

Audit: Pedernales co-op needs better spending controls

Audit shows spending practices still scattered, need some work

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An internal audit of the Pedernales Electric Cooperative's purchasing practices concludes that the Hill Country utility still needs to make major changes in the way it monitors how its money is spent.

The audit, done by Bridgepoint Consulting , examined the co-op's policies and procedures for purchasing equipment and vehicles, getting competitive bids for projects and paying its vendors. After looking at all purchases and payments between January and October 2009 , auditors found the co-op's controls over the spending process are not effective and fail to keep costs down.

But the co-op's Board of Directors said those deficiencies are holdovers from Pedernales' previous management and culture under former General Manager Bennie Fuelberg, who left in early 2008 , and that they commissioned the audit to fix these problems.

The criticism is a reminder of the spending issues that helped trigger a member lawsuit and a reform movement at Pedernales nearly three years ago.

"We're still dealing with the vestiges of the old Fuelberg era, where there were no standards of performance or operational checkpoints," board President Larry Landaker said .

The co-op purchases an array of items necessary to bring power to its 200,000 -plus members. "We are a buyer of many things, everything from paper and pens to transformers and poles," Landaker said.

The audit lists several areas dealing with spending that need "major" improvement:

- The co-op's policy of delegating authority is "vague and incomplete," making it unclear what transactions employees are authorized to make and which employees are responsible for initiating purchases, signing leases and making other decisions.
- Because the board has not formally approved a new procurement policy, "there has not been an authoritative and coordinated effort to roll out procedural changes throughout the organization."
- The co-op has no system to monitor its contractual agreements.

Spokesman Michael Racis said that during and after the audit, the co-op made moves to centralize its purchasing policies — for instance, requiring more qualification of vendors and requiring vendors to go through the central purchasing office before approaching personnel in other departments and districts.

"In the past, decentralized purchasing helped us keep up with growing demand and outstanding customer service standards," Racis said. "As we have grown, it became apparent that we need to have tighter controls that can be achieved through centralized procurement."

Deputy General Manager Paul Hilgers said that the co-op's financial strength has improved under its new

management and the board's reform efforts. Its bond rating was upgraded recently, and a \$25 million loan was deferred to a later date, saving members \$425,000 in interest, he said. In addition, the co-op is reducing rates by half a cent per kilowatt hour starting in June.

"The deficiencies (the report) highlighted are not new news to management," Hilgers said. "We have been working on making improvements to procurement." In addition, the delegation-of-authority policy is "evolving," Hilgers said, and decision-making is no longer so dependent on the general manager.

Landaker said that in the past, the co-op was growing so fast and making so much money that it was spent freely by Fuelberg and other managers.

"It was essentially, go forth and spend whatever you need," Landaker said.

Historically, district offices did their own purchasing without clearing it through Pedernales headquarters, a practice the auditors said led to waste and inconsistencies. But they said widespread change will be difficult to achieve until the board finalizes new policies.

"Managers previously empowered to make certain decisions and take certain actions are reluctant to change their behavior," they noted.

The board has also had little knowledge of contract management, board member Cristi Clement said, adding, "We didn't know whether we were spending \$1 million a year on contracts" or another amount.

The audit is one of several reports done by Bridgepoint to analyze the co-op's financial practices, Clement said. All told, the reports cost about \$52,000.

Landaker said the audit is part of what the board was elected to do as a group of reformers.

"The disturbing thing would be if we didn't know about (these problems) or do anything about them," Landaker said.

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