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**DIRECT TESTIMONY
OF
PHILIP DRISCOLL
ON BEHALF OF THE
PORTSMOUTH WATER AND FIRE DISTRICT**

**In re: Application for Rate Relief
City of Newport Utilities Department, Water Division
Docket No. 3818**

1 **Q. Please state your name and address.**

2 A. My name is Philip T. Driscoll and my address is 169 Immokolee Drive, Portsmouth, Rhode
3 Island.

4

5 **Q. By whom are you employed and in what capacity?**

6 A. I am an elected member of the Administrative Board of the Portsmouth Water and Fire
7 District (PWFD) and have served as its Clerk for the past 20 years. I am a resident, ratepayer
8 and taxpayer of Portsmouth, Rhode Island.

9

10 **Prior Experience**

11 **Q. Please describe your professional and governmental qualifications and experience.**

12 A. I am a graduate of the University of Notre Dame with a degree in economics and have done
13 graduate work in accounting at the University of Rhode Island and Babson College.

14

15 After graduation from college I served as Supply and Disbursing Officer in the United States
16 Navy, active duty for over three years, and retired from the Naval Reserve as a Commander
17 after twenty-two years of total service. My most recent professional experience includes
18 Controller at Pearson Yacht Division of Grumman Corporation for three years and Executive
19 Vice President of Newport Harbor Corporation for twelve years. At Newport Harbor
20 Corporation I was the General Manager for seventeen years of Newport Energy, a fuel oil
21 and propane supplier. As a retired businessman I have worked part time preparing personal
22 and small business tax returns.

23

24 As a businessman, I served on the Audit Committee of the Bank of Newport, the Board of
25 Directors and Finance Committee of the Newport County YMCA, Treasurer of the Oil
26 Institute of Rhode Island, and as a member of the Board of Directors of the National Propane
27 Gas Association. I also served as a member of the New England Fuel Institute and the Oil
28 Heat Institute of Rhode Island.

29

1 As a citizen of the Portsmouth community I have served on the finance committees of the
2 Saint Philomena School and the Saint Anthony Church. I am also the current Treasurer of
3 the Middletown Rotary.

4
5 My facilities management experience includes supervision of construction of the Newport
6 Yachting Center, Chairman of the Building Committee of the Newport County YMCA, and
7 member of the Building Committee for the Portsmouth High School 1980 facility additions.

8
9 As a member of the Portsmouth Water & Fire District Administrative Board, I have served
10 on all of its various subcommittees and am presently Chairman of the Administrative
11 Subcommittee, which is charged with reviewing PWFD's annual financial statements and
12 audit.

13
14 In addition to my service with PWFD, my other governmental service includes four years as
15 an elected member of the Portsmouth School Committee, with two of those years as Vice
16 Chairman. I also served as the elected Portsmouth Town Sergeant for eight years. In
17 addition, I was an appointed Commissioner of the Portsmouth Housing Authority. I am
18 presently an appointed member of the Portsmouth Wastewater Advisory Committee, which is
19 evaluating the need for up to \$90 million of sewers in the Town of Portsmouth.

20
21 **Financial Management Concerns**

22 **Q. Mr. Driscoll, why have you chosen to testify in this matter?**

23 A. I have chosen to testify to offer my observations and suggestions to the Commission. As a
24 member of the Administrative Board with 20 years of experience overseeing PWFD and
25 closely observing the Newport Water Department (NWD) through four rate cases before the
26 Commission, I believe that I can offer some unique and helpful insights.

27
28 As the Commission knows, NWD's current financial and operational difficulties are not new.
29 These issues have been exposed in past rate filings and the Commission has justifiably
30 expressed serious concerns about NWD's financial and management operations. Although
31 NWD has attempted to address some of the Commission's concerns, they have been unable

1 to effectively implement the changes the Commission has suggested. The current rate filing
2 confirms that financial and operational difficulties remain at NWD and that they will remain
3 there for the foreseeable future. I fully expect that NWD will be back before this
4 Commission in another year or so and that we will be having the same conversation about
5 NWD's finances and operations. This may sound familiar as it mirrors my testimony in
6 Docket # 3675. Moreover, although Newport has repeatedly asserted over the last seven
7 years that the "sins of our fathers" explain the current poor financial condition of the Water
8 Department's poor financial condition, the reality is that the current situation is the product
9 of the leadership that Newport Water has had in place for that same seven year period.

10
11 We all know that NWD's problems do not have to exist perpetually. I believe it is possible
12 to make changes that will have a long-lasting impact - changes that will improve the
13 efficiency and productivity of NWD and ensure that ratepayers and customers can have
14 confidence in NWD. A solid, stable, structured and disciplined approach to financial
15 management will cost less in the long run. It will save the time of the various parties, which
16 is a major unrecorded cost. Perhaps we could even get to the stage where we could agree on
17 multi-year rate changes.

18
19 **Q: Do you have any suggestions on how this can be achieved?**

20 **A:** Yes, here are my suggestions for reaching that goal:

- 21
22 1. The Commission should consider the following financial reporting requirements for
23 NWD:
- 24 a. Monthly accrual accounting to include balance sheets, operating statements and
25 statements of cash flows.
 - 26 b. Monthly reporting of capital projects by project that tie-out to the accrual
27 statements above.
 - 28 c. Monthly budgeting for a. and b. above with variance analysis. This will
29 highlight problems as they occur so that corrective action can be taken in a
30 contemporary fashion.
 - 31 d. Transmission of the reports in a., b., and c. above to all parties to the rate case.

1 2. If this businesslike accounting approach is considered too burdensome for NWD, I
2 would then suggest that outside accountants be retained. When their work is
3 complete and the accounting and reporting system is healthy, the accountants could
4 be let go. If the outside accountants do not perform, they can be let go.

5
6 PWFD was supportive in a prior docket of NWD's request for a financial analyst.
7 When that position did not solve the accounting and reporting problem, PWFD was
8 supportive in a subsequent docket of NWD's request for a Deputy Utility Director of
9 Finance. I am dismayed that data responses indicate that this Deputy Director
10 position is vacant. NWD will now be faced with hiring its third Deputy Utility
11 Director of Finance since this position was funded less than two years ago. My
12 suggestion of outside accounting consultants may be the answer to this turnover
13 problem.

14
15 Although my suggestion may be met by protests, the following should be considered:

- 16 1. NWD's own auditors repeatedly have called for monthly accrual accounting and
17 reconciliation (See attached Exhibit A);
18 2. The cost would be substantially borne by water rate payers other than Newport
19 city residents – namely Portsmouth, Middletown and the Navy;
20 3. Accurate, timely and credible financial reporting will cost less in the long run;
21 4. It just might show the path from five years of deficit operations to meaningful
22 surpluses that can be used to correct years of system neglect.

23
24 **Q. What issues do you believe will arise if these changes are not implemented?**

25 A. I believe that if these changes aren't implemented we can expect more of the same from
26 NWD. Newport will continue to experience high levels of personnel turnover. Rate filing
27 expenses will continue to be high. NWD does not need to exist in a perpetual state of
28 financial and operation difficulty.

1 **Q. Didn't you recommend the Financial and Management Study of the NWD system that**
2 **was included in the settlement agreement in the last docket?**

3 A. Yes, I did.
4

5 **Q. Have you seen the results of that study?**

6 A. No, it is my understanding that the report is not due to be completed until June. I trust that it
7 will be made available to the parties in this rate case and to the Commission for consideration
8 in the resolution of this docket. However, I am disappointed and troubled that the consultant
9 hired by NWD to perform the study has not interviewed PWFD or, to the best of my
10 knowledge, staff from the Navy, the Commission, or the Division -- all of whom are very
11 familiar with the financial and management problems that NWD has suffered. Any one of
12 these entities could offer useful insight for the study.
13

14 **Q. Did PWFD contact NWD to request an interview with Newport's financial and**
15 **management auditors?**

16 A. Yes, however, PWFD was rebuffed.
17

18 **Q. Does this conclude your testimony?**

19 A. Yes, but I will be happy to address any questions the Commission may have.

EXHIBIT A

CITY OF NEWPORT, RHODE ISLAND

BUSINESS ADVISORY LETTER

YEAR ENDED JUNE 30, 2005

Water Fund:

As similarly noted in the prior year, at June 30, 2005 the Water Fund reported a working capital deficiency of \$2,368,695 and a deficit of \$5,227,110 in unrestricted net assets. The City and the Rhode Island Public Utilities Commission (Commission) have met and continue to meet in an effort to reach a mutually agreeable solution to the financial issues that plague the Water Fund.

To increase financial oversight within the Water Department, and to respond to the increasing requests for financial information from the various users of the Water Fund, we continue to recommend that:

1. The City maintain the Water Fund's books and records using the accrual method of accounting as required by generally accepted accounting principles. This would require the recording of revenue and expenses when incurred rather than when collected or paid. In so doing,
 - The accounts receivable detailed trial balance will be reconciled to the general ledger on a monthly basis. By reconciling the account monthly, discrepancies can be investigated and resolved in a timely manner.
 - Revenues by source (meter rentals, residential water charges, commercial water charges, penalties, interest, etc.) and revenue adjustments can be posted to separate general ledger accounts, which will facilitate analysis by users.
 - Unusual transactions (such as unauthorized credits or write-offs of account balances) will be identified more quickly, which will allow for timely investigation.

It is our understanding that the Water Department has hired an accountant and the conversion to the accrual method of accounting has begun. During this transition phase, we strongly recommend that the Finance Director and/or City Controller meet with the accountant on a monthly basis to review the general ledger and financial statements to obtain assurance that the general ledger control accounts agree with the subsidiary ledgers and that transactions are processed timely.

2. The City Manager, Finance Director and Director of Public Works continue to meet to address the cash flow issues that continue within the Water Fund. Among other matters, the meetings should specifically address increased collections of outstanding accounts receivable, as well as a detailed analysis of the amounts restricted by the Commission to ensure that the escrow accounts are charged for all expenditures that were approved by the Commission.

CITY OF NEWPORT, RHODE ISLAND

BUSINESS ADVISORY LETTER

YEAR ENDED JUNE 30, 2004

Water Fund:

At June 30, 2004, the Water Fund reported a working capital deficiency of \$2,472,502 and a deficit of \$6,013,779 in unrestricted net assets. The City and the Rhode Island Public Utility Commission (Commission) have met and continue to meet in an effort to reach a mutually agreeable solution to the financial issues that plague the Water Fund.

To increase financial oversight within the Water Department, and to respond to the increasing requests for financial information from the various users of the Water Fund, we recommend the City:

1. Hire a full-time controller for the Water Fund whose responsibilities would include, among others, the preparation of the information requested by the Commission and intimate involvement in all rate-filing requests set before the Commission.
2. Maintain the Water Fund's books and records using the accrual method of accounting as required by generally accepted accounting principles. This would require the recording of revenue and expenses when incurred rather than when collected or paid. In so doing,
 - The accounts receivable detailed trial balance will be reconciled to the general ledger on a monthly basis. By reconciling the account monthly, discrepancies can be investigated and resolved in a timely manner.
 - Revenues by source (meter rentals, residential water charges, commercial water charges, penalties, interest, etc.) and revenue adjustments can be posted to separate general ledger accounts, which will facilitate analysis by users.
 - Unusual transactions (such as unauthorized credits or write-offs of account balances) will be identified more quickly, which will allow for timely investigation.

We understand that the City has begun this process.

3. City Manager, Finance Director and Director of Public Works meet to address the cash flow issues that continue within the Water Fund. Among other matters, the meetings should specifically address increased collections of outstanding accounts receivable as well as a detailed analysis of the amounts restricted by the Commission to ensure that the escrow accounts are charged for all expenditures that were approved by the Commission.