

DIVISION OF DRINKING WATER

POLICY/PROCEDURE

Title:	Requesting Utilities and Transportation Commission Audits	J 03
References:	RCW 80.04.110	
Contact:	Dave Monthie/Ronni Woolrich	
Effective Date:	9/1/93	
Supersedes:	N/A	
Approved:		Director, Division of Drinking Water

PURPOSE STATEMENT

RCW 80.04.110 directs that the Utilities and Transportation Commission (UTC) audit a nonmunicipal water system upon receipt of an order from the Department of Health (DOH). The order must contain a finding that the water delivered by the system does not meet state board of health standards adopted under RCW 43.20.050(2) or standards adopted under chapter 70.116 RCW. The total number of nonmunicipal water systems referred by DOH, cities, and counties to the UTC in any one calendar year shall not exceed 20% of the number of water companies subject to UTC regulation.

The purpose of this policy is to establish a procedure for ordering purveyors to submit to a UTC audit and requesting the audit from the UTC. These audits by the UTC are not intended for UTC rate making purposes. The information obtained through the audit may be used by DOH or the UTC in a number of ways, including:

1. Identification of legal roles and responsibilities,
2. Development of system financial programs,
3. Assessment of financial viability,
4. Provision of information to system customers, and
5. Where appropriate, help resolve questions of potential UTC jurisdiction.

POLICY:

An order issued to the purveyor will require that the purveyor submit to an audit by the UTC. The Division Director will send a letter to UTC requesting that UTC perform an audit. The letter will include a copy of the order to the purveyor and specific instructions as to the type of audit DOH is requesting and the DOH contact name and telephone number. The following items/subject areas may potentially be covered by a UTC audit:

- Ownership
- Total system revenues (including all fees and charges) and gross operating revenues and expenses
- Accounting/bookkeeping practices

- Cash reserves
- Cash flow
- Rates (adequacy, categories, collection, metered/flat) and other fees and charges
- Known anticipated expenses (with information supplied by DOH regarding Safe Drinking Water Act requirements/testing costs)
- Known anticipated capital costs (with information supplied by DOH/water system plan)
- Revenues/rates necessary to cover known anticipated expenses
- Outstanding contracts and agreements (sale or purchase of water, services, e.g. operation/bookkeeping/accounting, easements)
- Assets available for operation
- Personnel records
- System operational records, including customers receiving or entitled to water service, and customer complaints
- Water rights

PROCEDURE

1. Contact the UTC to inform of the pending audit request and to agree on the target date for completion of the audit. Regional Offices will need to coordinate requests to assure proper prioritization of audits and rate of requests referred to the UTC.
2. Complete an order to the purveyor using accepted format. (Refer to Enforcement Manual for proper procedure to use when issuing orders.) Regional Offices, in conjunction with the Assistant Attorney General where appropriate, will need to develop a specific list of items required from the audit. This list should be included in the order and letter to UTC. Include a cover letter or information sheet with the order.
3. Draft a letter to UTC for the Division Director's signature using accepted format. Include specific list of items (see No. 2 above).
4. Where applicable, send order to Assistant Attorney General for signature.
5. Deliver order by personal service or via certified mail to the purveyor. Include cover letter or information sheet.
6. Arrange for the Division Director's signature on the letter directed to UTC. Send letter and copy of order to UTC. Send copies of letter and order to the appropriate LHD, engineer, and central enforcement file.
7. Regional Offices will coordinate with the UTC-assigned staff auditor on questions of scope of the audit, specific information desired, schedules, and similar items, and track compliance in conjunction with headquarters.

ORDER FORMAT

Use the standard order to the purveyor with two additional paragraphs:

Under I. FINDINGS:

Paragraphs ___ and ___ herein demonstrate that water delivered by the ___ water system does not meet state board of health standards adopted under RCW 43.20.050(2) (and/or standards adopted under chapter 70.116 RCW).

Under II. ORDER:

You are further ordered to submit to and cooperate in an audit of your water system, to be performed by the Utilities and Transportation Commission (UTC) under authority of RCW 80.04.110(4). You are to provide to UTC staff, at an agreed to time, any books, documents, records, and other information requested by the UTC, and to provide copies as needed or access to a copier. The purpose of the audit is to _____. The audit may include, but is not limited to the following items or subject areas: _____. The Department is requesting that the UTC conduct this audit and is sending a copy of this order to UTC.

LETTER FORMAT FROM THE DEPARTMENT TO UTC

Whenever we order the purveyor to cooperate in an audit by UTC, we need to send a copy of this order to the Secretary of UTC with the following letter from the Division Director:

Enclosed please find an order directed to _____, a nonmunicipal water system which includes findings that the water delivered by the system does not meet state board of health standards adopted under RCW 43.20.050(2) (and/or does not meet standards adopted under chapter 70.116 RCW).

Pursuant to RCW 80.04.110 we are hereby requesting that you perform an audit on the _____ water system. The water system contact person is _____ (name, address, and phone) _____. The audit shall include: _____. By agreement with _____ (UTC Water Program Manager) _____, we request that you complete this audit by _____. The DOH contact person for questions on this audit is _____ (name, address, and phone) _____. On completion of the audit, please submit results to _____.

UTC AUDIT INFORMATION SHEET

WHY MUST I SUBMIT TO AN AUDIT?

In 1989 the Legislature authorized, under certain conditions, the Department of Health (DOH) to order a nonmunicipal water system to submit to an audit by the Utilities and Transportation Commission (UTC). The intent behind the Legislature's action is to permit qualified UTC staff to review the financial and operational information of nonmunicipal water systems that do not meet departmental or state board of health standards.

Failure to comply with the Department's order could result in civil penalties. However, the main purpose of the audit is not to penalize, but rather to use UTC staff expertise to prepare information to help develop a plan to address your system's financial and operational problems.

WHAT DOES AN AUDIT ENTAIL?

UTC will contact you and arrange a time to examine your books, documents, and records. You may be asked by the UTC to provide copies of some documents, or make a copier available. The audit should not be lengthy, and in some cases may take less than one day. The UTC may also review legal records such as county records regarding ownership, contracts for service, and water rights.

WHAT DO I HAVE TO DO?

You must cooperate with the UTC and make your records available for examination and possible copying.

WHAT WILL THE AUDIT PRODUCE?

The UTC will provide a report to the Department. The report may include, but is not limited to, any of the following:

- Ownership
- Total system revenues (including all fees and charges), and gross operating revenues and expenses
- Accounting/bookkeeping practices
- Cash reserves
- Cash flow
- Rates (adequacy, categories, collection, metered/flat) and other fees and charges
- Known anticipated expenses (with information supplied by DOH regarding Safe Drinking Water Act requirements/testing costs)
- Known anticipated capital costs (with information supplied by DOH/water system plan)
- Revenues/rates necessary to cover known anticipated expenses
- Outstanding contracts and agreements (sale or purchase of water, services, e.g. operation/bookkeeping/accounting, easements)
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WHAT HAPPENS AFTER THE UTC COMPLETES ITS REPORT ON THE AUDIT?

The report could be used for a variety of things, such as:

- To help develop a financial plan for your water system
- To help you explain to your customers the necessity of raising rates
- To improve your system's bookkeeping practices

WHAT WILL AN AUDIT COST?

The Legislature authorized the UTC to charge a fee for every system referred to the UTC equivalent to the fee charged the water companies the UTC regulates. This fee will not exceed 1% of your system's gross annual operating revenues based on the water system's 12 month period audited by the UTC.