

PERFORMANCE AUDIT

GRAND RIVER DAM AUTHORITY

For the period July 1, 2003 through March 31, 2011



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Grand River Dam Authority**

**For the Period
July 1, 2003 through March 31, 2011**



Oklahoma State Auditor & Inspector

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December 8, 2011

TO THE HONORABLE MARY FALLIN, GOVERNOR OF OKLAHOMA

This is the audit report of the Grand River Dam Authority for the period July 1, 2003 through March 31, 2011. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR



GRAND RIVER DAM AUTHORITY

Gary A. Jones, CPA, CFE

This audit was conducted at the request of the governor in accordance with 74 O.S. § 213.2.B. The audit period covered was July 1, 2003 through March 31, 2011 unless noted otherwise in the body of the report. The objectives of the audit were to:

- 1) Determine whether executive management's and the board of directors' actions have been consistent with the statutory mission of the GRDA.
- 2) Determine whether the current structure of the GRDA is in the best interest of Oklahoma.

What the Oklahoma State Auditor and Inspector Found

- Employee survey results and interviews revealed a volatile environment increasing GRDA's exposure to fraud, waste, and abuse. – page 5;
- Sporadic attendance at board meetings by the Board of Directors (Board) could hinder their ability to properly and effectively make decisions that are in the best interest of GRDA's mission and for the State of Oklahoma. – page 5;
- Since 2004, internal policies have been created and modified, and administrative rules have been filed. However, not all policies have been presented to the Board for review and approval, which could hinder their ability to properly and effectively make decisions that are in the best interest of GRDA's mission. – page 7;
- Credit ratings have improved since 2004 due to increased rates, new long term contracts, improved debt service coverage and diversification of resources. GRDA's credit rating is just below the median rating of its peers. – page 9;
- The approximate \$140,000 in resources devoted to expand the South Grand Lake Airport Authority was not approved by the Board as required by state law. The economic impact of the project is unknown; as a result, one could question if this was the best use of GRDA's resources, their ratepayers' money, and whether it was appropriate given GRDA's mission. – page 9;
- Patterns appear to exist where executive management and the Board have acted in manners which could have potentially exploited their official capacities for personal benefit. Failure to disclose the following situations has led to concerns over potential conflicts of interests:
 - A family friendship exists between GRDA's superintendent of properties and programs (properties superintendent) and Crossland Constructions' project manager. The properties superintendent was responsible for the oversight of two large construction projects built by Crossland totaling approximately \$13 million. The relationship was not disclosed and could have provided an unfair advantage in Crossland's bid preparations. – page 10;
 - A relationship appears to exist between the board chairman and one of GRDA's vendors, PELCO Structural (PELCO), because the president of PELCO is both the board chairman's brother-in-law and employee. The relationship was not disclosed and could have created an opportunity for PELCO to have received an unfair advantage related to the approximately \$5.2 million in GRDA contracts they were awarded. – page 12;
- Office of Personnel Management studies indicate classified employees' salaries have increased disproportionate to comparable positions in other electrical generating utilities. – page 13;
- With the broad authority granted to the CEO in reallocating or hiring new unclassified employees, certain risks are inherent, such as promoting or hiring people that may not be the most qualified for a position. – page 14;



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- GRDA spent approximately \$130,000 on renovations to office space in Oklahoma City's Bricktown. Although this office may have allowed GRDA to hire and retain qualified staff for certain aspects of their operations, it appears Article 10 § 15A of the Oklahoma Constitution was violated, and one could question whether the Bricktown location was the best use of GRDA's resources and their ratepayers' money. – page 17;
- The Federal Energy Regulatory Commission (FERC) is a federal agency that, among other duties, regulates the interstate transmission of electricity as well as licenses hydropower projects. FERC is often reviewing GRDA's applications for structures that have already been built or where work has already started without their approval. FERC considers these "after-the-fact" applications to be problematic and feel GRDA's attitude towards compliance is poor. – page 18;
- In October 2006, GRDA awarded a \$70 million contract to Alstom to refurbish the four Kerr Dam turbines. In July 2010, FERC ordered GRDA to cease work on the project as the construction was unauthorized per federal law. In December 2010, GRDA filed the necessary license amendment to proceed with the remaining refurbishment as well as to operate the two refurbished turbines at their new capacities. As of October 2011, FERC is still reviewing the license amendment. – page 19;
- 82 O.S. § 864.2 authorized the Board to select a director of investments (DI) to be paid an amount not to exceed 90% of the general manager's salary of the Oklahoma Municipal Power Authority. They selected the CEO and increased his salary to \$225,000 annually because he assumed a portion of the additional duties of the DI. It appears this position was created to allow GRDA to circumvent the statutory limit on the compensation of the CEO and there appears to be a duplication of effort between the CEO and the chief financial officer regarding investment duties. – page 20;
- Multiple exceptions were noted related to the reasonableness of certain travel expenditures (e.g. excessive vicinity mileage, lack of supporting documentation, etc.). Even though there appear to be reviews prior to payments being processed, the previously discussed environment issues could lead to subordinates being uncomfortable questioning executive management regarding certain expenditures. – page 21;
- State statutes recognize GRDA as a unique agency; as a result, we noted they appear to have an attitude similar to a corporation rather than a governmental entity regarding expenditures which included flatware items, dinnerware items, and sound diffusers. – page 24;
- Purchases totaling \$7,598 (kitchen supplies, décor items, iPads, sound machines) could have been purchased on the p-card eliminating the \$314 in sales tax that was paid. Employees are using their own money for GRDA expenses when other procurement methods are available. This could present an undue hardship on the employees as they wait for reimbursement from GRDA. Many of the items purchased are easily convertible to personal use. – page 25;
- GRDA has nine employees receiving a car allowance. Factors used in making the decision as to whether to provide a car allowance include consideration of the employee's circumstances or preference. Financial impacts did not appear to have been considered. GRDA should seek an attorney general's opinion regarding the use of car allowances. – page 26 and 27;
- Oklahoma City University's Steven C. Agee Economic Research & Policy Institute (OCU) noted the value of GRDA's tax-exemption serves as an implicit state subsidy provided to them by the citizens of Oklahoma. OCU identified alternative operating structures which all require further research before a decision should be made as to whether GRDA's current configuration is in the best interest of Oklahoma. – page 28.

Background

The Grand River Dam Authority (GRDA) was established in 1935 (82 O.S. § 861) as a conservation and reclamation district with powers including:

- the control, storage, preservation and distribution of the waters of the Grand River and its tributaries, for irrigation, power and other useful purposes;
- the reclamation and irrigation of arid, semiarid and other lands needing irrigation;
- the conservation and development of the forests, minerals, land, water and other resources;
- the conservation and development of hydroelectric power and other electrical energy.

To fulfill a portion of these duties, three dams were constructed along the Grand River forming lakes with the stored water being used to create electricity. Several years later, GRDA expanded their generating capacity with the additions of coal and natural gas burning facilities.

Table 1 – GRDA Facilities				
<i>Facility</i>	<i>Location</i>	<i>Rated Capacity (in megawatts)</i>	<i>Service Date</i>	<i>Fuel</i>
Pensacola Dam – Grand Lake	Langley, OK	105	1941	Water
Markham Ferry/Kerr Dam – Lake Hudson	Locust Grove, OK	108	1964	Water
Salina Pumped Storage – W.R. Holway Reservoir	Salina, OK	130 – #1 130 – #2	1968 1971	Water
Coal Fired Complex ¹	Chouteau, OK	490 - #1 322 - #2	1982 1985	Coal
Redbud ²	Luther, OK	443	2008	Natural Gas

Source: GRDA Comprehensive Annual Financial Report -2010

Costs associated with fulfilling this statutory mission are funded primarily through electricity sales to rural cooperative, municipal, and industrial customers located in Oklahoma, Kansas, Arkansas, and Missouri. See a map of GRDA’s customers and facilities in Appendix B of this report. In addition to producing and selling electricity, GRDA is responsible for the management of the three lakes which includes but is not limited to ecosystems habitat evaluation and enhancement, shoreline management, water quality monitoring, and lake patrol.

¹ GRDA owns 62% of unit 2 with 38% owned by KAMO Power.

² The Redbud facility is operated by Oklahoma Gas and Electric (OG&E), with OG&E, GRDA, and the Oklahoma Municipal Power Authority owning 51%, 36%, and 13% respectively.

Governance - Statutory Role and Responsibilities of the Board

GRDA is governed by a seven member board of directors (Board or Directors). 82 O.S. § 863.2.B. states in part, “The Board shall have rulemaking authority . . . the authority to grant exemptions from any rules not promulgated pursuant to the Administrative Procedures Act which deal with the waters of the Grand River and its tributaries . . . [and] to oversee the functions of the district and ensure the operations of the district are in compliance with all applicable state laws.”

A significant change was made to the Board structure in 2003 when all serving Directors were removed, the number of Directors was reduced from nine to seven, and the appointing authority of the Directors changed.

Table 2 – GRDA Board of Directors as of September 2011			
	<i>Title</i>	<i>Appointed by/ Representing</i>	<i>Term Ends</i>
David J. Chernicky	Chair	Appointed by the governor, representing industrial and commercial customers	August 2014
Stephen R. Spears	Director	Municipal Electric Systems of Oklahoma (permanent appointment)	-
Dewey F. Bartlett, Jr.	Director	Appointed by the senate pro-tempore	August 2017
Greg Grodhaus	Director	Appointed by the governor	May 2018
Betty Kerns	Director	Appointed by the governor, representing economic development interests, lake enthusiasts, and property owners	August 2015
W. Brent LaGere	Director	Appointed by the speaker of the house	August 2016
Chris Myers	Director	Oklahoma Association of Electric Cooperatives (permanent appointment)	-

In 2007, additional oversight was created with the formation of the Joint Legislative Task Force. This task force, appointed by the president pro-tempore of the senate and the speaker of the house of representatives, was created to study the functions, activities, policies, procedures and expenditures of GRDA. Senate staff as well as a meeting notice indicate the task force met only one time and never issued a formal report. State law was revised on August 26, 2011 requiring the task force to meet at least once biennially during the first session of each new legislature.

Significant Statutory Changes

GRDA has adopted many management practices of a private, for-profit business. This is due in part to its mission and the large degree of autonomy and flexibility accorded to it by the legislature. In addition to the restructuring of the Board, other significant changes that occurred to GRDA’s statutes over the last 10 years include but are not limited to:

- **82 O.S. § 861A** – A new law effective July 1, 2003, recognized GRDA as a unique agency of this state, whose mission requires it to function in competition with private industry within the competitive power market, and the legislature recognized the Board as the rulemaking authority;

- **82 O.S. § 862** – Added language effective July 1, 2003, which created the ability to provide support and assistance to public and private entities (e.g. chambers of commerce or tourism organizations) in an amount not to exceed a total of \$15,000 annually for projects or efforts that are for the benefit of or impact the quality of life for each city or community located within the boundaries of the GRDA. The amount was later increased to \$25,000 effective June 2, 2008;
- **82 O.S. § 862.1** – A new law effective June 4, 2001, created certain exemptions from the Oklahoma Open Records Act (customer proprietary information), Oklahoma Open Meeting Act (coal/gas supply contract and rail/truck transportation contracts), and the Public Building and Construction Act;
- **82 O.S. § 864** – Added language effective July 1, 2003, which modified the compensation study conducted by the Office of Personnel Management (OPM) to exclude unclassified employees from the study and only includes electrical generating utilities for comparison purposes. Additionally, the reference requiring GRDA to comply with the limits imposed by the merit rules was removed and a statement allowing the Board to increase salaries above OPM’s recommendations was added;
- **82 O.S. § 864.2** – A new law effective June 2, 2008, created a director of investments position;
- **82 O.S. § 874.2** – A new law effective May 26, 2005, allowed GRDA to issue licenses to encroach upon real property owned by GRDA to adjacent property owners for structures built upon the real property prior to June 1, 2005. GRDA receives from the licensee the fair market value of the unimproved land and any administrative costs, including appraisals or surveys, required.

During his tenure in the Oklahoma State Senate, the CEO authored many of the bills which significantly modified portions of the laws affecting GRDA’s operations.

GRDA’s previous chief executive officer/general manager (CEO) was hired in March 2004 and resigned July 31, 2011. Prior to his tenure at GRDA, he served many years in the Oklahoma State Senate. During his term as a senator, he authored the bills which created at least portions of the first four laws mentioned in this section as well as the bill which restructured the Board. Any reference to the CEO in this report, unless noted otherwise, is addressing the employee who resigned July 31, 2011.

Grand River Dam Authority

Performance Audit

Purpose, Scope, and Sample Methodology

This audit was conducted at the request of the governor in accordance with 74 O.S. § 213.2.B. The audit period covered was July 1, 2003 through March 31, 2011 unless noted otherwise in the body of the report.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Objective 1 - Determine whether executive management's and the board of directors' actions have been consistent with the statutory mission of the GRDA.

Methodology

Over the years, GRDA has been subject to both public and governmental scrutiny due in part to actions made by executive management and the Board, of which some question the underlying rationale. To identify these actions, we gathered information from a variety of sources by:

- Sending surveys to all 517 GRDA employees;
- Reviewing applicable state laws, board minutes, annual reports, policies and procedures, Oklahoma Administrative Code (OAC) and GRDA's independent financial auditor's work papers;
- Interviewing six of the seven current Directors, GRDA management and staff (current and former), GRDA's independent financial auditors, experts in the fields of economics and business analysis, GRDA vendors, Federal Energy Regulatory Commission (FERC) officials, and personnel from various state entities including the former state bond advisor, OPM, Department of Central Services, the Department of Public Safety, and the South Grand Lake Municipal Airport Managing Authority;
- Reviewing applicable bond and credit profile statements, applicable contracts, contracted performance reviews, accounting and human resources data and support, and multiple letters between GRDA and FERC;
- Reviewing the previous Oklahoma State Auditor and Inspector's Special Audit report;

- Reviewing expenditure documentation such as the check register, the P-Card Statement of Activity, travel claims, employee reimbursement claims, and related supporting documentation.

GRDA management provided us with various accounting data including, but not limited to, check registers and general ledger reports from January 1, 2009 to March 31, 2011. We did not have a feasible method of ensuring the completeness of this information; therefore, we relied on management's representation. As applicable, we did ensure the information was supported.

The actions discussed in this report were addressed given the frequency with which they were brought to our attention and/or their potential impact. Not all actions taken by executive management or the Board have been addressed.

Atmosphere Created by Management

An effective internal control system has in place policies and procedures designed to reduce the risk of errors, fraud, and professional misconduct within an organization. A key factor in this system is the environment established by management. Management's ethics, integrity, attitude, and communication style become the foundation of all other internal control components. Responses from approximately 250 completed employee surveys, along with interviews, identified a volatile environment. Employee animosity appears to be fueled in part by ineffective communications and distrust between certain segments of the employee population and executive management. Whether the barriers are factual or perceived, employee morale and productivity have likely been impacted. This environment increases GRDA's exposure for fraud to occur.

Responses from approximately 250 completed employee surveys, along with interviews, identified a volatile environment.

Recommendation

The resignation of GRDA's CEO has led to a transition in executive management. Although a new CEO has been hired, this alone will not fully address the issue. New management and the Board need to be cognizant of the risks associated with this type of environment and begin working towards evaluating and addressing the situation to ensure the mission of the GRDA is accomplished in the most efficient manner possible.

Views of Responsible Officials

Executive management and the Board are appreciative of this feedback and will use it as an opportunity to improve communications with employees. New board committees will establish an appropriate tone at the top. Executive management realizes enhanced communication is an ongoing process.

Board Director Orientation and Meeting Attendance

82 O.S. § 863.2.B states in part, "It shall be the duty of the Board of Directors to oversee the functions of the district and ensure the operations of the district are in compliance with all applicable state laws . . ."

Some key components to an effective board are ensuring the necessary knowledge and understanding are conveyed to its members through the orientation process, the

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information provided to them for meetings is sufficient to make sound decisions, and members regularly attend board meetings.

GRDA's orientation process for new Directors includes providing a binder which contains significant information for GRDA operations. The general counsel also holds meetings with the Directors to discuss constitutional, statutory and ethical issues.

Many Directors take tours of the GRDA facilities as well as visit with management and staff at the various locations.

Generally, a week prior to a Board meeting, the Directors are provided a board packet through hard copy and electronic formats. Our conversations with six of the Directors (one Director chose not to meet with us) revealed they felt the amount of information presented in the board packet was sufficient to make informed decisions. One Director stated the information was almost "death by data." Three Directors indicated they review all the information in detail, two review portions of the information in detail, and one indicated he would review the agenda for items of interest and review the supporting documentation in the board packet as needed.

Board meetings are held once per month, and occasionally a special meeting is held. Board minutes from January 2009 through March 2011 were reviewed to determine Board director attendance as well as the location of the meetings.

This review indicates³:

- 21 meetings were held (16 in Vinita, two in Chandler at a Director's office, and three in Tulsa at another director's office); however, there were only two instances when all Directors were present;
- Five meetings were cancelled due to the lack of a quorum;
- Assuming a Director was appointed to the Board at least 10 months:
 - Three Directors had an attendance percentage of 80% or higher;
 - Four Directors had an attendance percentage of 70% or lower with three of these being less than 62%.

Out of 21 board meetings held, there were only two instances in which all Directors were present.

Although GRDA provides Directors with an orientation process and sufficient information through the board packets, no formal written policies and procedures exist to inform and provide direction regarding GRDA's expectations for Director attendance at board meetings.

³ There were nine different Directors who served on the Board during this period. See detailed analysis of meeting attendance in Appendix C.

Given the complexity and variety of GRDA's operations, state statutes have provided diversification among its Directors. Failure of all Directors to actively attend board meetings could hinder their ability to properly and effectively make decisions that are in the best interest of GRDA's mission and for the state of Oklahoma. In an attempt to ensure all Directors are present, the locations of the meetings have been modified to accommodate their schedules. However, this strategy could present a hardship to others (citizens, media, employees, etc.) wishing to attend the meetings.

Recommendation To ensure the most effective decisions are made in the best interest of GRDA and the state of Oklahoma, written policies and procedures should be developed to convey the expectation of Directors' attendance.

Views of Responsible Officials

The Board agrees and will develop a corporate policy conveying its expectations that Directors attend meetings regularly. GRDA would support statutory changes authorizing the Authority to hold electronic board meetings.

Creation and Modification of Policies

The State Auditor and Inspector's previous audit of GRDA had several recommendations regarding establishing and implementing policies. In addition, GRDA management indicated that prior to 2004, they had no administrative rules filed with the Secretary of State. An effective internal control system includes established written policies and procedures to inform employees about the organization's expectations and practices, to provide direction in the correct way of processing transactions, and to serve as reference material for new and continuing employees.

Review of GRDA's internal policies and the Oklahoma Secretary of State's website supports that GRDA has developed and modified, where applicable, internal policies and filed administrative rules since 2004. However, it appears the travel policies have not been reviewed and updated since 2004. As a result, they do not appear to reflect airlines' new practice of charging baggage fees. Per Office of State Finance (OSF) policy, other state agencies are limited to one baggage fee, unless justified. GRDA's policies also do not discuss the expectations for actual and necessary travel.

In addition, 82 O.S. § 863.2.B states that the Board is responsible for approving business expenses; however, OAC 300:20-1-15 assigns this responsibility to the CEO and GRDA's practice is to have the chief operating officer (COO) approve the transactions.



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Recommendation GRDA management and the Board should review and update the travel policies to ensure compliance with the State Travel Reimbursement Act. In addition, the policies should address actual and necessary expenses. For example, OSF’s policies require that actual and necessary expenses are clearly identified and justified on a separate form. The Board should be approving business expenses as required by state statute.

Views of Responsible Officials GRDA will update the policies and procedures to clearly identify who is responsible for approving each document and present them to the Board for approval. Additionally, GRDA has implemented enhanced monthly summarizations of business expenses to the Board’s audit committee members.

Approving Policies and Procedures

The Board has created a Policies and Procedures committee (committee) whose function has been defined by policy 2-3 II.5. The committee is to “review existing policies and procedures, coordinate revision of policies and procedures with other committees and to develop new policies and procedures as required . . . and make recommendations to the Board of Directors concerning revisions, deletions or additions.”

The Board appears to have approved the Board of Directors’ policy manual as well as other policy manuals; however, during the course of our audit, we were provided additional policies and procedures, which had not been recently approved or in some cases ever approved by the Board. These include:

- Cell phone policy (not approved)
- Travel policy (approved in February 2004)
- Travel procedures (not approved)
- Safety glasses policy (not approved)
- Purchasing procedures (not approved)

Management determined Board approval was unnecessary for these policies and procedures. In the case of the travel and purchasing procedures, GRDA executive management considered them “training” materials, and therefore did not require Board approval. It appears unusual policies and procedures relating to GRDA’s expenditure practices would not receive Board approval given its statutory responsibilities outlined in 82 O.S. § 863.2.B for ensuring the operations of the district are in compliance with all applicable state laws.

Not presenting all policies and procedures to the committee could hinder their and the Board’s ability to make effective decisions related to the operations of GRDA.

Recommendation The Board should obtain and review all policies and procedures related to GRDA’s operations. All future policies and procedures created by GRDA staff should be presented to the committee for further evaluation to determine if recommendations should be made to the Board concerning revisions, deletions or additions.

Views of Responsible Officials GRDA will update the policies and procedures and present them to the Board for approval.

Improved Credit Ratings

In 2008 and 2010, GRDA issued bonds totaling \$575,375,000 and \$239,315,000, respectively. We evaluated whether GRDA’s credit rating improved from 2004 through 2010 and how GRDA’s credit rating compares to its peers. Using data from the three credit rating agencies, we compared GRDA’s ratings over the last several years:

Table 3 – GRDA Credit Rating History			
Standard and Poor’s	“BBB+ negative” March 2004	“A-positive” – October 2007	“A stable” – November 2010
Fitch	“A-“ – May 2002	“A-positive” March 2005	“A stable” – November 2010
Moody’s	“A2 negative” – 2004	“A2 stable” – 2007	“A2 stable” – 2010

Source: Credit rating agencies’ reports

Reasons for the improved ratings included, but are not limited to, rate increases, new long-term contracts with customers, improved debt service coverage and diversification of resources. We visited with Oklahoma’s former state bond advisor who stated that all of the justifications for the improved ratings appear reasonable and a better rating will certainly save money over time.

To place GRDA’s 2010 ratings in perspective, we reviewed Standard and Poor’s “U.S. Public Finance Report Card” (2005-2010) which states:

- The public power sector⁴ has continued to experience overall credit stability;
- Public power ratings overall are stronger than those of the investor-owned utilities (IOU). This is due to their nearly universal protection from direct competition, the absence of investor-demanded rates of return, and rate-setting autonomy;
- Public power’s median rating is ‘A’ and closer to ‘A+’ than ‘A-’ with the exception being in 2010 where the median was ‘A+’.

It appears GRDA’s core peer group (public power sector) has overall credit stability and their 2010 rating puts them slightly below the median rating in this group. A more specific comparison indicated that GRDA’s rating compared favorably to entities that have wholesale customers and are either in the same geographic region or have a similar governance structure. See rate comparison table in Appendix D.

Expansion of South Grand Lake Airport

GRDA spent approximately \$140,000 in resources to expand South Grand Lake Airport without Board approval.

74 O.S. § 1008.A allows for public agencies to contract with each other “. . . to provide a service, activity, or undertaking which any of the public agencies entering into the contract is authorized by law to perform, provided that such contract shall be authorized by the governing body of each party to the contract . . .”

Under the basis of economic development, GRDA and South Grand Lake Airport Authority

⁴ The public power sector includes municipally owned electric utilities and combined (or multi-segment) utilities, as well as joint action agencies consisting of two or more participating utilities.

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(airport) entered into an agreement on October 21, 2006 in which GRDA was to provide clearing, dirt work, fly ash stabilization, and rock base preparation for asphalt for the construction of ramps, taxiways, and taxi lanes at the airport. In return, the airport was to *waive land and occupancy space fees* as well as *make an effort to provide low cost fuel* for GRDA aircraft during the period January 1, 2007 through December 31, 2011. Approximately \$140,000 in GRDA personnel and equipment costs were used on the project. Points of interest about the agreement are:

- 1) GRDA's pilot indicated their two helicopters have never been stored at the airport;
- 2) Helicopter fuel was not purchased from the airport until October 2010 and stopped in April 2011. The purchases totaled \$2,299;
- 3) A former member of GRDA's executive management team sat on the airport's board when the agreement was accepted;
- 4) According to the airport manager, a former GRDA Director was involved in raising money for the airport improvements outside the scope of his GRDA responsibilities.

The agreement was approved by the airport board; however, it was not approved by GRDA's Board as required by law. GRDA executive management stated this agreement was never presented to the Board. Though the economic development impact of this agreement is unknown; it is questionable if this was the best use of GRDA's resources, their ratepayers' money, and whether it was appropriate given GRDA's mission.

Recommendation

Board approval should be obtained for all future contracts for governmental services as required by state law. This approval should include an evaluation of whether the contract meets the intent of GRDA's mission.

Views of Responsible Officials

GRDA will develop policies and procedures for the appropriate approval of governmental contracts to comply with the intent of GRDA's mission. The policies and procedures will be submitted to the Board for approval.

Family Friendship Between Properties Superintendent and Crosslands Project Manager

The Ecosystems and Education Center (Eco) at Pensacola Dam was built to further GRDA's partial mission of being a conservation and reclamation district for the waters of the Grand River. The facility houses a water quality lab, and the ecosystem management and compliance departments, as well as the GRDA police force.



The Energy Control Center (ECC) at Kerr Dam houses GRDA's system operations center as well as the communications and supervisory control and data acquisition

(SCADA) departments. It was remodeled to update the equipment and to bring it into compliance with the North American Electric Reliability Corporation (NERC)⁵ required standards.

The purpose of competitive bidding is to obtain goods and services at the lowest prices by stimulating competition, and by preventing favoritism.

GRDA hired two different vendors, one for each project, to design the buildings and assist in the bidding processes. Upon these vendors' recommendations, both contracts⁶ were awarded to Crossland Construction Company Inc. (Crossland) on the basis of best overall value (Eco) and lowest bid (ECC).

GRDA's superintendent of properties and programs (properties superintendent) was part of the bidding evaluation team and was responsible for the oversight of the Eco and ECC projects. Conversation with the properties superintendent revealed the Crossland project manager⁷ for both projects is a family friend.

The properties superintendent signed separate "conflict of interest statement for evaluation team members" for the Eco and ECC projects as required by purchasing procedure 9.1. Each conflict of interest statement includes the following:

. . . I acknowledge my obligation to disclose to the Chief Financial Officer and General Counsel any friendships; *family or social relationships* (emphasis added); . . . or other accommodations offered or received by myself from an individual or company . . . submitting a proposal or bid in this matter which might be perceived as compromising my independent judgment in this evaluation; and I agree to disqualify myself from participation in the evaluation should the Chief Financial Officer or General Counsel find my relationship with a company or individual submitting a proposal or bid in this matter may be perceived as compromising judgment in the evaluation.

Conversation with the properties superintendent revealed the Crossland project manager is a family friend. These contracts totaled just under \$13 million.

Conversations with the chief financial officer (CFO) and general counsel indicated the properties superintendent did not disclose this relationship to them.

The appearance of this relationship without disclosure is cause for concern because it could have provided an unfair advantage in Crossland's bid preparations for contracts totaling just under \$13 million.

⁵ NERC is the electric reliability organization certified by FERC to establish and enforce reliability standards for the bulk-power system.

⁶ Total contract amounts with change orders were \$4,877,271 for Eco and \$8,075,891 for ECC.

⁷ A Crossland project manager's duties include responsibility for the overall planning and implementation of the job which includes overseeing the project schedule, budget, and construction administration as well as working closely with GRDA and the architects and communicating their expectations to the project team.

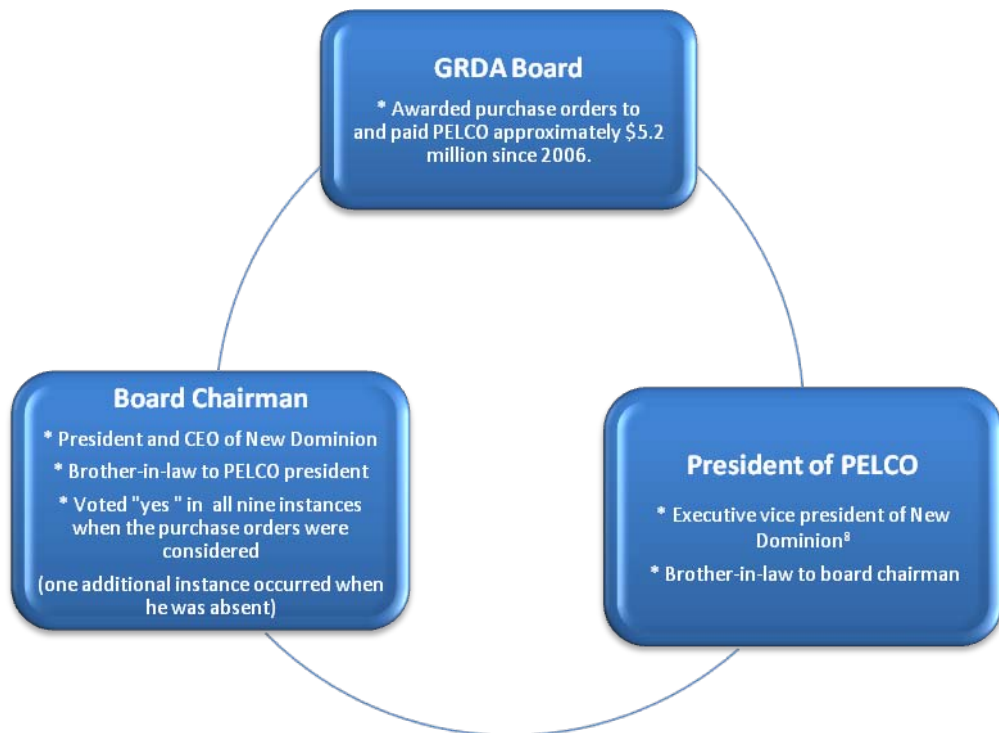
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Recommendation The attorney general's office should review this situation further and determine if any laws were violated.

GRDA Comment GRDA will retrain its employees to reinforce their responsibilities so they will clearly understand the importance of the integrity and expectation of the process including attending to both the letter of the law and perceptions.

Relationship between Board Chairman and GRDA Vendor

A relationship appears to exist between the board chairman (as identified on page 2 of this report) and one of GRDA's vendors, PELCO Structural (PELCO), because the president of PELCO is both the board chairman's brother-in-law and employee⁸. See below:



Of the six Directors we visited with, five were not aware of this relationship and the one Director who did know about it discovered it through his own research. During our discussion with the board chairman, he indicated he had visited with his private counsel as well as GRDA's general counsel and both indicated the relationship was not an issue. Consequently, the association was not disclosed on his Form F-2R (statement of financial interests) which is filed with the Oklahoma Ethics Commission. We asked the board chairman if he ever voted to award funds to PELCO. He did not recall the matter

⁸ Prior to board interviews, the president of PELCO was listed as the executive vice president of New Dominion on their website.

ever presenting itself, but stated that he would have abstained had it ever occurred. However, board minutes indicate he voted “yes” in all instances except one when he was absent. Accounting records indicate approximately \$5.2 million was paid to PELCO since 2006.

GRDA Board of Directors’ Policy 2-4 II A. states in part, “. . . It is the policy of the Authority that its Board members . . . shall exercise sound, ethical business judgments so as to preserve and further the Authority’s good standing in the community and among the people it serves”

This relationship does not appear to be a conflict of interest as defined by GRDA policy or guidance available in the 2010 Ethics Manual issued by the Oklahoma Ethics Commission because the PELCO president is not a “dependent” or an “immediate family member” of the board chairman. Even though the “conflict of interest statement for evaluation team members” discussed in the previous section was not required in this case, it does indicate that GRDA acknowledges these types of situations could lead to potential conflicts of interest. The mere appearance of this relationship without disclosure is cause for concern. The relationship could have created an opportunity for PELCO to have received an unfair advantage related to the approximately \$5.2 million in GRDA contracts they were awarded.

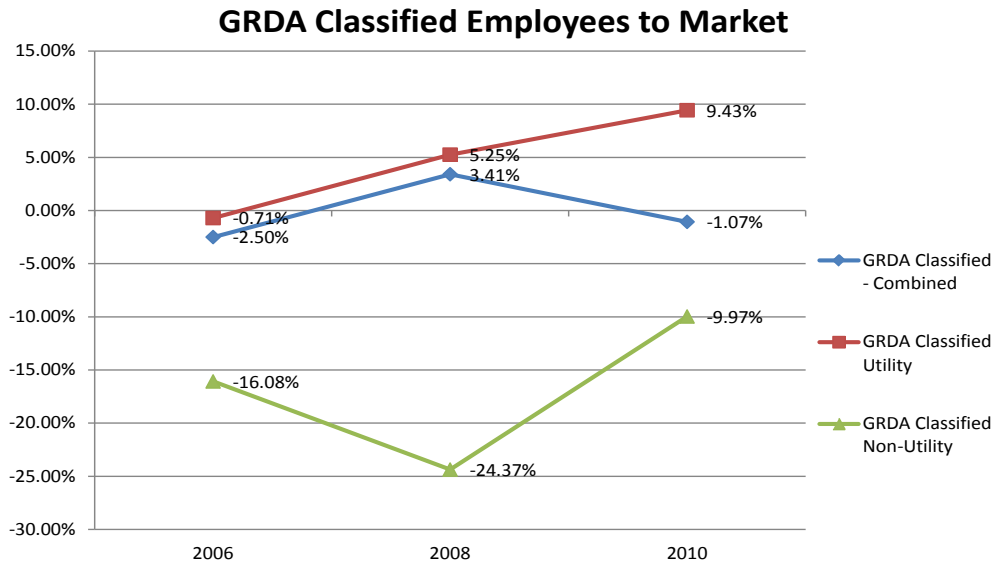
Recommendation The attorney general’s office should review this situation further and determine if any laws were violated.

GRDA Comment The Board will amend the by-laws to incorporate more restrictive conflict of interest provisions and rules on disclosure.

Increasing Salaries of Classified Employees

82 O.S. § 864.C requires OPM to conduct a biannual comprehensive classification and compensation study comparing all *classified* employees in the GRDA to prevailing rates of pay for all positions in electrical generating utilities. According to the statute, this report should include recommendations for average comparable pay scale based on the study. Once the report has been issued, the Board shall implement the classification and compensation recommendations as appropriate, if fiscal constraints and commitments to ratepayers permit. They may also implement adjustments in compensation to correct inequities. These adjustments *may* increase the base payroll in excess of the recommendation in the OPM study.

The OPM studies conducted during the full audit period indicate classified employees’ salaries have increased disproportionate to comparable positions in electrical generating utilities. See chart on next page.



Source: OPM GRDA Compensation Reports

Board meeting minutes indicate the Board utilized the OPM Compensation reports to approve pay raises in April 2009; however, they opted not to take action on salaries in April 2011.

Views of Responsible Officials

The Board and executive management will continuously review industry, state agencies and GRDA compensation data to keep abreast of the competitiveness of GRDA market based compensation. The goal is to be competitive in all areas of compensation, dependent on availability of funds and acting within statutes. GRDA has expressed concerns about previous studies to OPM and OPM is currently preparing a new study which will be available in January 2012. GRDA will review the OPM study to determine the best course of action related to employee compensation.

Creating and Reallocating Unclassified Positions

With the broad authority granted to the CEO in reallocating or hiring new unclassified employees, certain risks are inherent such as promoting or hiring people that may not be the most qualified for a position.

GRDA employs both classified and unclassified personnel. Classified personnel are hired through the state’s merit system after meeting certain qualifications for their positions and have the right to appeal to the Merit Protection Commission regarding disciplinary actions taken by GRDA, including, but not limited to, involuntary demotion, suspension without pay, or discharge.

Unclassified personnel are considered “at will” and serve at the pleasure of the CEO meaning they may be terminated with or without cause at any time. GRDA has no procedures for the recruitment and appointment of unclassified personnel, or for the terms and conditions of their employment.

Employee survey results brought forward concerns related to the CEO changing employees’ statuses from classified to unclassified, also known as “reallocation”, and

creating new unclassified positions for unqualified personnel. These employees believed reallocation was a method the CEO was using to terminate employees after they were no longer under the protection of the merit system. Discussions with the human resources superintendent revealed that none of the 43 employees in the positions that were reallocated during the audit period were terminated.

Our review of seven haphazardly selected reallocation forms (OPM-92) indicated GRDA followed the proper approval process (GRDA cabinet secretary) to ensure compliance with OPM rules when reallocating a position. In the course of reviewing the seven OPM-92s, we noted “additional job duties” was listed as the justification. We requested the formalized job descriptions and qualifications for these positions; however, GRDA indicated they do not have job descriptions for any unclassified positions. Therefore, to confirm the justification, we interviewed an additional eight haphazardly selected reallocated employees to determine if additional job duties were assigned. Interviews revealed this was not the case for three employees, despite the OPM-92 indicating such.

With the broad authority granted to the CEO in reallocating or hiring new unclassified employees, certain risks are inherent, such as promoting or hiring people that may not be the most qualified for a position. The following are examples of these types of transactions:

- A back-up helicopter pilot was hired at \$40,000 annually. His resume indicates he had military experience as a helicopter support team leader and was self-employed in the construction and maintenance fields. The employee did not possess a private or commercial pilot’s license but obtained a private license after being hired. Correspondence between the human resources superintendent and the CEO indicates GRDA intended to provide the employee with the necessary \$15,000 training and required flight hours to obtain the commercial license. Helicopter logs and verbal statements from the main pilot indicate the back-up pilot flew with him approximately 100 hours⁹ in 2009 through 2011. The back-up pilot resigned effective June 2011;
- The superintendent of hydro operations was hired at \$95,000 annually. His resume indicates he has a master of business administration degree with only sales, marketing, and teaching experience. In May 2011, the assistant general manager of



⁹ The Federal Aviation Administration’s (FAA) website indicates 250 total flight hours are required to obtain a commercial pilot certificate. However, employers can require additional hours. OPM’s website indicates a classified pilot must have logged at least 3,000 hours.

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thermal generation assumed management responsibilities of the hydro operations and the employee in question was terminated in August 2011;

- An assistant superintendent -technical writer and property development was hired at \$40,000 annually. Her resume indicates she has a degree in interior design with no experience. She resigned in June 2011;
- An assistant superintendent of property administration was hired at \$36,720 annually. Her resume indicates only sales experience since 1999.

Examples that appear to indicate, on paper, that a qualified person was hired for a position include:

- A superintendent of shift operations was hired at \$93,000 annually. He has a degree in mechanical engineering and served six years as a nuclear submarine officer;
- An assistant superintendent of technical services was hired at \$55,000 annually. His resume indicates he worked for 20 years in information technology (IT) for a large corporation;
- An assistant superintendent – programmer was hired at \$50,000 annually. His job application indicates he has a degree in IT;
- An assistant superintendent of human resources (HR) was hired at \$50,000 annually. Her resume indicates that she had various HR duties while working for a law firm since 2003.

GRDA's reallocation process has created an environment where some employees are unsettled about their job security. In addition, the lack of procedures for the recruitment and appointment of unclassified personnel increases the risk of hiring unqualified personnel. These actions can allow animosity to build, thereby increasing risks.

Recommendation

GRDA management should develop formal, written procedures for the recruitment and appointment of unclassified personnel as well as job descriptions and qualifications. Additionally, when new positions are created, the Board should be made aware and consider formally approving.

Management should be aware the reallocation process could cause employees to experience feelings of insecurity because of the move from a "protected" position to an "at-will" position. Communication is critical to reducing risk and ensuring employees are operating in the most efficient manner possible.

Views of Responsible Officials

GRDA agrees with this assessment. In August 2011, GRDA completed the task of developing job descriptions and qualifications for unclassified positions. Compensation on a permanent and ongoing basis will be reviewed at the Board level so employees know that GRDA compensation practices are fair, equitable, and competitive. This also allows the Board to be informed of the key compensation data including performance compared to budget as well as compared to goals and objectives. GRDA is embarking on a bottom up budget process, and personnel expenses will be one of the first areas addressed. Clear communication during and after the personnel budgeting process will allow GRDA to better keep our employees informed.

Leasing Office Space in Oklahoma City

In 2005, GRDA decided to open a branch office in a popular entertainment district of Oklahoma City known as Bricktown. Executive management indicated this decision was made so they would have a place to hold meetings and conduct other GRDA job duties while 160 miles from the administrative headquarters as well as promote Grand Lake with maps, brochures, etc. Additionally, the creation of this location helped acquire the services of an Oklahoma City based employee sought after to manage GRDA's purchase card program.

Prior to GRDA moving into the building, the landlord and GRDA performed a substantial amount of work on the leased space. Management provided documentation which appears to indicate GRDA performed general framing, painting, and staining; heating and air conditioning work; phone and data installation; and signage. GRDA's costs associated with this work equaled approximately \$130,000. The Oklahoma Constitution Article 10 § 15A states in part, ". . . nor shall the State . . . make donation by gift, subscription to stock, by tax, or otherwise, to any company, association, or corporation."

The Department of Central Services (DCS) is empowered in 74 O.S. § 63.C and § 94.A to manage all leasing arrangements for state agencies, unless otherwise provided by law. GRDA did not seek DCS's approval prior to entering into this arrangement because they had an "unofficial" opinion from an assistant attorney general which stated they did not have to obtain DCS's approval. This "unofficial" opinion was based on GRDA's power granted by 82 O.S. § 862(e) which states in part that GRDA is authorized, "To acquire by purchase, lease, gift, or in any other manner . . . any and all property of any kind, real, personal, or mixed . . ." It is interesting to note the unofficial opinion was issued 26 days after the lease agreement went into effect on August 1, 2005.

The average price per square foot (\$17.97 over the life of the six year lease) nearly doubles the amount (\$9.00) DCS sets as a threshold for approval on a case-by-case basis for agencies under their authority¹⁰.

GRDA terminated the agreement in January 2011 and moved to another Oklahoma City location where the average price per square foot (\$15.50) is less than the Bricktown location but still exceeds the DCS threshold by 72%. GRDA executive management stated the purpose of the Oklahoma City office has transitioned to serve as office space for financial administration (primarily accounting and purchasing activities) and corporate communications.

Although the Oklahoma City office may have helped GRDA to hire and retain qualified staff for certain aspects of their operations, it appears by renovating the Bricktown office, the Oklahoma Constitution was violated and one could question if this location was the best use of GRDA's resources and their ratepayers' money.

Recommendation

The attorney general's office should review this situation further and determine if any laws were violated.

¹⁰ DCS leasing management indicate exceptions to the rental rate threshold are based upon the location, type of building, age of building, amenities, tenant build-out, agency requirements, comparative space, and overall costs.

GRDA Comment GRDA will consult with DCS on any future lease renewals or agreement in order for its operations to be as cost-effective as possible.

Relationship between GRDA and FERC

*“GRDA’s attitude
towards compliance is
poor.”
-Senior FERC official*

The Federal Energy Regulatory Commission (FERC) is a federal agency that, among other things, regulates the interstate transmission of electricity as well as licenses hydropower projects. The two areas of FERC that have oversight jurisdiction over GRDA are the hydropower section¹¹ and the electric reliability section which includes both transmission and generation. During our initial meeting with GRDA management, they stated both verbally and via a PowerPoint presentation that FERC officials had previously told them that GRDA was the worst managed project under their jurisdiction; however, this was no longer the case and their relationship was drastically improved. Conversations with senior level FERC officials tell a different story:

- Hydropower

FERC has never made a determination on GRDA’s overall program compliance; however, they are often reviewing applications for things that have already been built, such as boat docks or marinas, or where work has already started without approval from FERC, such as upgrades to turbine units (discussed in the Markham Ferry/Kerr Dam Refurbishment section of the report) or clearing for substations. They consider these "after-the-fact" applications to be problematic and feel GRDA’s attitude towards compliance is poor. Correspondence between FERC and GRDA includes comments such as:

- “In addition to your plan being inadequate and not addressing the resource agencies’ concerns, your report lacks details on how the tests were conducted and how the data was compiled” and “Your plan and supplemental filings continue to be inadequate” – *December 29, 2009 – Article 401 – Dissolved Oxygen Mitigation Plan*;
- “The delays by GRDA in completing plans required by its license are not simply technical violations, but have resulted in the failure to provide environmental protection and public recreation mandated by the license . . . Commission staff again strongly urges GRDA to comply with its license, and the requirements of this letter order, immediately” – *May 21, 2010 – Compliance with License Articles 401, 404, 405*.

FERC officials did stress the licenses also contain numerous conditions which GRDA has complied with.

¹¹ GRDA has three licenses which each have various terms and conditions and specific compliance requirements including, but not limited to, shoreline management, encroachments, dock permitting, environmental requirements, lake elevation levels, and dam safety.

- Electric Reliability

Information from FERC on electrical reliability is confidential; therefore, officials in this area were not as candid when discussing their relationship with GRDA. They did provide to us a “staff notice of alleged violations” which indicates GRDA allegedly violated 52 requirements of 19 reliability standards by failing to adequately perform critical functions required for reliable operation of transmissions systems. On August 29, 2011, GRDA settled with FERC resulting in a civil penalty totaling \$350,000. GRDA did not admit or deny that its actions constituted violations of the reliability standards.

Markham Ferry/ Kerr Dam Refurbishment



In October 2006, GRDA awarded a \$70 million contract to Alstom to refurbish the four Kerr Dam turbines. The units were put in service in 1964 and had received no significant maintenance since that time. During this same time period, Kerr Dam was going through their relicensing process with FERC. An independent engineering firm (engineer) was hired by GRDA to handle both the relicensing project and the turbine refurbishment bidding process. Discussions of the refurbishment occurred between GRDA, the engineer, and FERC during the relicensing process. As a result, the engineer and GRDA believed FERC was supportive of the project and subsequently began work on it in 2007. In early 2010, FERC inquired about the refurbishment situation. Multiple letters were exchanged between both parties and on July 2, 2010, FERC ordered GRDA to cease work on the project as this constituted unauthorized construction¹² on their part as defined by Title 16 U.S. Code section 803 (b)¹³. At this point, two of the four turbines were complete; however, GRDA could not operate them above their previously licensed capacities. In December 2010, GRDA filed the necessary license amendment to proceed with the refurbishment of the remaining two turbines as well as to operate the new turbines at their new capacities. As of October 2011, FERC is still reviewing the license amendment.

From a monetary standpoint, the impact of GRDA’s non-compliance is unknown with the exception of a \$675 monthly rental for storage of parts. The contract with Alstom is still valid because GRDA would not accept their proposal to include a “suspension policy” in the original contract; therefore, any such charges by Alstom for delay, suspension, lost profits, etc. are excluded by the terms of the contract. However, it should be noted that GRDA told FERC in a December 16, 2010 letter, the stoppage

¹² This letter makes reference to a February 17, 2006 environmental assessment issued by FERC which states that in a February 2, 2006 phone conversation between FERC and GRDA, a former GRDA assistant general manager indicated GRDA would not be performing an upgrade. The environmental assessment informed GRDA that if they decided to pursue this upgrade, it would have to be evaluated by FERC in a license amendment.

¹³ Title 16 U.S. Code section 803 (b) states “. . . except when emergency shall require . . . no substantial alteration or addition not in conformity with the approved plans shall be made to any dam or other project works constructed . . . of an installed capacity in excess of two thousand horsepower without the prior approval of the Commission . . .”

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“may cause a dramatic increase in the cost of the rehabilitation work . . . GRDA customers will bear the additional costs as a result of the stop work order.”

Senior GRDA management at Kerr Dam believe the largest impacts to their operations as a result of the work stoppage are:

- 1) the space consumed for storage of parts for the third unit;
- 2) the liability as to who is responsible for parts and materials stored in the plant should something be damaged;
- 3) the reliability of the two remaining units to be overhauled.

Recommendation In the future, GRDA should follow Title 16 U.S. Code section 803 (b) and obtain written approval from FERC before starting work on projects.

Views of Responsible Officials GRDA agrees with the assessment and has become more compliance-oriented as represented by recent staff, transmission, and other infrastructure upgrades to address FERC and NERC requirements. Executive management and the Board will continue to implement a culture of compliance.

Board’s Selection for the Director of Investments Position

74 O.S. § 3601.2.A.3 sets the limit of compensation for the CEO at \$137,239. Based on conversation with certain Directors, this limitation has imposed difficulties in recruiting a qualified CEO with significant and relevant public utility experience. In June 2008, 82 O.S. § 864.2 (see full statute in Appendix E) authorized the Board to select a director of investments (DI). This newly created position has a salary limit of 90% of the general manager’s salary of the Oklahoma Municipal Power Authority (OMPA). On July 8, 2009, the Board approved a contract specifying that the CEO would assume the duties of the DI and receive the higher salary of that position (\$225,000) rather than the lower salary for the CEO. For unknown reasons, the CEO chose not to accept the higher salary from January 2010 through April 2010. However, during the period May 2010 through January 2011, his new salary appears to have exceeded the statutory limit by a total of approximately \$7,000. It appears the DI position was created to allow GRDA to circumvent the statutory limit on the compensation of the CEO.

There is a possible duplication of effort between the DI and CFO regarding investment duties.

The DI position seems redundant to the position of Treasurer/ CFO, which according to GRDA policy 5-2 III, “. . . shall provide oversight and supervision of the investment policy and shall report directly to the general manager (CEO) on all matters relating to the policy. . . .” According to the CFO, she is responsible for working with and helping support ten of the 14 specified duties of the DI. Additionally, given the duties of the DI as specified in statute are much less rigorous and frequent than those of the CEO, it appears unreasonable the compensation for that position is so much higher than that of the CEO especially in comparison to other state entities that have significant investment activities and have DI type positions.



Recommendation

The attorney general's office should review the possible overpayment to the CEO to determine if further action is warranted.

In addition, the legislature should determine and establish a salary commensurate with the level of responsibilities of the CEO position and develop a requirement for significant and relevant public utility experience. From conversations with certain Directors, it seems clear from the most recent recruitment effort by the GRDA that they were unable to attract candidates with the desired credentials at the current level of compensation for this position. For example, one Director indicated a desired candidate who appeared to have been qualified for the position of CEO with relevant public utility experience could not meet the qualifications for the DI. Therefore, this person was not hired as CEO, but was instead hired into a newly created position where this limitation would not exist.

If the statutory compensation level for the CEO is increased to allow recruitment and retention of individuals with the necessary relevant public utility experience, the legislature should eliminate the DI position, as approved policy already assigns the majority of the duties to the CFO. Should the legislature decide the DI position is needed, GRDA management should develop a formal process for obtaining the correct OMPA salary data and retaining the supporting documentation used in making the DI salary calculation.

Views of Responsible Officials

GRDA will update its policies and job descriptions to comply with the state statute which requires the DI to perform the duties in question, instead of the CFO. While GRDA was fortunate to hire a new CEO who also possesses the qualifications of a DI, the Board would support statutory changes to reflect an appropriate CEO salary.

GRDA has filed an open records request with OMPA to verify the total compensation of its General Manager. GRDA believes its CEO's total compensation for the period in question did not exceed statutory limitation. According to his 2010 W2, the CEO's total compensation was \$198,368.35.

Auditor's Response

The potential overpayment occurred from May 2010 to January 2011 rather than on annual basis. This was a result of using incorrect data in calculating the new salary.

Management's Attitude Related to Travel

An effective internal control system should provide for appropriate review of expenditures to ensure compliance with applicable policies, procedures and state law. In addition, management should establish an environment where procedures are to be followed, particularly by management, who should set the example for employees.

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In reviewing the supporting documentation for a selection of payments made to employees for travel during the period January 1, 2009 to March 31, 2011, we noted there appears to be a review process in place; however, the effectiveness of this review could be questioned due to the exceptions we noted. Some of the exceptions are summarized below; see Appendix F for full listing and details:

- Excessive vicinity mileage claimed given the nature of business identified. For example:
 - CEO made four trips from his home to the airport with vicinity miles ranging from 15 to 25 (\$43);
 - The technical writer and property development assistant superintendent made 10 GRDA related shopping trips in Tulsa with vicinity miles totaling 408 (\$205) and one three day visit to Oklahoma City included 300 vicinity miles (\$153) for an office move and purchases;
 - CEO claimed 55 vicinity miles in Oklahoma City for a conference held at the Skirvin Hotel, where he stayed (\$30).
- Documented nature of business for trips was too vague for an independent person to properly evaluate the reasonableness of the trip (e.g. “Capitol,” “meeting,” “ECC,” etc.). For example, we could not determine the nature of business for 23 of 24 selected trips made by the COO (\$3,999). The documented nature of business for seven of the COO’s trips (three of which were included in the 24 trips mentioned in the previous sentence) indicates the purpose was to meet with the CEO in Tulsa; however, the CEO’s travel claims do not appear to indicate he was in Tulsa on those days. See comparison in Appendix E. We attempted to obtain additional information from the CEO’s schedule; however, his Microsoft Outlook account could not be recovered by GRDA’s information technology staff.
- Two rental car reimbursements by the CEO where the expense appears excessive to the needs of the state:
 - A Chevrolet Camaro was rented in Palm Springs, California for \$362 and driven 43 miles. The CEO stayed at the conference location and also incurred \$200 in taxi fares;
 - A full sized car (e.g. Chevrolet Impala) was rented in Las Vegas, Nevada for \$253 and driven 212 miles. The CEO stayed five miles from the conference location and did deduct \$64 for one day’s personal use of the car.
- The COO received a duplicate payment of \$162 for trips made during the period August 13 through 16, 2009. The original request was made on August 19, 2009 and a duplicate request was made on December 22, 2009.
- Claiming mileage reimbursement on weekends:
 - CEO and COO received \$67 and \$66, respectively, in mileage reimbursement for driving to Vinita because it was a weekend;



- Technical writer and property development assistant superintendent received \$18 in mileage reimbursement for GRDA related shopping trips on a weekend.

In addition, we also noted some procedural concerns:

- Subordinates complete the CEO's and COO's travel reimbursement vouchers, and in the case of the COO, mileage tickets designed to document the nature of business and mileage are also completed by a subordinate. In addition, the CEO did not consistently sign his travel reimbursement voucher forms.
- Travel reimbursement voucher forms are not consistently approved by either the CEO or COO.
- Documentation to justify the need for actual and necessary reimbursement is not occurring and often times, the form does not indicate the expense is actual and necessary. In a case where the claim did indicate actual and necessary, but the justification was not noted, the CEO was reimbursed \$68 described as "room upgrade." The hotel receipt indicates this was for high speed internet (\$11), a "special room charge," (\$50) and room tax (\$7).

The CEO and COO were submitting travel reimbursements which include reimbursements more than 30 days after the travel occurred, resulting in some of the errors discussed. Even though there appear to be reviews prior to payments being processed, the previously discussed poor control environment could lead to subordinates being uncomfortable questioning executive management regarding certain expenditures. This environment increases risk for abuse and overpayments.

Recommendation

The payments related to the CEO's use of rental cars, the COO's lack of justification for travel and duplicate payment will be referred to the attorney general for consideration.

Although a new CEO has been hired, this alone will not fully address the issue. Management should ensure travel policies and procedures are followed by *all* employees, especially executive management. New management and the Board need to be cognizant of the risks associated with this type of environment and begin working toward evaluating and addressing the situation to ensure the mission of the GRDA is accomplished in the most efficient manner possible.



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Views of Responsible Officials

As previously mentioned, GRDA's travel policies and procedures will be presented to the Board for updates and approval. Further, GRDA has enhanced the reporting of travel expenditures to the audit committee for greater oversight of executive management. GRDA will take this opportunity to initiate training on the soon to be updated travel policies and procedures. Particular emphasis on the importance of documenting the business purpose and vicinity miles will be included for all GRDA employees who submit claims for travel.

When made aware of the overpayment by the auditors at the exit conference, the COO reimbursed GRDA for the full amount in question.

Corporate Attitude Related to Expenditures

State statutes recognize GRDA as a unique agency; as a result, we noted GRDA appears to have an attitude similar to a corporation rather than a governmental entity regarding expenditures. Examples (January 1, 2009 to March 31, 2011) which may not necessarily be considered normal governmental purchases include:

P-Card Purchases:

- \$66 for ice supplies (ice scrapers, de-icer, ice shields) for GRDA cars located at the administration building;
- \$50 for a sound diffuser for the purchasing superintendent's office because the walls of the office do not extend all the way to the ceiling. This device allows personnel related conversations and other meetings to be held within the office without disrupting employees in the neighboring offices;
- \$125 for retirement parties supplies;
- \$1,316 in kitchen necessities (flatware sets, beverage sets, dinnerware sets, double burner, etc.) for the ECC kitchen¹⁴. GRDA executive management indicates the necessity for the kitchen items is that, unlike other state agencies, this facility is located in a rural area which does not provide the convenience of multiple eating establishments. Therefore, most employees bring their meals and the dining related items purchased should be considered "green" because these items can be reused and do not have to be thrown away.

Employee Reimbursements:

- \$497 in purchases by the CEO for a digital camera and charger to be used to photograph events and people who visited the Eco for inclusion in GRDA publications;
- \$18 in décor magazines for construction ideas;
- \$109 for two sound diffusers which were placed in an open cubicle area to help reduce the effect of multiple employees sitting in one area. Management felt this was a less expensive option than installing sound absorption panels in the ceiling;
- \$9,100 for kitchen necessities (dinnerware sets, flatware sets, beverage sets, napkins, tablecloths, kitchen towels) and décor items (clocks, decorative art, flowers, ceramics) for the ECC and Eco buildings. According to GRDA executive management, some of the kitchen purchases relate to the fact that GRDA rents out

¹⁴ This is just one purchase related to these types of items. Other p-card holders were also making similar purchases.

areas of the Eco building for catered events and meetings. Executive management further explained that a large majority of the items are used by employees for catered lunches that increase the productivity of the individuals in the meetings by working through the noon hour.

In addition, we also noted some procedural concerns:

- Original receipts are not always being submitted with reimbursement requests. We noted receipt copies were provided for \$7,852 reimbursed purchases. In addition, supporting documentation for \$147 in employee reimbursements did not include receipts.
- Unlike other employees, the CEO does not complete the “Business Meals Reimbursement” form. Instead a “Notarized Claim Voucher” form is completed and the meal receipt is supplied with notes documenting who attended and the purpose of the meeting.
- The CEO does not consistently sign the “Notarized Claim Voucher” form. Of the ten forms reviewed, only two were signed.
- Consistent approval of the CEO’s reimbursements does not appear to be occurring. Of the ten forms reviewed, seven reimbursements were not approved.

This type of attitude creates the opportunity for fraud and abuse to occur as well as for animosity among employees to grow.

Recommendation

GRDA is a state agency. As such, management and the Board should be cognizant of the perception these types of expenditures create and exercise prudence with the legislative authority they have been given.

Views of Responsible Officials

GRDA will retrain individuals and reinforce the responsibilities involved in the procurement process to verify expenditures are necessary and appropriate in both fact and perception to carry out the mission of GRDA.

Effective Use of P-Card Program

One employee charged over \$2,300 in a single transaction to their personal credit card instead of using their p-card.

In reviewing \$10,154 in reimbursements made directly to five p-card holders during the period January 1, 2009 to March 31, 2011, we identified \$7,598 in purchases (kitchen supplies, décor items, iPads, sound machines) which could have been bought on the p-card eliminating the \$314 in sales tax that was paid.

In addition, we identified two instances where the travel p-card holder appears to have made hotel reservations for the CEO but did not pay with the p-card. The CEO ultimately paid for the hotel personally and was later reimbursed.

Employees have used their own money for GRDA expenses when other procurement methods were available. This could present an undue hardship on the employees as they wait for reimbursement from GRDA. For example, one employee charged over \$2,300 in a single transaction to their personal credit card instead of using their p-card.

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In addition, many of the items purchased are easily convertible to personal use. Failure to maximize p-card use could impact the rebate amount GRDA receives for using the card.

GRDA policy does address business expenses but does not discuss employee reimbursements.

Recommendation

As some employees appear to be receiving reimbursement for non-business expense related items, a policy addressing these reimbursements should be developed. GRDA could implement a policy similar to OSF's, which is applicable to other state agencies. It allows employees and officials to receive reimbursement for certain miscellaneous emergency purchases or other purchases when normal purchasing procedures cannot occur.

Views of Responsible Officials

Except in emergency or unusual circumstances – approved by the CEO – employees will be directed to utilize the P-Card for valid business expenses.

Authority for Car Allowance

GRDA Board policy 8-1 (see Appendix G) authorizes specific employees to receive a car allowance. This policy is based on 82 O.S. § 864.B which allows the CEO to establish employees' compensation. During the period of January 1, 2009 to March 31, 2011, according to executive management, nine employees received a monthly car allowance.

We spoke with OPM's assistant administrator for management services and reviewed various state statutes and attorney general opinions regarding the payment of car allowances. The assistant administrator indicated he was not an attorney and cannot speak to the legality of the payments; however, when other state agencies ask about providing allowances to employees, he recommends the agency just increase the employee's salary.

We could not locate any statute or attorney general opinions related specifically to providing employees with car allowances; therefore, we cannot speak to the legality of GRDA's interpretation that a car allowance can be granted as part of compensation.

GRDA may be providing car allowances to employees without statutory authority.

Recommendation

We acknowledge GRDA does have the statutory authority to set its employees' compensation; however, given our discussion with personnel at OPM, we feel that it would be in GRDA's best interest to obtain an official attorney general opinion addressing car allowances.

Views of Responsible Officials

In 2012, GRDA will conduct a three-month study on executive management mileage and trends. A recommendation will be made to the Board for their review and approval. Upon completion of that study, if it is determined that car allowances would be cost effective for GRDA to continue with selected employees, an official attorney general opinion will be sought.

Use of Car Allowance

In reviewing travel payments made to employees for the period January 1, 2009 to March 31, 2011, we noted three of the top four reimbursed employees qualified to receive a car allowance as specified by GRDA policy. The highest reimbursed employee, the CEO, does not qualify for a car allowance because his salary is set by statute and GRDA felt providing him with a car allowance would not comply with the statute. Attorney general's opinions appear to indicate that when it is the legislature's intent to provide a car allowance to officials with salary limitations, specific statutory authority is granted. GRDA executive management indicated a GRDA car was not provided to the CEO primarily because they did not want to have the appearance that he was using the vehicle for commuting purposes.

Using the map miles and vicinity miles claimed on the CEO's travel reimbursements, we identified potential cost savings of approximately \$8,400 had a car allowance been paid.

We identified potential cost savings of approximately \$8,400 had the CEO been provided a car allowance.

The remaining three of the top four reimbursed employees were the COO, the properties superintendent, and the business development and marketing superintendent. Based on information provided by GRDA executive management, it appears the decision not to provide the three employees with a car allowance was the consideration of their circumstances or preference. Although this factor is important, management should also be considering other potential fiscal impacts of providing, or not providing, a car allowance. It should be disclosed that as of May 2011, all of these employees began receiving a car allowance payment.

Recommendation

Assuming GRDA obtains an official attorney general opinion authorizing them to pay employees car allowances, the process for determining which employees should receive an allowance should be evaluated. GRDA should continue to use Board policy 8-1 and employees' circumstances or preferences in making the decision; however, additional fiscal factors should be included in this decision. Such factors could include consideration of the amount of travel reimbursements paid to the employee and the time other employees spend in assisting in the preparation, reviewing and processing of travel payments for these employees.

In addition, considering the amount of travel paid to the CEO, the Board and GRDA executive management should work with the legislature to obtain statutory authority for providing the CEO position with either a GRDA car or a car allowance.

Views of Responsible Officials

As previously mentioned, GRDA intends to conduct a three-month study on executive management mileage trends. The factors cited by the State Auditor will be included in this study. If needed, a solution may be sought from the legislature or with an official attorney general opinion.

Conclusion

GRDA has broad legislative authority and has adopted a corporate approach in many of its operations even though they are a state agency managing state assets. GRDA executive management and Board appear to demonstrate a concern for the legality of

their actions; however, the appearance and potential effect of their actions may not always be considered.

It is difficult to quantify the impact the actions discussed on the previous pages had on GRDA's core statutory mission. However, what can be measured is the cultural influence on certain portions of the GRDA employee base. This culture, established by executive management and the Board, has increased GRDA's exposure to fraud, waste, and abuse and is one of the main factors contributing to many of the observations noted in this report.

Objective 2 - Determine if the current structure of the GRDA is in the best interest of Oklahoma.

Due to the complexity of GRDA's operations, the Oklahoma State Auditor and Inspector's Office contracted with Oklahoma City University's (OCU) Steven C. Agee Economic Research & Policy Institute to perform this objective. OCU's conclusion and report can be found on the following pages. A response was not sought from GRDA given the nature of their report.

Conclusion

Originally established as a conservation and reclamation district in 1935, the GRDA today serves as a significant source of power generation for communities across the state and as the principal agency overseeing natural resource management in Northeastern Oklahoma. The GRDA was modeled after the ideals of the Tennessee Valley Authority and operates with the freedom and flexibility of a private enterprise while enjoying the benefits of a state agency. As a state agency, GRDA enjoys a tax-exempt status for both the organization and its bondholders. The value of the tax-exemption serves as an implicit state subsidy provided to the GRDA by the citizens of Oklahoma. This project was tasked with evaluating whether continued status quo operations are in the best interests of the taxpayers of Oklahoma.

The question is made sufficiently complicated by the inclusion of the word "best" in its charge. The operations of GRDA are almost certainly favorable to many citizen taxpayers of Oklahoma and there are certainly alternative operating structures that would likewise serve the interests of Oklahomans. Defining the best interests of the state as a whole is left, rightfully, to be determined through conversations between policymakers and their constituents.

Should reform be deemed desirable, the logical starting point for further research would be to determine the current size and distribution of the subsidy GRDA currently enjoys and externally evaluate the market value of GRDA assets. If, based on these findings, reform proposals move forward they could entail any number of alternatives to capture the subsidy at the state level including revenue diversion, contracting, and asset divestiture. Each option presents unique challenges and requires careful consideration to ensure avoidance of unintended consequences to the labor force, existing state agencies, and the quality of power service to Oklahoma residents.

At its core, this remains a question of state tax system design. Any reform will have economic consequences that stretch beyond the balance sheet and geographic boundaries of the GRDA. Recovering the subsidy will alter the distribution of tax burdens and benefits to citizens and should be evaluated against reasonable alternatives

– including tax reforms that would accomplish the same objectives without significant change to the operating status of the GRDA. Thoughtful conversations, thorough research, and careful considerations of the alternatives are pre-requisites to satisfying the condition that the best interests of the taxpayers of Oklahoma are met.



A Review of the Grand River Dam
Authority: Operations, Structure, and the
Public Interest

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A Review of the Grand River Dam Authority: Operations, Structure, and the Public Interest

Introduction

In May of 1933, the United States Congress passed the Tennessee Valley Authority Act in response to President's Roosevelt's charge to establish a federally owned "corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise." The newly formed Tennessee Valley Authority (TVA) operated under a multi-dimensional charge ranging from managing the navigable waters of the Tennessee River and natural resource management to economic development and power generation in pursuit of the administration's rural electrification goals. The TVA no longer receives federal funds (as of 2000) and instead finances all of its operations through revenue from power sales and other activities and access to commercial credit markets for long run capital outlays.¹

In 1935, the State of Oklahoma created a state agency modeled after the concept of the TVA in the form of the Grand River Dam Authority (GRDA) when Senate Bill 395 created a conservation and reclamation district serving 14 counties in Northeast Oklahoma. The GRDA serves a similarly multi-dimensional charge with the primary function of power generation accompanied by the distinct, but often complementary, tasks of economic

¹ See www.tva.org for a complete historical review.

development and natural resource management. The GRDA exists as a state agency but functions largely like a private enterprise, receiving no direct appropriations from the state. Unlike a private enterprise, however, it pays no corporate income, property, or sales taxes while enjoying low-cost access to capital by issuing tax-exempt bonds.

In February of 2011, Oklahoma Governor Mary Fallin formally requested that the State Auditor's Office conduct a performance audit of the GRDA. In addition to the not unexpected requests to verify the effectiveness of current management and operations, review GRDA expenditures and compliance with appropriate state statutes, the Governor requested that the audit include in its scope "an assessment as to whether the current structure of the GRDA is in the best interests of the taxpayers of Oklahoma."²

This report provides some structure upon which a fuller analysis of this succinct, yet complex charge can be built. At a minimum, addressing this issue requires a definition of the "best interests of the taxpayers of Oklahoma." The interests of the taxpayers may indeed be served by the presence of an additional electricity provider in the state, by the efforts to manage recreational opportunities and valuable natural resources within our borders, and by the economic development opportunities that the region enjoys by virtue of a geographic proximity to reliable, affordable electricity and managed natural amenities. That the taxpayers of Oklahoma (or at least a great many of them) receive some value from the operations of the GRDA seems self-evident. Yet the complex

² See appendix A for the complete letter of request.

question posed by the Governor and addressed by the State Auditor goes deeper than the question of “do taxpayers benefit” to the less self-evident discussion of “Which taxpayers benefit and is the magnitude and distribution of the benefit *socially desirable*?”

Economic theory defines economic rents as above normal returns, or returns in excess of the minimum required to bring the good or service to market. In the present context, economic rents refer to returns to the GRDA in excess of the minimum payments required to bring those same services to the marketplace. The GRDA almost certainly enjoys access to economic rents by virtue of the favorable environment in which it operates as a state agency. A good proxy for the economic rents received by the GRDA is the implicit subsidy it receives in the form of the taxes that the GRDA and its bondholders do not pay and normal returns to equity GRDA does not have to generate.

The questions of interest, at least as we interpret it, is: Does the GRDA capture economic rents by virtue of its implicit subsidy that are not fully returned to taxpayers and does the GRDA expend productive resources in a pursuit to protect these rents? The answers to these questions require research beyond the scope of this report. However, a discussion of the process and potential complications can help to define a future research agenda. Economic rents are difficult to fully identify in the marketplace and nearly impossible to calculate in the public sector.

As a state agency, the GRDA operates in a sufficiently favorable environment – income and property tax exempt, favorable credit conditions to finance capital improvements, absence of formal oversight by state regulatory agencies – that an absence of economic rents would be troubling. If there were no economic rents realized, it would suggest systemically compromised management and operating practices that squander the subsidy provided to it by citizen stakeholders. Anecdotal evidence ranging from compliance and readiness audits conducted by the North American Electric Reliability Corporation (NERC) to Wall Street ratings reports, and first-person accounts suggest that the GRDA operates largely in accordance with private sector business practices. This leads to the conclusion that the GRDA likely does enjoy excess returns to operations, at least equal to the value of the subsidy, that are either retained by the agency or returned to taxpayers through GRDA operations.

The contribution of this report is to provide a framework for considering the question of whether the interests of taxpayers are being served while highlighting challenges that might arise in transitioning to a different relationship between the GRDA and the State.

The basic questions are as follows:

- Are there retained revenues by GRDA that could be returned to the state in lieu of tax payments? If so, what options are available to transfer these revenues to the state?
- If there are no retained revenues by GRDA and the value of the subsidy is fully distributed to citizen/taxpayer stakeholders, who gets the subsidy and would they

be adversely impacted by a system that redistributed some or all of the excess revenues back to the state?

- Is the GRDA a viable target for privatization? If so, what is the true market value of the entity and are its component parts severable?

The remainder of this report is organized to consider these core questions. Section 2 is a review of the power generation market in Oklahoma, including relevant state and federal regulatory concerns. Section 3 is a brief look at the operations of GRDA specifically, while section 4 is a discussion of the alternative methods available to the state as a means of capturing a portion of the subsidy enjoyed by GRDA. Section 5 returns to the core questions and provides directions for future research. Additionally, section 5 will present a brief consideration of related questions that would likewise need to be addressed in a thorough research effort. Section 6 concludes.

Section 2 Market and Regulatory Overview

The economic structure of the Grand River Dam Authority is introduced with an economic overview of the electric power industry in Oklahoma and a summary of the GRDA emphasizing its economic characteristics as a producer of electric power. A regulatory overview deals with federal and state policies impacting GRDA. These policies include (1)the creation and treatment of the GRDA as a statutory unit of Oklahoma state government, (2)the complex state/federal framework regulating pricing and competition in the supply of electricity, and (3)other dimensions relating to natural resource management and development.

ECONOMIC STRUCTURE

The GRDA is a significant supplier of electric power in Oklahoma. Its conduct and performance are affected by its place in the broader electric power industry of Oklahoma and, indeed, the entire region. The following remarks on structure emphasize the nature of the product, the relative quantity of electricity produced, prices and revenues, and the characteristics of different types of electricity markets.

A NOTE ON METRICS AND THE NATURE OF THE PRODUCT

Before discussing the Oklahoma electric power industry and GRDA's role within that industry, it is useful to remind the reader of some fundamental metrics and product characteristics. The basic measure of output for production and consumption applies to electricity used per unit of time such as a "kilowatt-hour" (kWh) or 1,000 watts of energy used for one hour. Because figures tend to be quite large, the remarks that follow will sometimes apply to millions of kWh (megawatt-hours). The price of electric service normally includes both a price for use such as "cents per kilowatt-hour" and a price for access to the capacity of the system.

THE ELECTRIC POWER INDUSTRY IN OKLAHOMA³

One of the most important technical features of the electric power industry is that electricity cannot be stored. Batteries can only be used for very small amounts of electricity. Electricity travels at the speed of light, and once a power distribution grid is

³ Sources: Oklahoma Corporation Commission, Public Utility Division, State of Oklahoma, *Eleventh Electric Systems Planning Report*, Dec. 2010 & U.S. EIA, *State Electricity Profiles 2009*

energized, it is not possible to connect one power supplier with a particular power user—as is the case with typical economic goods. What can be stored is the energy source to be used to operate generators, i.e. coal, natural gas, nuclear fuel, or water in a reservoir. This creates a constant management challenge to be able to supply electric power at the point in time in which it is demanded. Table 1 reports the primary energy sources for generating electric power in Oklahoma. In 2009, the principal sources of power were coal (45.4 percent) and natural gas (46.1 percent). The past decade has witnessed a significant shift from coal to natural gas and the emergence of a small but significant share of output from "other renewable" sources which largely reflects wind power. Hydroelectric power's share of output appears to hover around 5 percent.

Table 1 Electric Power Net Generation by Primary Energy Source, Oklahoma, 1999, 2005, and 2009			
Energy Source	1999	2005	2009
Coal	61.4	52.9	45.4
Natural Gas	32.5	41.7	46.1
Hydroelectric	5.8	3.8	4.7
Other Renewables	NA	1.6	3.9
Other	0.3	NA	NA
Total	100.0	100.0	100
Source: U.S. Energy Information Administration, State Electricity Profiles, 1999, 2005, 2009.			

The total capacity of the power industry in Oklahoma in 2009 was 20,849 megawatts. One half of that generating capacity was owned by the state's two big investor-owned utilities, Oklahoma Gas & Electric and Public Service Company of Oklahoma. (A third investor-owned utility, Empire District Electric, serves a small area in the northeastern

**Grand River Dam Authority
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corner of the state but has no generating capacity in Oklahoma.) Total output of electricity in that year was 75,067 megawatt-hours (Table 2). Nearly three-quarters (72.7 percent) of that power was sold at retail to residential, commercial, and industrial customers. Net interstate trade in power losses in transmission amounted to nearly 7 percent.

Table 2. Supply and Disposition of Electric Power, Oklahoma 1994, 2005, and 2009						
	1999		2005		2009	
	Net Generation Megawatthours	Share	Net Generation Megawatthours	Share	Net Generation Megawatthours	Share
Electric Power Sector	53712.0	97.90%	67355.0	98.17%	74258.0	98.92%
Industrial and Commercial	1153.0	2.10%	1253.0	1.83%	809.0	1.08%
Total Supply	54865.0	100.00%	68608.0	100.00%	75067.0	100.00%
	Net Generation Megawatthours	Share	Net Generation Megawatthours	Share	Net Generation Megawatthours	Share
Retail Sales	46737.0	85.19%	53707.0	78.28%	54537.0	72.65%
Direct Use	1003.0	1.83%	953.0	1.39%	935.0	1.25%
estimated Losses	3388.0	6.18%	4221.0	6.15%	5167.0	6.88%
Net Interstate Trade	3738.0	6.81%	9726.0	14.18%	14428.0	19.22%
Total Disposition	54865.0	100.00%	68608.0	100.00%	75067.0	100.00%
Source: See table 1.						

The industry's total sales revenue in 2009 was \$1.8 billion, up from \$1.2 billion in 1999 (Table 3). The industry typically charges higher prices to residential customers and the lowest prices to industrial customers. The average price for all power rose from 5.37 cents per kilowatt-hour in 1999 to 6.94 cents in 2009.

Table 3 Electric Power Retail Sales: Output, Revenues, and Price Oklahoma 1999, 2005, and 2009			
Retail Sales	1999	2005	2009
Retail Sales (Millions of Kilowatt-Hours)	46737.0	53707.0	54537.0
Total Revenue (\$ Millions)	1208.0	1695.0	1837.0
Average Retail Price (Cost per Kilowatt-Hour)			
Total Sales	5.37	6.85	6.94
Residential	6.60	7.95	8.49
Commercial	5.58	7.00	6.76
Industrial	3.60	5.11	4.82
Other	4.80	NA	NA
Source: See source Table 1.			

Although the industry's residential customers accounted for 39.7 percent of 2009 electricity sales, that sector was responsible for nearly half of all sales revenue (Table 4). At the same time, the share of revenue from industrial sales was substantially less than those customers' output share.

Table 4 Shares of Electric Power Output and Revenue by Class of Customer, Oklahoma, 1999, 2005, and 2009			
	1999	2005	2009
<u>Sales Output (Percent Share)</u>			
Residential	39.2	39.7	39.7
Commercial	26.5	32.5	34.2
Industrial	28.4	27.8	26.1
Other	5.9	NA	NA
Total	100.0	100.0	100.0
<u>Sales Revenue (Percent Share)</u>			
Residential	48.1	46.1	48.6
Commercial	27.6	33.2	33.3
Industrial	19.0	20.7	18.1
Other	5.3	NA	NA
Total	100.0	100.0	100.0
Source: See Source Table 1.			

THE ROLE OF GOVERNMENT AND REGULATION

Both state and federal government regulate the electric power industry to some degree. Historically, various components of “octopoid” industries in transportation and electric and gas utilities were subject to extensive state and federal regulatory control of prices, operating characteristics, and market areas. However, a deregulation trend began in the mid-1970’s. Deregulation and restructuring mean that GRDA faces more extensive challenges with respect to accessing markets and overcoming competition. By 1992, the electric power industry faced extensive deregulation and restructuring⁴. The following is a discussion of the changing role of government regulation, from classic control of electric utility monopolies to the promotion of a competitive environment, and the profound relationship between energy use and its impact on the physical environment.

STATE UTILITY REGULATION

The Oklahoma Corporation Commission, the state’s regulatory unit that has jurisdiction over operations of the state’s three investor-owned electric utilities, uses classic natural monopoly regulation. This involves controls over price and service so that utilities cover costs of power production and distribution, and allows firms to earn a fair rate of return on investment. Service areas are defined and protected from other competition, and investments in new plants are controlled. However, the Corporation Commission cannot regulate any utility operated by a unit of government - including the GRDA and municipal utilities.

⁴ An overview of these developments may be found in the U.S. Government’s Office of Accountability’s November 2005 report entitled “Electricity Restructuring, Key Challenges Remain.” (GAO-06-237)

FEDERAL REGULATION

Federal regulation was initiated in the mid-1930s with the creation of the Federal Power Commission. In 1977, this commission evolved into the Federal Energy Regulatory Commission (FERC) with continued control over interstate wholesale electricity rates. The general philosophy of federal regulation since the creation of FERC has been to promote competitive markets for electricity instead of maintaining a fair return on investment. Among other things, this approach has permitted new power suppliers to enter wholesale markets. While some states have chosen to follow the federal lead and deregulate intrastate retail electric markets, Oklahoma has maintained a system of traditional utility regulation at the retail level for the three investor-owned utilities.

REGULATION AND THE ENVIRONMENT

The future of large coal-fired electric generating facilities such as GRDA's plant at Pryor, OK, whose carbon dioxide and other greenhouse gas emissions are linked to global warming, is uncertain. Thus, the question emerges as to the extent to which regulatory measures by the nation's Environmental Protection Agency (EPA) will mandate major capital expenditures at such plants to reduce negative environmental impacts. The uncertainty surrounding substantial future capital outlays to maintain environmental compliance at coal-fired facilities would serve to depress the present market value of the asset. This reality is implicitly acknowledged in a recent open letter to the EPA from Oklahoma's Attorney General.

On May 3, 2011, the EPA issued a detailed set of national emission standards for coal-fired plants. The Attorney General's June 16, 2011, letter to the EPA Administrator summarizes problems faced in Oklahoma:

"The proposal's stringent new standards will apply to all power plants located in Oklahoma and are expected to involve significant compliance costs and widespread installation of new emission control technologies. Where new technologies are deemed prohibitively expensive, facilities could be forced to shut down prematurely, which can undermine local economic bases. . . . [w]e are concerned over the scales of electricity rate increases our state's Public Utilities Division will be asked to consider, as well as the economic impacts on state residents and businesses of those new rates."

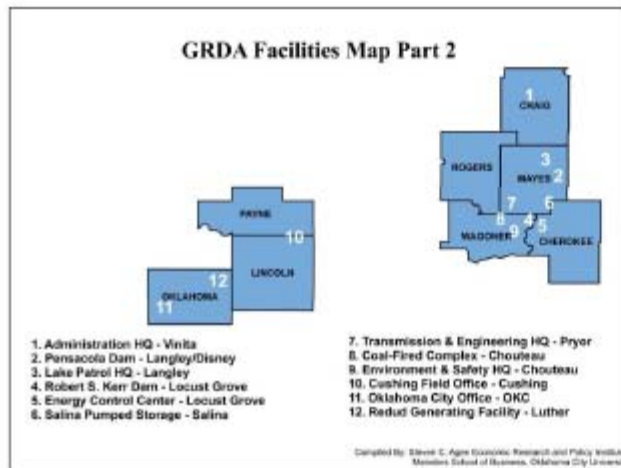
Section 3: An Overview of GRDA Operations

GRDA has provided power to Oklahoma customers since 1940. The original source of power generation came from the hydroelectric generating facility at the Pensacola Dam primarily to provide power to customers in Northeastern Oklahoma. Construction on the Pensacola Dam began in 1938 and was finished in 1940 for a total cost of



\$27,000,000. Since then, two additional hydroelectric facilities were constructed: the Robert S. Kerr Dam (1964) and the Salina Pumped Storage Project (1968, 1971). The total

generating capacity of the GRDA hydroelectric facilities is 470 Megawatts (MW). In 1978, GRDA began construction on a new Coal-fired complex that would house two generating



units that combine for 1,010 MW of generating capacity near Chouteau Oklahoma. Unit 1 was completed in 1981 followed by Unit 2 in 1985. Partnering with Oklahoma Gas & Electric and the Oklahoma Municipal Power Authority, GRDA acquired a

36% interest in the Redbud gas-fired power plant near Luther, OK in 2008. In 2010, total power generation by GRDA was nearly 8 million Megawatt Hours with the largest share coming from their Choteau coal-fired plant (63%). Only 13% of total power generated came from their 3 hydroelectric facilities, with the Redbud gas-fired plant accounting for the remaining 24%⁵.

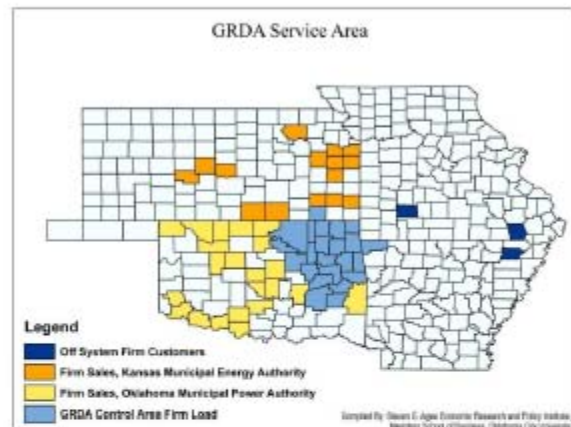
GRDA employed 485 workers in 2010 with 82% of employment occurring in power generation, transmission and operations. Other areas of employment included Information Technology (3%), Ecosystems and Lake Patrol (4%) and other administrative (1%). Total payroll for 2010 was just over \$29 million.

⁵ GRDA Comprehensive Annual Financial Report for the Year Ended December 31, 2010

Grand River Dam Authority Performance Audit

The sale of power was the primary contributor to revenues in 2010. Total revenues were \$382 million with \$375 million coming from the sale of power. Other revenue sources included lake fees, rents, water sales, investment income, power transmission, surcharges and FEMA grants.

GRDA provides power directly to municipal customers located primarily in the northeast part of the state. In 2010, a group of municipalities within the Northeast Oklahoma Electric Cooperative was the largest GRDA customer accounting for 10% of their



total power sales revenue. Power sales aren't limited to Oklahoma customers only, as their second largest customer in 2010 was the City of Coffeyville, KS accounting for 9% of total power sales revenue. Other non-Oklahoma municipality direct sales include those to the Cities of Poplar Bluff, MO and Siloam Springs, AR.

The GRDA's total generating capacity currently stands at 1,728 megawatts or 8.3 percent of the total capacity in Oklahoma. This includes 211 megawatts of capacity in two standard run-of-the-river hydroelectric facilities with associated dams and lakes, 812 megawatts in a large coal-fired plant at Chouteau, OK, partially owned by a consortium of electric cooperatives, 443 megawatts in the agency's share of a combined-cycle gas-fired plant operated by Oklahoma Gas & Electric, and 260 megawatts in a unique pumped-

storage facility designed to assist in covering periods of peak demand for electricity. Over two-thirds of the agency's 2009 electricity production was driven by Wyoming coal delivered by unit trains with a fleet of GRDA-owned coal cars, while natural gas and hydro accounted for 16 percent each.

Table 5 Selected Output, Revenue, and Sales Data Grand River Dam Authority, 1999, 2005, 2009 and 2010				
	1999	2005	2009	2010
Electricity Output (Millions of Kilowatt-Hours)	6127	7188	8229	8264
Operating Revenue (\$ Millions)				
Sales of Power	175.1	270.2	309.6	374.5
Other Operating Revenue	2.4	9.4	8.4	7.5
Total	177.5	279.6	317.6	382.0
<u>Sales</u>				
<u>(Millions of Kilowatt-Hours)^a</u>				
Municipal	1871	3140	3001	3132
Cooperative	1231	555	608	662
Industrial	808	638	617	770
Other	191	155	161	159
Off System Firm	760	1866	1730	1965
Total Combined Sales	4860	6355	6116	6689
Off-System Spot	741	346	1612	993
Total	5602	6701	7728	7682
a-Components may not add to totals because of rounding.				
Source: Grand River Dam Authority, <u>Comprehensive Annual Financial Report, 2004, 2009, 2010</u>				

Total electric output of GRDA in 2009 was 8,229 megawatt-hours. This accounted for about 11 percent of the total electric power produced in Oklahoma. The agency's current output has increased by roughly 34 percent since 1999. At \$374.5 million, power sales accounted for nearly all of the operating revenue of GRDA in 2010, with only \$7.5 million from other sources. The average price of GRDA electricity is about 4.7 cents per kilowatt-

hour. This compares favorably with the statewide average retail price of electricity of 6.9 cents in 2009 (Table 3).

Although GRDA does not sell electric power directly to residential customers, the data in Table 5 indicate a wide variety of types of purchasers of the agency's electric power. Customers cover a wide geographic area in Oklahoma and include sales in Kansas and Arkansas. Municipal power systems are the largest single class of customer in terms of electricity consumed—accounting for 41 percent of 2010 sales. Among the larger municipal customers are Coffeyville, KS, and Stillwater and Claremore in Oklahoma. Many other municipalities indirectly receive power from GRDA through another state power agency, the Oklahoma Municipal Power Authority (OMPA). The GRDA's principal industrial customers are located in the Mid-America Industrial Park in Pryor, OK, adjacent to the large coal-fired plant.

The GRDA's 2010 Comprehensive Annual Financial Report (CAFR) also emphasizes the agency's involvement with the Southwest Power Pool (SPP). This agency is a creation of the federal government with 32 member utilities in an eight-state area (Arkansas, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, Oklahoma, and Texas). Its purpose is to ensure reliable supplies of electric power, an adequate transmission infrastructure, and competitive wholesale prices. Technically, it is a "Regional Entity" of the federal government's North American Electric Reliability Corporation (NERC). The participants buy and sell electricity in real time to balance supply and demand

throughout the region. Thus some portion of GRDA output enters into a regional wholesale market for electricity. Deregulation and restructuring (discussed below) mean that the marketing management of GRDA faces more extensive challenges with respect to accessing markets and beating competition.

Both because of involvement with SPP and to serve other customers, the agency has substantial capital invested in transmission facilities. The agency has 2,090 miles of transmission lines along with related switching stations and transformer substations. The GRDA has borrowed significant amounts to finance its maintenance and expansions and currently has debt of about \$1 billion. Most of this is in the form of tax-exempt revenue bonds, though some of the bonds are taxable. These are in varying amounts and with different maturities. Bond indentures often place constraints on the use of agency assets.

In addition to the electricity operations described below, the GRDA manages the development of two of the state's larger lakes—Grand Lake o' the Cherokees (46,500 surface acres) and Lake Hudson (10,900 surface acres). It also operates a small lake associated with its pumped storage operation.

The GRDA has successfully leveraged its public subsidy, its original \$11.5 million Public Works loan, \$8.4 million Public Works grant, and its first \$7 million bond issuance and grown into a regionally significant source of power generation. It continues to benefit from the absence of a tax burden and access to tax-exempt bond markets, functioning like

a private enterprise operating under the statutes of a state agency. If a change in operating paradigm is desired – either on the grounds that the GRDA is retaining a portion of the subsidy internally or in an effort to redistribute the subsidy – it will be helpful to explore the alternatives.

Section 4: Alternative Operation Paradigms

Whether to reclaim a portion of the subsidy currently being passed through GRDA to individuals and municipalities or to extract from the GRDA any portion of the subsidy they may be retaining is at least theoretically possible via several reforms. While each would likely generate revenue at the state level, the revenue generated would certainly come at a cost to some. That raising revenue through these channels is possible should not suggest that it is desirable. Further study would be required to determine the full effects of reform from both an economic and equity perspective.

There are three principal ways in which the assets of the GRDA could be used to raise revenues: revenue diversion, contracting, and asset divestiture.

REVENUE DIVERSION

Revenue diversion is the case where some of the revenues of the GRDA are diverted to the state's General Revenue Fund (or other fund to be determined). The most likely source would be the taxes not paid by the GRDA or its bondholders that would have to be paid if the GRDA were an investor-owned utility. These include the corporate income tax, general sales taxes levied on purchases of goods and services, local property taxes, and

individual income taxes that would be collected on GRDA bonds if they did not enjoy the exemption on interest earnings and the low default risk associated with government bonds. The sum of these items is the upper limit on revenues that could be diverted, provided that this amount is not required to operate or maintain the enterprise. If the diversion of these revenues required a wholesale Kwh rate increase (and it very likely would) the amount diverted would be reduced somewhat as customers reacted to higher rates by reducing the quantity of electricity purchased.

This source could be viewed partly as a payment in lieu of the local property tax and could be earmarked for return to the local school districts according to the state aid formula.

The higher electricity prices occasioned by this diversion of revenue would transfer income from customers to the beneficiaries of the expenditures that would be funded by the revenues raised. An analysis of this option would have to consider who is likely to lose and who is likely to gain as a result of the transfer and whether the net effect is determined to be a fair or equitable trade-off.

This option would also raise electricity rates for business customers. So, the probable effect of higher rates on business location and investment decisions would have to be determined.

Exercise of this option would also adversely affect the budgets of some local governments that buy electricity from GRDA. In some instances, the municipalities add a mark-up to the rate they pay GRDA, charge local customers the marked-up rate, and use the difference as a means of funding local government expenditures. This can be an extremely important source of revenue to local governments in Oklahoma, where they cannot levy local property taxes. Increased rates resulting from a paradigm shift would likely result in either increased rates to the end user, or reduced revenue to the municipality.

CONTRACTING

Contracting, regardless of the specific form it might take, involves the state retaining ownership of GRDA's assets and contracting with a private firm or firms to operate the enterprise in exchange for a share of net revenues. The state's share would be negotiated. The minimum it should accept would be what it could collect in taxes if the GRDA were an investor-owned utility, plus some share of net revenues, if any, from fees collected from non-power generation sources (e.g., lake management) – provided these functions were contracted out as well.

To make these payments, the private operators would have to charge higher electricity rates than those charged by GRDA. The first focus of analysis, therefore, would be on determining the effect of the contracting arrangement on electricity rates. This is somewhat more difficult to determine than in the case of revenue diversion because the trajectory of costs under private management may differ from the trajectory of costs under public management. Proponents of privatization argue that the former would be

below the latter. If they are right, and costs are indeed lower and grow more slowly under private management, this raises the additional question of how any gains of this type, should they exist, would be shared by GRDA, the private managers and customers.

In any event, there would be some increase in rates, so the effects of those increases on households, businesses, and local governments would have to be considered as in the case of revenue diversion. The difference between the two cases would be potentially one of magnitude rather than one of kind.

ASSET DIVESTITURE

As a third option, the state could sell the assets of GRDA. A sale would provide up-front revenues and – if the sale is to a private enterprise – a new stream of taxes for state government and property taxes for local school districts. The task here is to determine the **expected value of the enterprise** and the **tax bases** that would be created. It is necessary to determine the expected value of the enterprise to ensure that the state would not suffer from bidders colluding to submit low bids. Valuing the enterprise would also help determine if the stakes are high enough to warrant the expenditure of the political capital that might be required to effect such a sale. As noted previously, a formal valuation of assets would also help determine the discount, if any, placed on the coal-fired complex that is the largest share of production, in a period of regulatory uncertainty associated with continuing climate change conversations.

It is likely that asset divestiture would be followed by a rate increase. Since the buyer will probably be subject to regulation by the Oklahoma Corporation Commission, future rates must be projected subject to this constraint. Once those rates are determined, all of the impacts that must be examined in the revenue diversion and contracting cases would come into play for this option, as well.

The valuation of an operating electrical plant assumes a transaction between a willing seller and a willing buyer, neither being forced to participate in the transaction. It assumes that both parties are reasonably knowledgeable of the relevant facts associated with the operational and legal environment of the business, including contingent costs of environmental regulation and constraints attributable to bond indentures. To determine the transaction price or value of the plant, three approaches to valuation may be used: the sales comparison approach (based on sales of similar plants), the income approach (based on projected cash flows), and the cost approach (based on the cost of construction less depreciation). These are highly technical and demanding tasks. There are, however, experts with considerable experience that specialize in the appraisal of public utility properties.

ADDITIONAL CONCERNS

There are some additional concerns associated with contracting and asset divestiture that should be considered in any privatization decision.

WORKFORCE IMPACTS

Both contracting and divestiture may change the existing work force. Analysis should be done to determine if this is likely to be the case and, if it is, also to determine the dimensions of the impact. If it turns out that the work force will be adversely affected, say, by a net loss of jobs, the state may want to develop a transition plan for addressing changes in employment. Such a plan may contain a reemployment and retraining assistance plan for employees who are not retained by the state or employed by the contractor or buyer.

REGULATORY BURDEN

Contracting may, and divestiture will, impose an additional burden on the Oklahoma Corporation Commission. Additional resources will be needed to deal with additional rate-making and other Commission responsibilities pertaining to the regulation of electric utilities. The costs of these resources need to be estimated and considered as part of a decision to proceed with privatization.

Contracting and divestiture may make it more difficult to acquire the information about emissions technology and marginal abatement costs necessary to comply with environmental regulations. The costs of acquiring this information and ensuring compliance with these regulations should also be part of the decision equation.

In all cases of privatization, provisions should be made for inspection to ensure adherence to health and safety standards, with the costs of same fully determined and considered.

ASSURANCES IN THE PUBLIC INTEREST

There should be some assurances in either contracting or divestiture that service quality will not be diminished (and perhaps even enhanced). This will require agreement on measures of quality, relating, for example, to service reliability.

Missing from much public discussion and scrutiny have been contracting terms that, either legally or in reality, make government an insurer of the private contractor's or buyer's financial success. Privatization contracts have been written that require governments to reimburse private contractors for lost anticipated revenue or to guarantee service territories. The law may even require taxpayers to finance government bailouts for private electricity suppliers that declare bankruptcy. In these cases there are costs in the form of **contingent liabilities** with potentially significant value, the dimensions of which should be estimated and included in the decision matrix.

TRUST FUND MAY BE NEEDED

A sale of GRDA assets is likely to generate significant up-front payments. If these payments exceed the need for additional revenue in the short-run, the state may want to deposit the excess in a trust fund, invest the principal, annual tax receipts, and accumulating interest, and make periodic withdrawals from the fund to finance government expenditures. It is not possible at this time to guess the extent or identity of those expenditures, but as information on the value of the enterprise and future tax payments is developed, it would be possible to determine a strategy for building and using such a trust fund. The extent of the contribution that this fund might make toward

relieving the future pressure on appropriations or other government budgets should be factored into the policies governing the trust fund.

WHY NOT SIMPLY RAISE TAXES?

If it is determined that the magnitude and distribution of the subsidy provided to GRDA is not optimal (that is, not in the *best* interests of the taxpayers), than privatization of some form (e.g. revenue diversion, contracting, etc.) serves as a possible means to generate revenue necessary to effect a change in the distribution of benefits. However, if raising revenue to alter the allocation of government-funded services (or similarly to alter the distribution of the tax burden) is the objective, privatization is hardly the only avenue available. Essentially, the question of restructuring the state's relationship with GRDA in a way that would allow the state to collect tax payments (or payments in lieu of taxation) is a piece of the broader discussion of optimal state tax structures. In this sense, a discussion of privatization should occur against the backdrop of optimal taxation and encourage the evaluation of all alternative tax structures.

Using privatization of the GRDA to raise revenues for the state budget invites a comparison with other means of accomplishing the same task. The most obvious alternative is to directly increase taxes. Revenue alternatives should be evaluated and compared in terms of their effect on desirable social goals, such as revenue stability, economic efficiency, fairness, and economic growth. Both the raising of revenues via privatization and via direct taxes will impact these goals. Both options will also generate

excess burdens – costs attributable to efforts to avoid tax or rate increases – and costs of compliance. Privatization might turn out to be the better alternative, but the verdict requires serious study and comparison of all reasonable alternatives.

Section 5: Core Questions and Key Concerns

Having examined the market and regulatory background against which the GRDA operates, the present scope of GRDA operations, and alternative operating paradigms that would allow the state to recover a share of the implicit subsidy it provides, we return to our core questions. As our original task was to set out questions that would need to be addressed and that would serve as a foundation for future research before moving forward with any reform, we identify below core questions that should be addressed more fully, as well as our initial thoughts.

- *Does the GRDA enjoy an implicit subsidy from the state by virtue of its status as a state agency? If so, how large is the subsidy?*

GRDA certainly operates in a favorable environment relative to other power providers by virtue of its tax-exempt status, access to credit on favorable terms, and absence of responsibility to generate normal returns to equity on behalf of its shareholders. As noted above, the size of the subsidy could be estimated as the sum of the tax expenditures (in this case, tax exemptions) applicable to the GRDA and its bondholders, and the borrowing costs discount it enjoys.

- *Does the GRDA retain a significant share of this subsidy that could be easily returned to the state in the form of monetary payment? If not, where does the subsidy go?*

It is unlikely. There is little evidence to suggest that the GRDA is systematically retaining large portions of the subsidy either as excessive payments to factors of production or lavish capital investments. It is most likely that the largest share of the subsidy is passed through to municipalities in the state that purchase wholesale electricity from GRDA. The GRDA 2010 Comprehensive Annual Financial Report notes that, "because of the competitive electricity rates charged by GRDA, the local utilities can also keep their own rates low while collecting revenues to fund other city services and promote economic growth." Several municipalities report using a significant share of the margins they maintain between the residential retail rate they charge and the wholesale rate they pay as a source of general revenue funds. In this sense, the subsidy is passed through to municipalities leaving the municipality financially indifferent between purchasing low-price wholesale electricity and monetizing the subsidy by charging higher margins on retail electricity sales and having GRDA make a payment to the state, increasing the price of wholesale electricity, reducing municipal retail margins, and then receiving a subsidy payment from the state to supplement general revenue funds. A portion of the subsidy likely goes to non-generation activities, including lake and resource management and planning, being then passed on to recreational lake consumers in the form of more fully developed amenities. A portion of the subsidy could conceivably be transferred to

bondholders who receive higher real returns on their capital. Finally, GRDA has operations outside the state, opening the possibility that a portion of subsidy could be passed through to outside municipalities.

- *If the state sought to reclaim a portion of the subsidy provided to GRDA, how could that be accomplished? What are some of the likely impacts to be considered?*

As mentioned previously, monetary transfers from GRDA to the state could be accomplished by diverting existing revenue flows, contracting out some or all of the operations of GRDA to private enterprises, or divesting the state of GRDA assets through open market sales and complete privatization. In each case, removing from the economy the subsidy provided to GRDA would likely increase the wholesale price charged to municipalities and require fiscal adjustments at the municipal level. Further study of the market, including the responsiveness of both wholesale buyers and residential customers to price changes, would be required before concluding the inevitability or extent of price increases. It is possible that the wholesale market is sufficiently competitive that recovering a portion of the subsidy could be accomplished without significantly altering municipal rates. While the burden of the payment to the state may be most likely passed forward to consumers (in this case, municipalities), it remains possible that the payment instead would come from a reduction in retained revenues by GRDA, or even passed backward onto the factors of production (in the form of lower prices paid for inputs, including labor payments). Similarly, a study of individual municipal markets would be required to determine the likelihood that any wholesale rate changes could be passed

forward to residential consumers. Finally, higher wholesale rates to municipalities (should they in fact materialize) could potentially be passed on to the industrial/business sector as well, altering the geographic distribution of retail electricity rates. To the extent that business expansion and relocation is responsive to rate changes, the reform could potentially alter the long run trajectory of business and industry development across the state. The important point to emphasize is that the annual implicit subsidy distributed to GRDA is likely passed through to other entities and, while recovering a portion of the monetary value of the subsidy may be determined to be in the best interest of the state at large, it will come at a cost to those groups who currently receive a portion of the subsidy.

- *Is GRDA a viable candidate for privatization? If so, what is its market value?*

At some price, GRDA would be a viable candidate for privatization. The key questions would be, at what price and is it in the best interest of the state to divest at that price? The power generation operations are likely to be the most marketable and would require the severability of unrelated functions (returning those functions to existing state agencies). The significant GRDA debt burden and potential complications with its transferability is likely to be a considerable obstacle in marketing GRDA assets on the open market. Finally, regulatory uncertainty – particularly regarding environmental quality regulations – could potentially reduce the market interest in the coal generation complex that accounts for nearly two-thirds of GRDA power generation. Ultimately, a determination of its market value would be best assessed by an outside group specializing in the privatization of public enterprises. Defining the market value of GRDA assets

would likely be the critical first step in evaluating alternative arrangements, as that value would determine the viability or impracticality of continuing down that path.

- *What other state agencies would likely be impacted by the reform?*

In the United States, wholesale electricity transactions are largely regulated at the federal level while retail transactions are regulated at the state level. A partial or full privatization of GRDA assets would likely shift at least a portion of the regulatory burden to the Oklahoma Corporation Commission. Additionally, severing the lake and natural resource management responsibilities from GRDA may require the assumption of some additional responsibilities by existing state agencies. In that event, some of the revenues from privatization would presumably be earmarked for those agencies.

- *Does the GRDA serve its original intent?*

The original intent was to create a “conservation and reclamation district” in Northeastern Oklahoma. As discussed above, the original intent is largely irrelevant in the current discussion of optimal state tax systems. The more pertinent question would be: Does the continued operation of the GRDA in its current form serve a strategic purpose in the design of the state’s tax system? Any reform designed to capture the foregone revenue associated with GRDA’s tax-exempt status is likely to be passed forward to consumers or backwards to the factors of production. Further research would be required to understand the *general* economic consequences of reform.

- *What benefits to citizens statewide receive from GRDA operations?*

The GRDA is largely tax exempt, so there is little in the way of direct statewide benefits related to government revenues. However, citizens in communities that purchase wholesale electricity from GRDA likely benefit to some degree from GRDA's tax exempt, cost-of-service operating paradigm. These benefits would be reflected in a combination of local sales tax rates, a municipal service package, and electricity rates that would be otherwise unsustainable. Finally, citizens around the state benefit from the management of Grand Lake and Lake Hudson as well as other natural resources under the charge of GRDA (including flood control) regardless of if and how often they recreate at those locations. Methods for estimating the non-market benefits associated with the development/maintenance of natural resources are available, and would be a valuable contribution to future research.

Section 6 Conclusion

Originally established as a conservation and reclamation district in 1935, the GRDA today serves as a significant source of power generation for communities across the state and as the principal agency overseeing natural resource management in Northeastern Oklahoma. The GRDA was modeled after the ideals of the Tennessee Valley Authority and operates with the freedom and flexibility of a private enterprise while enjoying the benefits of a state agency. As a state agency, GRDA enjoys a tax-exempt status for both the organization and its bondholders. The value of the tax-exemption serves as an implicit state subsidy provided to the GRDA by the citizens of Oklahoma. This project

was tasked with evaluating whether continued status quo operations are in the best interests of the taxpayers of Oklahoma.

The question is made sufficiently complicated by the inclusion of the word “best” in its charge. The operations of GRDA are almost certainly favorable to many citizen taxpayers of Oklahoma and there are certainly alternative operating structures that would likewise serve the interests of Oklahomans. Defining the best interests of the state as a whole is left, rightfully, to be determined through conversations between policymakers and their constituents.

Should reform be deemed desirable, the logical starting point for further research would be to determine the current size and distribution of the subsidy GRDA currently enjoys and externally evaluate the market value of GRDA assets. If, based on these findings, reform proposals move forward they could entail any number of alternatives to capture the subsidy at the state level including revenue diversion, contracting, and asset divestiture. Each option presents unique challenges and requires careful consideration to ensure avoidance of unintended consequences to the labor force, existing state agencies, and the quality of power service to Oklahoma residents.

At its core, this remains a question of state tax system design. Any reform will have economic consequences that stretch beyond the balance sheet and geographic boundaries of the GRDA. Recovering the subsidy will alter the distribution of tax burdens and

benefits to citizens and should be evaluated against reasonable alternatives – including tax reforms that would accomplish the same objectives without significant change to the operating status of the GRDA. Thoughtful conversations, thorough research, and careful considerations of the alternatives are pre-requisites to satisfying the condition that the best interests of the taxpayers of Oklahoma are met.

**Grand River Dam Authority
Performance Audit**

Appendix A:



Mary Fallin
Office of the Governor
State of Oklahoma

February 8, 2011

The Honorable Gary A. Jones
Oklahoma State Auditor & Inspector
State Capitol, Room 101
Oklahoma City, OK 73105

Dear Mr. Jones:

As authorized by 74 O.S. Sections 212 and 213.2, I hereby request that your office conduct a performance audit of the Grand River Dam Authority (GRDA). As required by the above citations, the cost of the audit shall be borne by the GRDA.

Specifically, the scope of the audit should include, but not necessarily be limited to, the following:

- Review of the efficiency and effectiveness of current management
- Review of the efficiency and effectiveness of the oversight of the operations of GRDA
- Review of the reasonableness of the expenditures of the GRDA administration
- Review of the expenditures of the GRDA administration for compliance with appropriate state statutes and regulations
- An assessment as to whether the current structure of the GRDA is in the best interests of the taxpayers of Oklahoma

Sincerely,

Mary Fallin
Governor

Items for Future Consideration

During the course of the engagement, issues came to our attention that merit consideration. Procedures related to these issues were not performed.

- The Board is asked to address a variety of technical and complicated issues. 82 O.S. § 863.2 outlines the provisions of appointing the Directors and states that five are appointed to serve one seven-year term, while the remaining two Directors serve ex-officio representing their organizations and may serve for undetermined terms.

While we believe a complete review of the statute is warranted, we feel the legislature should specifically review article (J) and consider modifying the terms for the five appointed Directors from seven years to five years. This would allow for the appointment of one Director each year thus providing greater over-site by the governor and legislature.

Additionally, consideration should be given to allowing Directors to serve more than one term if recommended by their appointing authority.

- The legislature should consider if it is in the best interest of Oklahoma for GRDA to continue operating with such broad statutory authority.

APPENDIX C

Table 5 – Board Director Meeting Attendance		
<i>Date</i>	<i>Directors Attending</i>	<i>Attendance Percentage</i>
January 14, 2009	6 of 7	86%
February 11, 2009	<i>Meeting cancelled due to lack of quorum.</i>	
February 18, 2009	5 of 7	71%
March 11, 2009	Meeting cancelled because of special meeting held on 2-18-09.	
April 8, 2009	6 of 7	86%
May 13, 2009	6 of 7	86%
June 10, 2009	7 of 7	100%
July 8, 2009	5 of 7	71%
July 21, 2009	7 of 7	100%
August 2009	Meeting cancelled because of special meeting held on 7-21-09.	
September 9, 2009	5 of 7	71%
October 14, 2009	4 of 7	57%
November 2009	<i>Meeting cancelled due to lack of quorum.</i>	
December 9, 2009	6 of 7	86%
January 13, 2010	4 of 7	57%
February 10, 2010	4 of 7	57%
March 25, 2010	5 of 6	83%
April 14, 2010	5 of 6	83%
May 12, 2010	<i>Meeting cancelled due to lack of quorum.</i>	
June 9, 2010	6 of 7	86%
July 14, 2010	4 of 7	57%
August 11, 2010	<i>Meeting cancelled due to lack of quorum.</i>	
September 8, 2010	5 of 7	71%
October 2010	Meeting cancelled because agenda was light.	
November 3, 2010	5 of 7	71%
December 8, 2010	4 of 7	57%
January 12, 2011	4 of 7	57%
February 9, 2011	<i>Meeting cancelled due to lack of quorum.</i>	
March 11, 2011	4 of 6	67%

SOURCE: GRDA Board minutes and conversation with the corporate secretary.

NOTE: Board minutes indicate only six directors were appointed during certain periods of time.

**Grand River Dam Authority
Performance Audit**

APPENDIX D

Standard and Poor's credit ratings from 2005 through 2011 for GRDA, Oklahoma Municipal Power Authority (OMPA), South Carolina Public Service Authority (Santee Cooper), Lower Colorado River Authority (LCRA), Nebraska Public Power District (NPPD) and GRDA. See below:

Year	OMPA	Santee Cooper	LCRA	NPPD	GRDA
2005	A/Stable	AA-/Negative	A/Stable	A/Stable	BBB+/Negative
2006	A/Stable	AA-/Stable	A/Stable	A/Stable	BBB+/Stable
2007	A/Stable	AA-/Stable	A/Stable	A/Stable	BBB+/Stable
2008	A/Stable	AA-/Stable	A/Stable	A/Stable	A-/Positive
2009	A/Stable	AA-/Stable	A/Stable	A/Stable	A/Stable
2010	A/Stable	AA-/Stable	A/Stable	A/Stable	A/Stable
2011	A/Stable	AA- /stable	A/Stable	A/Stable	A/Stable

APPENDIX E

Oklahoma Statutes Citationized

Title 82. Waters and Water Rights

Chapter 8 - Grand River Dam Authority

Section 864.2 - Director of Investments

Cite as: 82 O.S. § 864.2 (OSCN 2011)

A. The Board of Directors of the Grand River Dam Authority shall select a director of investments who shall be an officer or employee of the district, but who is not a member of the Board. The duties of the director of investments, which shall be in addition to the existing duties of the director as an officer or employee of the district, shall include, but not be limited to, the following:

1. Monitor current and existing investment strategies as they relate to the operation of the electricity generation and transmission facilities of the district;
2. Evaluate investment strategies designed to reduce price fluctuations in fuels used by the district;
3. Provide recommendations to the Board regarding the most cost-effective investment strategies with the goal of keeping fuel prices low;
4. Be the liaison with market participants and service providers in implementing investment strategies;
5. Monitor and evaluate all bond issuance strategies and make recommendations to the Board regarding the most cost-effective strategies for bond issues;
6. Be the liaison with market participants and service providers in implementing bond issue strategies;
7. Monitor national and international standards for the issuance of obligations by governmental entities;
8. Monitor conditions of and trends in national and international markets for obligations of governmental entities;
9. Monitor qualifications and fees of underwriters, bond and other counsel, financial advisors and consultants, trustees and other fiduciaries, and paying agents;
10. Be the liaison to all rating agencies for the purpose of maintaining or improving the investment grade status of all district bonds and other obligations;
11. Monitor all district bond issues and other obligations to protect district bondholder and obligation holder interests;
12. Be the liaison to the State Bond Advisor;
13. Be the liaison to all investment and commercial banks that the district selects for any purpose related to investments, bond issues or other obligations issued on behalf of the district; and
14. Otherwise be responsible for monitoring the investments of the district.

B. The director of investments shall possess one of the following:

1. A license as a certified public accountant;
2. A Juris Doctorate degree; or
3. A Master of Business Administration degree.

C. Notwithstanding the provisions of Section 3601.2 of Title 74 of the Oklahoma Statutes, the compensation for the director of investments shall not exceed ninety percent (90%) of the compensation authorized for the General Manager of the Oklahoma Municipal Power Authority.

APPENDIX F

Trips made by the CEO to the airport for out of state trips

Date(s)	Trips (Nature of Business)	Map Miles Round Trip	Vicinity Miles
06/15/09 – 06/17/09	Home – Tulsa – Home (airport – APPA Conference)	30	21
10/03/09 – 10/06/09	Home – Tulsa – Home (airport – APPA Conference)	30	25
01/12/10 – 01/14/10	Home – Tulsa – Home (airport – FERC meeting)	30	15
09/21/10 – 09/30/10	Home – Tulsa – Home (airport Accounting Conference Seminar)	30	20

Trips where vicinity miles appear excessive given the nature of business identified

Date(s)	Trips (Nature of Business)	Map Miles Round Trip	Vicinity Miles
CEO			
04/28/09 – 04/29/09	Home – OKC – Home (SPP Meeting, Lobby Team Meeting). NOTE: Employee stayed at hotel where meeting was held.	234	55
06/03/09 – 06/04/09	Home – OKC – Home (Court decision meeting and meeting on future claims)	234	43
02/05/10	Office – Afton – Langley – Home (follow up on OKC meeting, retaining wall review, Eco Building)	53	37
Properties Superintendent			
07/16/09	Office – Tulsa – Office (FF&E Selection; pick up sample)	132	41
12/01/09	Office – Locust Grove – Office (Monthly Construction Meeting)	86	17
12/23/09	Office – Locust Grove – Langley – Office (Construction check waterline)	86	18
Technical writer and property development assistant superintendent			
08/10/10	Home – Locust Grove – Office (Bi-monthly meeting)	86	19
08/11/10	Home – Chouteau – Home (Department of Homeland Security meeting)	68	33
08/25/10	Home – Locust Grove – Home (Spider be gone)	86	19
09/07/10	Office – Locust Grove – Home (Bi-monthly meeting, drop office check at CFC for race for the cure)	86	19
09/08/10	Office – Locust Grove – Office (Scott Rice site visit)	86	19
09/27/10 – 10/01/10	Home – OKC – Home (CPO Training)	234	164
11/10/10	Home – Tulsa – Office – Home (ECC purchases)	140	33
11/18/10	Office – Tulsa – Home (Purchases)	65	77

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Date(s)	Trips (Nature of Business)	Map Miles Round Trip	Vicinity Miles
<i>Technical writer and property development assistant superintendent - continued</i>			
12/08/10 – 12/09/10	Office – OKC – Home (OKC Office remodel)	269	63
12/13/10	Office – Tulsa – Home (Pick up draperies for ECC)	65	65
12/15/10	Home – Vinita – Tulsa – Home (meeting in Vinita, purchases for Vinita)	140	14
12/16/10	Locust Grove – Langley – Tulsa – Home (meeting with properties superintendent at ECO, attempted to drop off fabric but they were closed)	107	16
12/17/10	Home – Tulsa – Locust Grove- Tulsa – Home – Locust Grove – Home (Drop off fabric for draperies and pick up frames for NERC)	173	68
12/27/10	Home – Tulsa – Home (ECC & ECO Purchasing)	30	73
12/28/10	Home/Office – Tulsa – Home/Office (ECC & ECO Purchasing)	65	37
12/29/10	Home – Tulsa – Office (purchase frames for ECC)	65	29
01/03/11	Office – Tulsa – Office (draperies for ECC)	100	33
01/19/11	Langley – Locust Grove – Tulsa (partition for front desk)	52	22
01/21/11	Tulsa – Locust Grove – Tulsa (ECC purchases, furniture meeting with properties superintendent)	52	28
01/24/11 – 01/27/11	Home – OKC – Home (OKC Office Move, OKC Office Purchasing and Pro Presenters Meeting)	210	300
01/28/11	Tulsa – Locust Grove – Langley (ECC signage meeting and ECC furnishings)	52	44
02/08/11	Tulsa – Locust Grove – Tulsa (Scott Rice furniture meeting)	52	26
02/15/11	Tulsa – Locust Grove – Tulsa (workspace delivery)	52	37
02/23/11	Tulsa – Locust Grove – Tulsa (pest control meeting and NERC meeting)	52	19

Trips where the nature of business was not documented or was vague:

Date(s)	Trips (Nature of Business)	Map Miles Round Trip	Vicinity Miles
<i>CEO</i>			
12/18/08	Home – Cushing – Home (not documented)	122	8
03/24/09 – 03/26/09	Home – OKC – Chandler – Home (not documented)	236	62
04/07/09	Home – Tulsa – Home (meeting with Director)	30	18
05/04/09	Home – Tulsa – Home (not documented)	30	24
06/24/09 – 06/25/09	Home – Norman – OKC – Home (not documented)	269	54

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Date(s)	Trips (Nature of Business)	Map Miles Round Trip	Vicinity Miles
COO			
01/06/09	Office – OKC – Office (work in OKC Office)	336	18
01/09/09	Office – Tulsa – Office (meeting with CEO)	132	20
01/15/09	Office – Tulsa – Office (meeting with CEO)	132	12
01/22/09 – 01/23/09	Office – OKC – Office (meeting with KAMO)	336	16
02/18/09 – 02/19/09	Office – Chandler – OKC – Office (board meeting; went to Capitol in OKC)	338	20
02/25/09	Office – Tulsa – Office (Seminole Energy)	132	10
02/02/10 – 02/04/10	Office – OKC – Office (Capitol)	336	40
02/07/10 – 02/11/10	Home – OKC – Office (Capitol)	359	40
02/15/10 – 02/18/10	Home – OKC – Office(Capitol)	359	40
02/23/10 – 02/25/10	Office – OKC –Office – Langley – Office (Capitol and Eco)	370	38
03/01/10 – 03/04/10	Office – OKC – Office – Langley – Home (Capitol and Eco)	370	38
03/08/10 – 03/11/10	Office – OKC – Office (Capitol)	336	40
03/15/10 – 03/18/10	Office – OKC – Tulsa – Vinita (Capitol and meeting with auditors, Tulsa)	339	44
03/22/10 – 03/24/10	Office – OKC – Vinita (not documented)	336	40
03/30/10 – 04/01/10	Office – OKC – Office (not documented)	336	30
04/05/10	Office – OKC – Office (Capitol)	336	36
04/13/10 – 04/15/10	Office – OKC – Office (Capitol)	336	20
04/19/10 – 04/21/10	Office – OKC – Office (Capitol)	336	48
04/26/10 – 04/28/10	Office – OKC – Office (Capitol)	336	58
05/03/10 – 05/06/10	Office – OKC – Office (Capitol)	336	53
05/11/10	Office – Langley – Tulsa – Office (meeting with CEO)	151	11
05/17/10 – 05/20/10	Office – OKC – Office (Capitol)	336	58
05/24/10 – 05/28/10	Office – OKC – Office (Capitol)	336	68
Properties Superintendent			
11/24/09	Office – Locust Grove – Office (Meeting)	86	19
12/21/09	Office – Langley – Office (not documented)	34	12

COO's meetings with CEO in Tulsa

Date	COO's Destination	CEO's Destination
01/09/2009	Vinita – Tulsa – Vinita	Broken Arrow – Mannford – Cushing – Broken Arrow
01/15/2009	Vinita – Tulsa – Vinita	No travel reported
01/21/2009	Vinita – Tulsa – Vinita	No travel reported
01/30/2009	Vinita – Tulsa – Vinita	Vinita – Langley – Bernice – Vinita
02/05/2009	Vinita – Tulsa – Vinita	OKC – Broken Arrow
02/17/2009	Vinita – Chouteau – Tulsa – Vinita	Broken Arrow – Chouteau – Pryor – Broken Arrow
05/11/2010	Vinita – Langley – Tulsa – Vinita	No travel reported

Grand River Dam Authority Performance Audit

Employee Title	Travel Dates	Date Submitted	Amt Paid	Employee Signat	Official's approval	Correct Miles	Correct Per Diem Amount	Correct Lodging Amount	Supported by Receipts	Additional Information
CEO	01/02/09 - 01/09/09	1/20/2009	340.00	X						Approval not dated
CEO	12/02/08 - 12/09/08	1/20/2009	928.13	X	X					
CEO	12/10/09 - 12/18/09	1/20/2009	326.91	X	X					Nature of business for 12/18 trip not documented
CEO	12/21/08 - 12/24/09	1/20/2009	332.69	X	X					Nature of business vague. 12/24 trip indicates "after return from OKC - to CFC & Kerr"
CEO	12/29/08 - 12/31/08	1/20/2009	240.85	X	X					
CEO	04/28/09 - 05/01/09	5/8/2009	523.93					X		Room rate exceeded CONUS, not documented as actual and necessary nor justified.
CEO	05/04/09 - 05/08/09	6/25/2009	437.05	X	X					
CEO	05/13/09 - 05/28/09	6/25/2009	867.60	X	X				X	Two pieces of luggage were reimbursed without justification.
CEO	06/01/09 - 06/10/09	6/25/2009	339.55	X	X					Nature of business vague. 6/1 trip states "Eco Building"
CEO	06/10/09 - 06/22/09	6/25/2009	514.80	X	X					
CEO	6/23/2009	6/25/2009	50.05	X	X					
CEO	06/24/09 & 06/25/09	6/25/2009	249.90	X	X					
CEO	09/14/09 - 09/21/09	11/2/2009	495.78	X	X					Nature of business vague. 9/21 trip states "transmission office"
CEO	09/22/09 - 09/29/09	11/2/2009	957.20	X	X					
CEO	09/30/09 - 10/11/09	11/2/2009	1,401.64	X	X	X			X	Receipt indicates two pieces of luggage were reimbursed, \$200 in taxi receipts, two trips from airport to hotel and two return trips. Claimed mileage to duty station for weekend.
CEO	10/14/09 - 10/20/09	11/2/2009	259.65	X	X					
CEO	10/3/09 - 10/06/09	4/7/2010	362.57		X					
CEO	01/27/10 - 02/04/10	4/7/2010	273.10		X	X				
CEO	02/05/10 - 02/10/10	4/7/2010	138.00		X					Nature of business vague. 2/5 trip states "Eco Bldg" & 2/9 trip states "Pryor"
CEO	02/10/10 - 02/24/10	4/7/2010	416.20		X					Nature of business vague. 2/22 trip states "Eco Bldg".
CEO	02/24/10 - 03/03/10	4/7/2010	445.76		X					
CEO	03/03/10 - 03/10/10	4/7/2010	190.00		X					
CEO	03/10/10 - 03/20/10	4/7/2010	1,123.85		X					
CEO	04/13/10 - 04/17/10	4/22/2010	535.35	X	X			X		Room rate exceeded CONUS, not documented as actual and necessary nor
CEO	01/04/10 - 01/08/10	4/22/2010	247.90	X	X					
CEO	01/11/10 - 01/21/10	4/22/2010	526.55	X	X			X		Room upgrade listed as actual and necessary, but not justified
CEO	01/22/10 - 3/25/10	4/22/2010	243.50	X	X					Nature of business for 1/25 trip not documented.
CEO	03/31/10 - 04/10/10	4/22/2010	831.82	X	X					Nature of business vague. 3/31 states "lunch mtg", 4/1 states "lunch mtg", and 4/5 "eco building"
CEO	08/19/10 - 08/26/10	10/11/2010	428.80	X	X					Nature of business vague. 8/19 trip states "Pryor Transmission Office"
CEO	08/27/10 - 09/09/10	10/11/2010	419.70	X	X					Nature of business vague. 9/2 trip states "OKC - Office"
CEO	09/10/10 - 09/15/10	10/11/2010	275.10	X	X					Nature of business vague. 9/14 trips states "Eco Bldg" and 9/15 states "OKC Office"
CEO	09/16/10 - 09/30/10	10/11/2010	1,118.40	X	X			X		Room rate exceed CONUS and designated hotel rate. Documentation indicates designated hotel was full; documentation this is actual and necessary not noted.
CEO	10/26/10 - 11/02/10	1/7/2011	382.20	X	X					Nature of business vague. 10/28 trip states "work out of OKC office"

An "X" indicates an error was noted for this item.

**Grand River Dam Authority
Performance Audit**

Employee Title	Travel Dates	Date Submitted	Amt Paid	Employee Signature	Official's approval	Correct Miles	Correct Per Diem Amount	Correct Lodging Amount	Supported by Receipts	Additional Information
CEO	11/04/10 - 11/10/10	1/7/2011	196.50	X	X					
CEO	11/12/10 - 11/22/10	1/7/2011	1,106.17	X	X				X	Nature of business for 11/16 to 11/19 trip not documented. Reimbursed for two pieces of luggage without justification.
CEO	11/23/10 - 12/01/10	1/7/2011	458.40	X	X					Nature of business vague for 11/29 trip states "ECO - Vinita"
CEO	12/02/10 - 12/03/10	1/4/2011	81.00	X	X					
superintendent fiscal services	08/16/09 - 08/18/09	8/19/2009	238.42		X					
CEO	08/31/09 - 09/10/09	12/4/2009	940.71	X	X					
CEO	11/03/09 - 11/13/09	12/4/2009	317.85	X	X					
CEO	11/16/09 - 11/23/09	12/4/2009	297.35	X	X					Nature of business for 11/16 trip states "ECO - Langley"
CEO	11/24/09 - 11/25/09	12/4/2009	59.40	X	X					Nature of business for 11/24 trip states "Transmission Office"
business development and marketing superintendent	06/19/10 - 06/25/10	6/30/2010	599.44				X		X	Per diem calculated more than 24 hours before event. Luggage receipts did not document number of bags
business development and marketing superintendent	06/28/10 - 06/29/10	6/30/2010	170.51			X				
certified power line clearance technician	07/06/10 - 07/08/10	7/12/2010	103.50		X					
certified power line clearance technician	07/19/10 - 07/23/10	7/23/2010	195.50		X					
certified power line clearance technician	08/16/10 - 08/20/10	8/20/2010	195.50		X					
asst. superintendent generation and marketing systems operations	09/16/10 - 08/18/10	9/2/2010	256.17		X					
asst. superintendent generation and marketing systems operations	8/24/2010	9/2/2010	62.00		X					
relay engineer	09/20/10 - 09/23/10	9/24/2010	206.75			X				Could not validate mileage claimed based on documented information
business development and marketing superintendent	01/01/11 - 01/30/11	2/15/2011	607.02					X		Lodging noted as actual as necessary; justification not documented; was approved by CEO.
Superintendent Technical	02/28/11 - 03/02/11	3/9/2011	142.00		X					
Totals			22,458.72	33	46	4	1	6	4	

An "X" indicates an error was noted for that item.

APPENDIX G

POLICY NO. 8-1

AUTOMOBILE VEHICLE POLICY

- I. **OBJECTIVE:** To establish regulations covering the procurement and use of Authority vehicles.

- II. **POLICY:** The General Manager is authorized to permanently assign Authority vehicles to employees based on special equipment needs. The General Manager is authorized to pay a monthly car allowance in lieu of assigning an Authority vehicle to individuals in the following positions:


General Counsel
Assistant General Counsel
Assistant General Managers
Additional Senior Executive Staff as deemed necessary by the
General Manager

The General Manager is directed to exert every effort to purchase vehicles when possible through the State of Oklahoma contract. When a delay in delivery through the state contract would have an adverse effect on operations, a minimum of three bids from vehicle dealers will be received and evaluated.

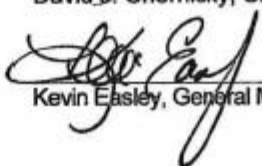
- III. **RESPONSIBILITY:** General Manager

This policy supersedes and cancels all other existing policies and instructions which may conflict with its provisions.

DATE ADOPTED: August 20, 2003
DATE AMENDED: January 9, 2008
REVIEW SCHEDULE: Annually
DATE REVIEWED: December 8, 2010



David J. Chernicky, Chair



Kevin Easley, General Manager/CEO



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