital Reserve and determined that the required funds are on hand as of the end of October 2017. It is our interpretation of the law that the working capital reserve fund can be commingled in bank accounts with any funds other than legally restricted accounts. However, the PSD has established a separate bank account with MVB Bank, Inc. titled *Sewer SB-234 Reserve Fund* to segregate the funds. We viewed the account balance via on-line banking on October 23, 2017 wherein the balance totaled \$230,983.64. The remainder of the required balance is in another bank account which is allowable.

The Commission Order in Case No. 15-1338-PSD-42R-PC, page 8 (Discussion Section) Cash Working Capital, first sentence of last paragraph states,

"The cash working capital reserve is intended to provide the utilities a source of cash that can be used to fund emergency repairs, plant renewals and replacements not already provided for in the net internal cash flow from rates...."

The Commission Order in Case No. 15-1338-PSD-42R-PC noted the following on page 9:

“...This approach recognizes that even if the utility experiences the need to expend funds from the reserve for emergency needs during the first two years, it still should be able to build up a cash reserve necessary to meet the minimum legislative requirement of one-eighth of O&M expenses.... “

We believe due to this wording in the rate order, the PSD could be deemed noncompliant due to expending from the funds collected from the rate increment on costs that could be deemed not emergent in nature. It could be interpreted as only emergency needs should be expended from the reserve. When interviewing two individuals from the PSC, their understanding was that funds collected from SB 234 rate increments were “rainy day, cushion or emergency money”. We inquired of the PSD General Manager if the funds were expended for emergency purposes. She indicated the expenditures were not emergencies. However, there seems to be very differing interpretations of the law. The PSD attorney wrote a memo supporting the PSDs application of SB 234 and strongly disagrees with any contention that the funds can only be spent on emergencies. Also, the PSD’s auditing firm did not cite noncompliance in the most recent audit. An attorney for the PSC also stated to us that the Commissioners of the PSC have not officially stated that the funds could not be used for operations. Therefore, we do not have enough guidance to affirmatively state absolute compliance or noncompliance with SB 234. This is a legal matter for the oversight agency to determine. We do recommend the continued use of the segregated account and suggest the PSD keep a very detailed accounting record of the expenditures from the account.

B) Replacement and Repair

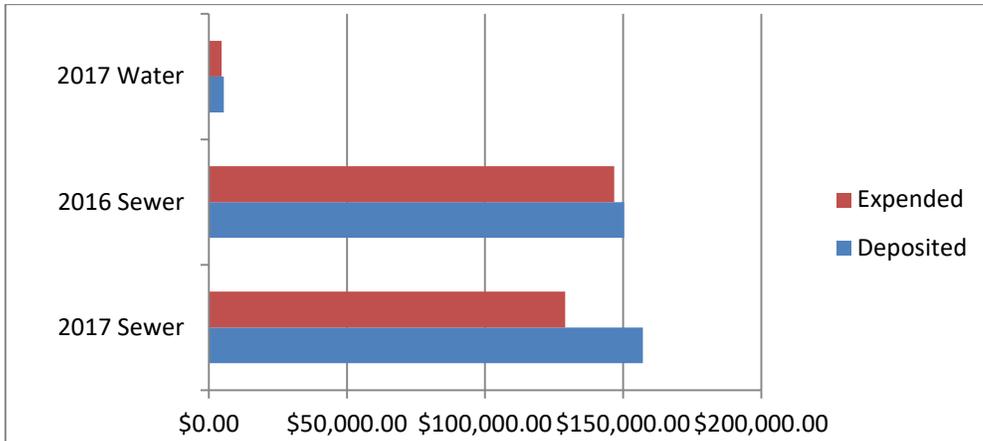
Results: The required account was not established nor funded for the water fund renewal and replacement account during fiscal 2016. This has been corrected.

According to the footnotes in the PSD’s most recent audit report, “The debt service revenue and related reserve includes funds on deposit with the West Virginia Municipal Bond Commission as trustee under the various revenue bond indentures and proceeds from bond issues. The Trust indentures require the trustee to establish various special purpose trust fund accounts, make periodic transfers to and between funds, maintain them at a specified level and/or disburse funds from them in accordance with the specific terms of the indentures.

The renewal and replacement funds are under the control and custody of the District as trustee in accordance with provisions of the revenue bond indentures. The renewal and replacement fund represents funds on deposit for the purpose of making repairs and replacements.”

We reviewed the bond agreement requirement and the activity in the renewal and replacement account. We noted the appropriate deposits were made into the sewer repair and replacement account for fiscal 2017 and 2016. We noted the required deposits were not made to the water renewal and replacement account during fiscal 2016 but were in 2017.

Per review of the accounting system, expenditures of \$146,734 and \$129,041 were made from the sewer renewal and replacement account in fiscal 2016 and 2017, respectively and \$4,551 was spent from the water fund in 2017. Following is a chart detailing the deposits and expenditure totals per year. We obtained the account detail and randomly selected invoices to test if they were renewal and replacement expenditures as allowable per the bond agreements. We noted no exceptions.



C) Utilization of the Sewer Customer Account to Pay for Water Expenses

Results: Per our review, the cash collected from sewer operations has been used to pay expenditures of water operations. The amounts have been reported in the financial statements as inter-fund receivables and payables.

The PSD has established procedures to track the borrowed amounts. The amounts are tracked in the PSD accounting system and are presented to the Board for review and are adequately presented and disclosed in the external financial reports. These amounts were audited by the firm hired by the PSD to perform its financial and compliance audits.

We reviewed accounting records and noted PSD personnel document the portion of expenditures allocated to the water and sewer funds. The amounts appear to be distinguishable on accounting documentation.

The funds provided by sewer on behalf of water are treated as borrowings. The water fund “pays back” the sewer fund. According to the fiscal 2017 audit report filed on the Auditor of State website, the outstanding amount owed to the sewer fund from the water fund at June 30, 2017 was \$11,765.

We obtained the detail in the cash accounts for the sewer fund for fiscal years 2015, 2016 and 2017 and scanned for any large disbursement made from the sewer fund on behalf of the water fund that was not accurately identified and traced as an inter-fund borrowing. We noted no such disbursements.

We did note most overhead type expenditures were paid from the sewer fund. We inquired of PSD personnel if there were overhead costs that should be allocated to water that were not. PSD personnel claimed that the PSC had considered this in the most recent water rate case and due to water operations being so small compared to sewer, any omitted allocations were deemed minor. It’s our opinion this is not an unreasonable position.

D) Engineering and Legal Fees

Results: No unusual activity observed

We did not focus on fees that might have been expensed as a viable capital asset. These would most likely have been audited by the PSD auditors as additions to capital assets. We focused on fees that were expenses. We reviewed the 2017, 2016 and 2015 trial balances and noted the water fund had trivial amounts of engineering and legal fees expensed. The sewer fund had the following legal fees.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Legal Services	\$32,524	\$133,419	\$ 78,812

source: accounting system trial balance obtained from April Shultz, PSD General Manager

We obtained the detail for the legal services account for the years 2017, 2016 and 2015. We noted the entire amount was paid to Bowles Rice LLP with the exception of \$3,694.06 paid to Kay Casto & Chaney PLLC in 2015 and \$200 paid to Crawford Law Group PLLC also in 2015. The individual amounts paid ranged from \$0.28 to \$23,967.

We obtained the invoices paid and noted the nature of the services were a) prepare for board meeting, b) reply to email, c) review rate case and d) review PSC order. On the invoice observed, we noted nothing unusual.

We inquired of the PSD’s attorney James Kelsh from Bowles, Rice LLP regarding the services provided. We verified that the fees charged to and paid by the PSD were for services provided most entirely by his firm to the PSD. We did note some time was charged to review communications from interveners. This type of time incurred by an attorney could drive legal fees higher than where they might be normally. We inquired of Attorney Kelsh regarding his opinion. He stated, “In WV, local utilities are extensively regulated at the state level, much more so than in other states. This includes both the PSC, and the Infrastructure Council, the central clearinghouse for applications for funding for utility projects. Nearly all utilities incur some legal fees to get through the required legal processes. An unprotested rate increase application generates smaller legal fees than a rate case which is protested, and in which intervenors are granted party status. Jefferson County PSD’s applications are routinely protested by community activities. I would estimate that the PSD’s legal fees were increased by approximately 300% due to the need to prepare for and respond to intervenors and protestors.”

This was also the opinion of both PSC personnel interviewed. They indicated they’ve observed Jefferson PSD have more interveners than other PSDs. For example, one employee for the PSC gave us the example of recalling the PSD having to have three hearings for one certificate which he claimed would drive legal and other administrative costs much higher.

Engineering fees recorded in the sewer fund are recorded in the “special services” account discussed in section E).

To search for any additional legal and / or engineering fees not identifiable in the trial balance we asked for the detail in “contract services” and “miscellaneous and general” expense accounts. We didn’t see any legal or engineering expenditures in those accounts.

E) Special Expenses

Results: No unusual activity observed.

We reviewed the 2017, 2016 and 2015 trial balances and noted the only expense account with the word special was account 1-70-0-6301 titled “G&A – Special Services” in the sewer fund. The balances were as follows.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
G&A – Special Services	\$ 4,357	\$28,729	\$ 15,807

source: accounting system trial balance obtained from April Shultz, PSD General Manager

We obtained the account detail and noted the account consisted almost entirely of invoices from Dunn Engineers, Inc. except for two invoices from The Thrasher Group. The amounts charged to this account ranged from \$66.25 to \$5,440.03. According to inquiry and review of invoices, the nature of the expenditures was service hours reviewing pump stations and developments, phone calls with the PSD to discuss various operational topics and work on PSC certificate cases.

F) Miscellaneous Revenues

Results: We believe there is a financial statement presentation error in the Sewer Fund explained in (a). **No other unusual activity observed.**

For the last three fiscal years the PSD has presented miscellaneous revenues for the sewer fund as follows. The water fund had miscellaneous revenues less than \$200 each year. We did not list those revenues due to the trivial amounts.

Sewer Fund:	2017	2016	2015
Miscellaneous Operating Revenues	\$ 82,567	\$ 77,233	\$ 114,645
Miscellaneous Non-Operating Revenues	\$ 41,412	\$ 41,412	\$ 118,110

source: audit reports filed on the Auditor of State Website

Both the operating and nonoperating amounts are described in the footnotes to financial statements. According to the footnotes the detail for the miscellaneous operating revenue is detailed in the table below. The notes described a large portion of this revenue results from the Sewer Service Agreement with City of Charles Town. Specifically the notes state, "Effective for service rendered on and after May 1, 2005, by order of the Public Service Commission of West Virginia (PSC), the District is considered a bulk rate customer to the City of Charles Town; therefore, the specific formula used to calculate the amount charged for these sewer services in prior years was changed to include actual usage at a resale rate as stated in the City of Charles Town's sewer tariff, less resale and transportation credits, applicable only to the District. The bulk rate is reflected at gross in the supplemental schedule of operating expenses - sewer department under treatment and disposal rent. **The credits are reflected as income in the District's financial statements.**" The footnotes state the nonoperating revenues also result from the Sewer Service Agreement with City of Charles Town. Specifically, **"the resale credit, which is for the debt incurred by the District as part of the 2000 Charles Town treatment upgrade, is reflected as miscellaneous non-operating revenues"**. The 2015 miscellaneous non-operating revenue was higher than other years due to insurance proceeds and a note receivable from an accident resulting in \$76,697 in non-operating revenue.

Sewer Fund:	2017	2016	2015
Transportation credits	\$ 38,548	\$ 36,545	\$ 36,439
System billing fees - water department (a)	32,132	31,148	41,255
Shared staff reimbursement (b)	-	2,093	25,857
Bad debt recovered	1,710	1,800	3,382
Disconnect / reconnect fees	3,950	430	160
Other miscellaneous revenue (c)	6,227	5,217	7,552
Total	\$ 82,567	\$ 77,233	\$ 114,645

source: audit reports filed on the Auditor of State Website

(a) Per inquiry, the System billing fees – water department balance includes the reimbursement from the water fund to the sewer fund. Typically, we see this sort of inter-fund transaction treated as a reclassification of expense and / or a transfer between funds. The way it is being presented the same expenditure is inaccurately being shown as expense for both funds which is nonconforming with *Governmental Accounting Standards*. Here is an illustration.

This is current presentation:

	Sewer Fund		Water Fund	
	debit	credit	debit	credit
cash		\$32,132		\$32,132
expense	\$32,132		\$32,132	
cash	\$32,132			
misc income		\$32,132		

Please note the same expense is recorded in both funds.

This is our recommended presentation:

	Sewer Fund		Water Fund	
	debit	credit	debit	credit
cash		\$32,132		\$32,132
expense	\$32,132		\$32,132	
cash	\$32,132			
expense		\$32,132		

This approach eliminates the expense from the sewer fund because it is not a sewer fund expense.

(b) The shared staff reimbursement resulted from a PSD employee who worked half the day at the PSD and then went to the City of Ranson and worked the remaining four hours every day. The PSD would pay him and Ranson would reimburse the PSD for the hours worked at their office. We noted nothing unusual.

(c) To perform procedures on the “other miscellaneous revenue” amount we obtained the detail in the general ledger account and scanned for anything unusual. We noted nothing unusual.

Section 2- General procedures typically used to identify misappropriation, waste, and / or abuse in high risk areas.

Based upon our many years of experience auditing governments, we designed procedures in the following higher risk areas to test for potential misappropriation and / or mismanagement.

- G) Rate Setting, Receipt Process and Receivables Aging
- H) Asset Infrastructure Observation and Interview
- I) Disbursement Testing
- J) Scan of High Risk Accounts

G) Rate Setting, Receipt Process and Receivables Aging

Results: No Testing Exceptions or Unusual Activity Observed.

We interviewed PSD personnel and reviewed the rate setting process, the internal controls for collecting customer payments and depositing those payments. We gained an understanding of the processes and the internal controls that the PSD has implemented.

We pulled three random water and sewer samples for each period the PSD applied a rate increase and a sample from an adjustment report. We tested attributes such as: the amount received was the same as the amount billed, the rate set was the rate paid, and the amount received was posted to the correct account. We then traced the receipt to the deposit slip and the deposit slip to the bank statement.

H) Asset Infrastructure Observation and Interview

Results: No Unusual Activity Observed.

We viewed the PSD's capital assets first-hand in order to gain an understanding of their general condition and viability and to verify that the assets existed.

Joseph Freeze, the Operations Manager, provided a tour of the PSD's facilities on 10/23/2017. This included a large portion of the twenty-nine sewer pumps, and the water pump buildings.

Most pumps were found to be nearing the end of their respective life spans, and will likely require a large amount of upgrades in the near future. The Operations Manager stated that a large portion of the pumps are currently being maintained through a patchwork of temporary fixes. The sewer dispersion station itself appears to be in good working order. It is not new, but performs its duty regularly with zero, to very little, maintenance being required.

The water buildings have been updated very recently. Within the last three years, these buildings have been retrofitted with updated technology and new lines throughout. The buildings themselves appear to be older, but well-maintained, and appear to be in good working condition.

I) Disbursement Testing

Results: No Testing Exceptions and Unusual Activity Observed Except as Follows:

Credit Cards:

We reviewed a sample of credit card expenditures and noted the PSD was being charged late payment fees for a few months during the fiscal years of 2015, 2016 and 2017. We also noted some receipts provided for purchase support were not itemized. We recommend the PSD pay all bills timely as late fees can be considered an improper use of public funds. We also recommend the PSD establish a formal credit card use policy to ensure detailed receipts are submitted by all employees when using the charge accounts.

Credit and charge cards are high risk. We obtained the detail of payments to all such accounts during 2017, 2016 and 2015. We selected a random sample of the PSD's payments to Sheetz, BBT credit card, Home Depot and Wal-Mart. We traced checks from the accounting system to the image on bank statements and obtained the detailed receipt to view the nature of the purchase.

We pulled random non-payroll samples from both the water and sewer operating check registers from 2017, 2016, and 2015. We tested attributes such as: the payee name on the check agrees to the invoice, the check was endorsed by the payee, the information on the check agrees to the information listed in the accounting system, the expenditure was for a proper purpose, the expenditure was posted to reasonable line items, the check was signed by authorized signatories (review of canceled check images on bank statement), and the check cleared the bank on a timely basis. We reviewed supporting documentation for each disbursement and traced each disbursement to the bank statements with no exceptions.

We did note, however, that all of checks reviewed only had one signature. We recommend that the PSD have two signatories signing the checks as a key control deterring misappropriation of funds.

J) Scan of High Risk Accounts

Results: No Unusual Activity Observed

We met with PSD personnel and reviewed three years of trial balances analyzing the nature of accounts and the fluctuation in accounts. Any account that was deemed higher risk, we obtained the general ledger detail and scanned it for anything large and unusual transactions.

Section 3- Analytical procedures and general insights noted during our engagement

We used analytical procedures for two purposes 1) to identify abnormalities or outliers that might indicate misappropriation or error and 2) to attempt to answer the question of why the PSDs rates are higher than most other West Virginia PSDs. Some of the analytics we performed included:

1) Analytics to identify abnormalities or outliers that might indicate misappropriation or error

10 Year Trend: We performed a ten year trend analysis to search for abnormal changes in balances. There were no unusual results.

Pay rates: We looked at pay rates for 2017, 2016 and 2015. With our knowledge of other comparable entities, the rates of pay do not appear unusual or abnormally high. They might be slightly higher than we see in other West Virginia entities but that does not seem unreasonable given the region is more economically advanced than other regions in West Virginia. The pay increases from year to year were minimal (1% to 2% overall). Two factors go into payroll expense, the rate paid and the number of individuals on payroll. We looked at rates but we were unable to assess if the PSD might be overstaffed. We assume the PSC would consider this in rate setting cases. There were no unusual results.

Receivables: We reviewed the A/R Aging reports for 2017, 2016, and 2015 and calculated Bad Debt Ratio to A/R and A/R Ratio to Revenues for 2017, 2016 and 2015. There were no unusual results.

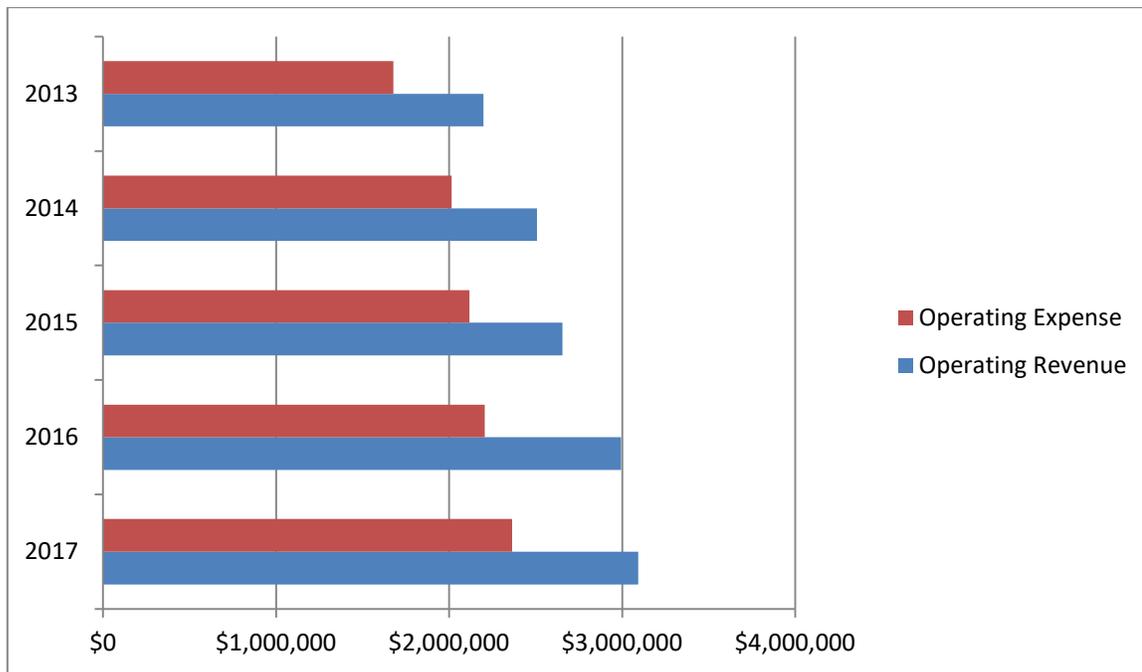
2) Analytics to attempt to answer the question of why the PSDs rates are higher than most other West Virginia PSDs.

We asked individuals from the PSD, the PSC and service organizations with vast historical knowledge of the PSD why the sewer rates are relatively high? Their responses pointed to the following:

- a) The infrastructure is more costly to operate
- b) Being a resale customer of Charles Town

- c) Many of the capital assets were financed with debt offerings as opposed to grant or contribution
- d) The amount of questioning and challenges from citizens and interveners drives legal, engineering and administrative costs higher
- e) There were lost / abandoned projects
- f) Leadership change and differing Board agendas

a) Some of the analytical procedures performed do indicate the Jefferson PSD capital structure results in higher operating costs. This is a chart showing that most of the revenues collected are spent on operations (approximately 80%). The remainder would be needed to pay principal and interest payments which would leave very little for capital investment or reserves. According to Attorney Jim Kelsh, "The PSD has one of the most pump stations of any sewer utility in the state, 28, even though by customer count it is not one of the largest sewer utilities. This leads to high electrical and other operating expenses. The PSD serves a high cost of living area, and salaries for utility employees are higher than in the bulk of WV." This was confirmed by our observations.



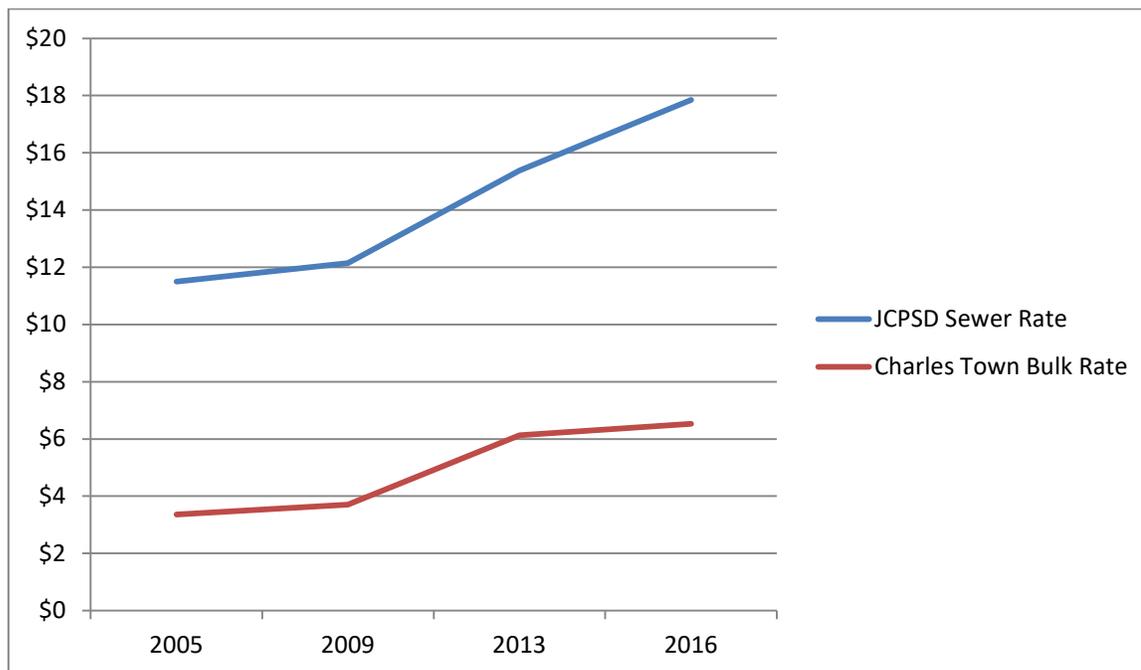
This is further confirmed by comparing Jefferson PSD to other PSDs that service about the same number of customers. The below chart shows that Jefferson services about the same number of customers with much less in assets but collects a much higher per customer rate. This would indicate the revenues are not being spent on capital but on higher operating expenditures and / or that the assets of Jefferson were financed while others had assets contributed.

Publicly Owned - Districts (Sewer)	Gross Utility Plant (GUP)	Operating Revenues (OR)	Average # of Customers	GUP per Customer	OR per Customer
ENTITY					
Jefferson County Public Service District	\$ 18,180,301	\$ 2,540,205	2,529	\$ 7,189	\$ 1,004
Greenbriar County Public Service District No. 2	\$ 28,406,659	\$ 1,246,876	2,416	\$ 11,758	\$ 516
Greenbriar Public Service District No. 1	\$ 19,899,350	\$ 1,783,958	2,717	\$ 7,324	\$ 657
Kanawha PSD fka Chelyan PSD	\$ 41,520,726	\$ 1,818,892	2,681	\$ 15,487	\$ 678
Lubeck Public Service District	\$ 30,725,114	\$ 1,334,688	2,351	\$ 13,069	\$ 568
Northern Wayne County PSD	\$ 20,992,018	\$ 2,172,386	2,768	\$ 7,584	\$ 785
Average of 5 similar-sized Entities	\$ 28,308,773	\$ 1,671,360	2,587	\$ 10,944	\$ 646
Jefferson Co. PSD compared to average amount	64%	152%	98%	66%	155%

Source: Annual Statical Reports provided on the PSC website for 2015.

The above statistics support the PSD Operations Manager’s belief that “most operating expenses are related to the service and repair of outdated and underperforming infrastructure”.

b) One expense included in the operating expenses discussed in a) above are payments to the municipality of Charles Town. Effective in 2005 the PSD is considered a bulk rate customer of Charles Town. The rate paid to Charles Town includes actual usage at a resale rate as stated in Charles Town’s sewer tariff. Several of the individuals we spoke with pointed to this as a major reason for the PSD’s rates. We prepared the following chart detailing the rates paid to Charles Town and the rates charged by the PSD.



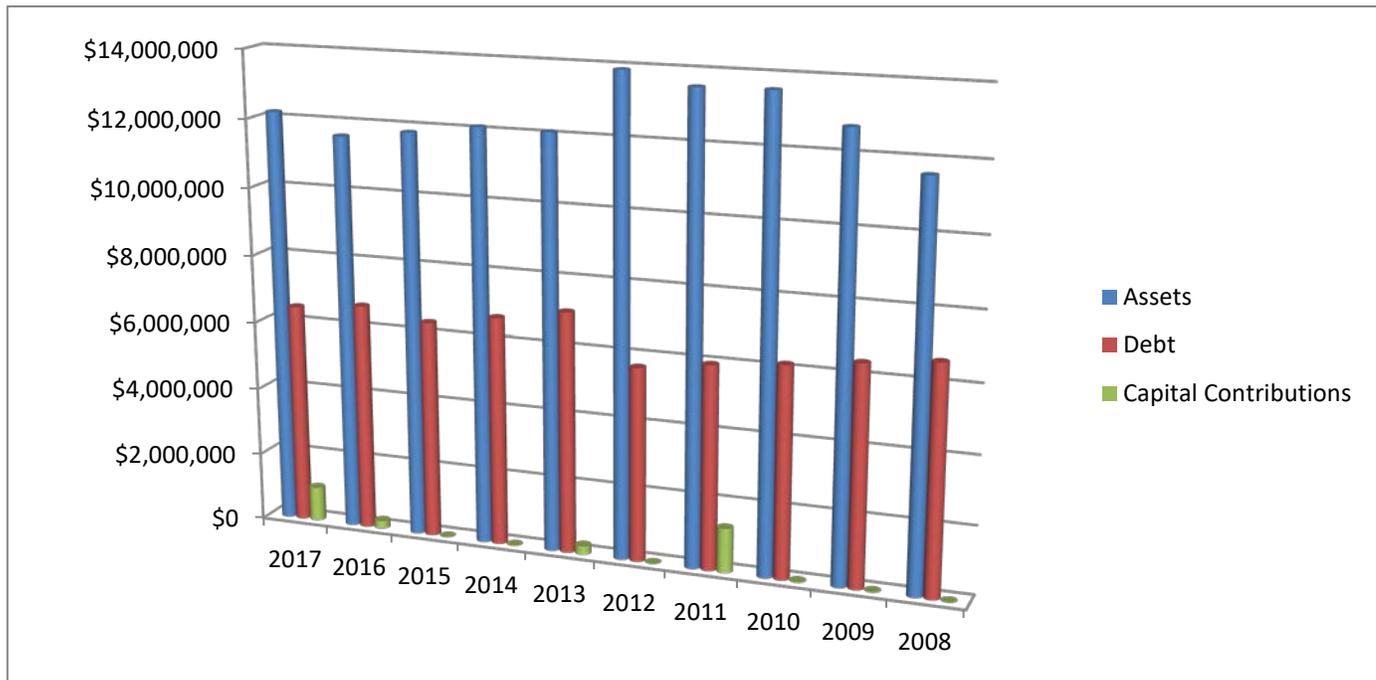
Source of rate information: PSD General Manager, April Shultz

According to Attorney Kelsh, "Charles Town's bulk treatment rate is one of the highest in the state. Charles Town's bulk rate has been the biggest driver in the rate increases the District has had since around 2000. Charles Town's plant needs to be Chesapeake Bay compliant, whereas most WV sewer utilities are not in the Chesapeake Bay watershed and so don't have the added treatment requirement and expense."

c) Several individuals have shared with us that over the years the PSD has had to fund capital projects with debt. The PSC also told us of a scenario wherein the PSD completed a capital project that was projected to add a certain number of new customers. The PSD ended up with half of the projected customers. Such scenarios would result in customers incurring more costs due to fewer customers to share the cost with.

Attorney Kelsh stated, "The PSD's rates began high because the PSD was politically coerced by the WV Housing Development Fund to enter into unusually costly to the utility main line extension agreements. Ordinarily, a utility has a developer donate on-site collection facilities. Because these developments were WVHDF funded to serve moderate and low income households, the PSD was compelled to reimburse the cost of constructing both on-site and off-site facilities."

Below is a chart detailing net assets, debt and contributed capital. The debt ratio averaged approximately 50% and the capital contributions were minimal.



Source: Audit reports from the Auditor of State website.

d) Many people we talked to explained that the PSD has incurred significant amounts of questioning and challenges from citizens and interveners and this drives legal, engineering and administrative costs higher. In some of the documentation reviewed, we did note invoices for attorney and engineering fees that were a direct result of such. We also read some of the PSC cases wherein the challenges were documented.

e) Per audit reports on the Auditor of State website the PSD's lost project expenses totaled \$3,182,263 over the last 10 years.

f) PSC and PSD personnel both shared with us they believed some of the higher rates could be attributed to changing leadership and strategic agendas. One example provided to us by a PSC employee indicated the PSD would have been eligible for federal Stimulus funds but he recalled the PSD not filing the appropriate paperwork in time to take advantage of the funding before it was gone.

The information provided in Section 3 a) through f) is intended to assist the Commissioners in their attempt to understand the sewer rates. It is not intended for any other purpose. Many of the observations are various people's opinion and recollection. Where possible, we tested the opinion with financial facts (the charts).

Conclusion

The results of our engagement indicated no misappropriation or obvious mismanagement at Jefferson Public Service District. We did note minor noncompliance / internal control matters as documented throughout.

If you have any additional questions, do not hesitate to contact us as follows:

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12/18/17

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