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Mark David Goss
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Commissioner

April 18, 2007

PARTIES OF RECORD:

RE: Case No. 2006-00303

AN INVESTIGATION INTO THE MANAGEMENT AND OPERATION OF
MARTIN COUNTY WATER DISTRICT

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's content should be submitted to the Commission within five days of receipt of this letter. Questions regarding this memorandum should be directed to John A. Rogness III at (502) 564-3940, extension 229.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2006-00303
FROM: John A Rogness III 
Manager, Management Audit Branch
DATE: April 18, 2007
RE: Management Audit Status Report

RECEIVED
APR 18 2007
PUBLIC SERVICE
COMMISSION

On April 18, 2007, the Management Audit Branch received and placed the Final Report from the Barrington-Wellesly Group for the Management Audit of Martin County Water District into the Case File No. 2006-00303.

Attached to this memorandum is a status report covering the management audit process from the inception date June 27, 2006 through the filing of the Final Report into the case file.

Martin County Water District Management Audit Status Report

June 27, 2006 – July 15, 2006

The Public Service Commission's (Commission) Order authorizing the management audit was issued on June 27, 2006. Martin County Water District (MCWD) was contacted and an initial meeting was arranged to be held at Natural Bridge State Park. The meeting between Company personnel along with members of the Board of Directors and the Manager of the Management Audit Branch and the General Counsel was held on July 13, 2006. The management audit process was discussed. The company was provided copies of the Request for Proposal (RFP) and draft Letter of Agreement (LOA) for comment. For information purposes, copies of Mountain Water District's 1996 Management Audit Report were also provided.

July 16, 2006 – August 15, 2006

The Company provided comments regarding the draft RFP and the final RFP was issued on August 1, 2006.

August 16, 2006 – September 15, 2006

On August 24, 2006, proposals to conduct the Management Audit of Martin County Water District were received. Copies of the proposals were distributed to the Company for evaluation and comment. Management Audit Staff also evaluated the proposals and a recommendation memo was prepared and submitted to the Commission.

September 16, 2006 – October 15, 2006

On September 21, 2006, the Commission selected the Barrington-Wellesley Group (BWG) to conduct the Management Audit of MCWD. The audit start date was put forward to begin on October 30, 2006 to accommodate members of the MCWD Board attending the Water Training Seminar session in Lexington, KY. The Water Training Seminar is co-sponsored annually by the Commission and the Kentucky Rural Water Association.

October 16, 2006 – November 15, 2006

The Water Training Seminar was held on October 24-25, 2006. Two members of the MCWD Board attended the Seminar. Also, members of the Management Audit team attended the Seminar. On October 29-31, 2006 the first round of audit interviews was held at MCWD's headquarters, attended by both BWG consultants and Management Audit team members. The LOA and a confidentiality agreement were signed by all parties. DOW is to provide grant money to help pay for the audit. On November 3, 2006, the Manager of the Management Audit Branch met with Division of Water (DOW) staff to explain the audit payment / invoice process. A copy of BWG's proposal and a copy of the LOA were provided to DOW. DOW staff explained that accurate documentation is important. A second round of interviews was scheduled for November 14-16, 2006.

November 16, 2006 – December 15, 2006

On November 14-16, 2006, BWG and the Management Audit team attended interviews at MCWD's headquarters. At the end of the interviews, a general discussion

regarding the audit and the Company's progress was held. DOW continued to work on their part of the payment process.

December 16, 2006 – January 15, 2007

A third round of interviews was scheduled for and held on January 11-12, 2007. At the end of the interviews, a final meeting was held with BWG and Company personnel including two Board members and the County Judge Executive. The consultants discussed their general findings. BWG has not received any payment from DOW.

January 16, 2007– February 15, 2007

DOW continues to work on the payment process. DOW will provide grant money to MCWD to cover payment to BWG. BWG provided a copy of the draft report to be reviewed by the Management Audit team.

February 16, 2007 – March 15, 2007

BWG is continuing to revise and send report drafts to the Management Audit team for review. A copy of the draft report was sent to MCWD for a final factual review. DOW has finalized its payment process and approved payment of funds for audit.

March 16, 2007 – April 18, 2007

MCWD had no changes after a factual review of the draft report. The Final Report and the consultant work papers were received and placed into the case file on April 18, 2007. The Management Audit Action Plans (MAAPs) are being drafted by the consultants. The Management Audit team has received and is reviewing drafts of the MAAPs.