#447

Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER)

Report to
the Mississippi Legislature

A Management Review of the Chickasawhay Natural Gas District

PEER assessed the Chickasawhay Natural Gas District's (CNGD's) financial viability to support operational and long-term system requirements, the reasonableness of its prices relative to those of similar gas operations in Mississippi, its financial management and inventory internal controls, and its compliance with state statutes.

The rates that the CNGD charges its customers play a major role in the district's financial viability. However, the district does not adjust residential and commercial customers' rates on a monthly basis to reflect changes in the district's costs of natural gas. Also, the district's rates may not be competitive; the CNGD's residential and commercial rates are high in comparison to those charged by two municipal natural gas districts and one privately held natural gas utility that use the same gas pipeline supplier and customer pricing methodology. The CNGD's cash has declined since FY 1995, due primarily to use of part of its cash reserve for capital expenditures. The district's decreasing profitability has also negatively affected its cash and financial positions.

Deficiencies in the CNGD's management have prevented the district from operating at its maximum level of efficiency. The board does not use standard business practices to manage its administrative functions and assets, nor does it use basic accounting controls to detect and prevent misappropriation of cash. The district's practice of providing extra compensation to the members of its board who are local mayors creates an unnecessary expense. Also, CNGD's recent practice of selling gas appliances to customers (without statutory authority) caused extra expense to the district because it did not establish adequate financial management controls over these sales, allowing some customers to receive appliances without paying for them. The district also exercised little control over its appliance inventory.

Concerning compliance with state law, the CNGD's Board of Directors and district staff have not complied with applicable state laws regarding distribution of revenues, purchasing, ethics, and public trust.

July 8, 2003

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

PEER Committee
Post Office Box 1204
Jackson, MS 39215-1204

(Tel.) 601-359-1226
(Fax) 601-359-1420
(Website) http://www.peer.state.ms.us

The Mississippi Legislature

Joint Committee on Performance Evaluation and Expenditure Review

PEER Committee

SENATORS

BOB DEARING
Vice Chair
HOB BRYAN
Secretary
TERRY BURTON
BILLY HEWES
JOHNNIE WALLS, JR.

TELEPHONE:
(601) 359-1226

FAX:
(601) 359-1457

Post Office Box 1204
Jackson, Mississippi 39215-1204

www.peer.state.ms.us

Max K. Arinder, Ph.D.
Executive Director

REPRESENTATIVES

MARY ANN STEVENS
Chair
BILLY BOWLES
ALYCE CLARKE
HERB FRIERSON
TOMMY HORNE

OFFICES:
Woolfolk Building
501 North West Street, Suite 301-A
Jackson, Mississippi 39201

July 8, 2003

Honorable Ronnie Musgrove, Governor
Honorable Amy Tuck, Lieutenant Governor
Honorable Tim Ford, Speaker of the House
Members of the Mississippi State Legislature

On July 8, 2003, the PEER Committee authorized release of the report entitled **A Management Review of the Chickasawhay Natural Gas District.**

Representative Mary Ann Stevens, Chair

This report does not recommend increased funding or additional staff.

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A Management Review of the Chickasawhay Natural Gas District

Executive Summary

Introduction

PEER sought to determine whether the Chickasawhay Natural Gas District's Board of Directors manages and operates the district in a manner that provides gas services to its customers at a reasonable cost.

To accomplish this objective, PEER assessed the district's compliance with state statutes, its financial viability to support operational and long-term system requirements, its financial management and inventory internal controls and practices, and the reasonableness of its prices relative to those of other public and private for-profit gas operations in Mississippi. PEER also conducted a follow-up review of findings in the 1988 PEER report entitled *A Review of the Chickasawhay Natural Gas District.*

Financial Viability

The rates that the CNGD charges its customers play a major role in the district's financial viability. However, as PEER first reported in 1988, the district does not adjust residential and commercial customers' rates on a monthly basis to reflect changes in the district's costs of natural gas. Also, according to PEER's survey of rates charged by Mississippi natural gas distributors, the district's rates may not be competitive; the CNGD's residential and commercial rates are high in comparison to those charged by two municipal natural gas districts and one privately held natural gas utility company.

The CNGD's debt-related financial ratios are good because the district has very little debt outstanding. However, the CNGD's cash has declined since FY 1995, due primarily to use of a portion of its cash reserve for capital expenditures. The district's decreasing profitability has also negatively affected its cash and financial positions. Other factors that could threaten the CNGD's cash position are the declining customer base and projected significant increases in the price of natural gas. Also, two highway construction projects planned within the CNGD's service area during 2004 will force the district to relocate portions of its gas lines at district expense. According to the preliminary construction budgets of the CNGD engineering firm, the two projects are estimated to cost $95,385.

District Management

Deficiencies in the CNGD's management have prevented the district from operating at its maximum level of efficiency. The CNGD Board of Directors does not use standard business practices such as budgets, a capital improvement plan, or a vehicle fleet management program to manage its administrative functions and assets. The district does not use basic accounting controls such as prenumbered receipts, petty cash controls, or segregation of duties to detect and prevent misappropriation of cash.

Although not required by law, the district provides extra compensation to three members of its board who are mayors of municipalities within district boundaries. By eliminating this unnecessary expense, the board could possibly reduce its monthly bills to customers.

Until October 2002, the CNGD sold gas appliances to customers without direct or implicit statutory authority to do so. In making these sales, the district did not establish adequate financial management controls, allowing some customers to receive appliances without paying for them. The district also exercised little control over its appliance inventory.

Compliance With State Laws

The CNGD Board of Directors and district staff have not complied with applicable state laws regarding distribution of revenues, purchasing, ethics, and public trust, as described below.

Without statutory authority, since July 1, 1986, the CNGD Board of Directors has distributed $3,663,192 of its monthly operational revenues to Quitman, Shubuta, and Waynesboro. Not only are the distributions not authorized by law, they also have a harmful effect on the customers of the district and on the long-term cash position of the CNGD.

Some of the district's recent purchases of vehicles and interior construction services did not comply with applicable state purchasing laws. Also, the district has obtained credit cards for employees without statutory authority.

Concerning ethics laws, the Mayor of Waynesboro, a member of the CNGD Board of Directors, did not file annual Statement of Economic Interest reports for calendar years 1999, 2002, and 2003, which is required by MISS. CODE ANN. § 25-4-25 (a).

Finally, the CNGD District Director created the appearance of impropriety through his relationship with a contractor who was working for the gas district. MISS. CODE ANN. § 25-4-101 (1972) strongly advises against behavior of a public servant that creates the appearance of impropriety.

Recommendations

1. The Legislature should amend MISS. CODE ANN. § 7-7-211 to require the State Auditor to perform annual financial audits of all local natural gas districts. Further, the Legislature should repeal MISS. CODE ANN. §77-15-1 and 77-15-3 that address governance and oversight of certain natural gas districts.

2. The Legislature should consider amending Chapter 666, *Laws of 1950*:

   -- to remove the mayors from the CNGD Board of Directors and to replace them with a system user member elected from each municipality;

   -- to provide for two additional elected board members, one elected by gas district users residing outside of the municipalities in Clarke County and one elected by the gas district users residing outside of the municipalities in Wayne County; and,

   -- to provide for a fair annual compensation for each of the five board members.

3. The Legislature should amend MISS. CODE ANN. § 31-7-9 to allow all local natural gas districts to use commercial credit cards in accordance with the published regulations of the Department of Finance and Administration.

4. The Legislature should amend MISS. CODE ANN. § 65-1-8 to authorize the Mississippi Department of Transportation to pay system relocation expenses for any local natural gas district construction project that has to be accomplished due to MDOT construction or maintenance projects.

5. The Legislature should direct the Public Staff of the Public Service Commission to conduct a feasibility study of selling the CNGD system to a private natural gas company and report the study's results to the Legislature no later than December 1, 2004. If the study determines it is more beneficial to the customer from a gas cost and service viewpoint to sell the CNGD system, a draft bill to accomplish such should be submitted with the study.

6. The State Auditor should consider whether the board of directors and/or district staff should repay the CNGD for:

   -- missing appliance inventory items (i.e., $2,889 in items not paid for by customers and $6,329 in items unaccounted for by physical count);

   -- missing funds for documented sales and delivery transactions where the district has not collected the total retail cost (i.e., $544); and,

- -- funds related to other matters identified in the report (e.g., the District Director signing the 1998 communication services agreements before the Board of Directors approved them).

7. The CNGD Board should prepare and maintain an administrative policies and procedures manual for the use of the district staff.

   One of these policies should implement internal controls for cash, petty cash funds, and purchasing such as those required of state entities in the Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual of the Department of Finance and Administration. Some examples of these controls are:

   - -- prenumbered customer charge tickets, cash receipt books, customer service orders, meter orders, and petty cash forms;
   - -- segregation of clerk duties;
   - -- pre-audit of amounts billed to individual customers; and,
   - -- a standard bid quote form.

8. The CNGD Board should revise its monthly pricing formula for residential and commercial customers to include a purchased gas adjustment factor.

9. The CNGD Board of Directors should implement standard business practices, including annual budgets, a capital improvement plan, and a vehicle fleet management program, to manage its administrative functions and assets.

10. The CNGD should comply with Internal Revenue Service Regulation 26 CFR Section 1.61 governing reporting of personal use of vehicles.

11. The CNGD Board should request instructions from the State Auditor as to how to legally conduct a bulk sale of its remaining gas appliance inventory. Upon receipt of the instructions, the district should conduct the sale as soon as possible in order to recoup some of its investment in the appliances.

12. The CNGD Board should consider contracting with an individual or firm for a performance audit every three to five years.

13. The District Director should comply with all state purchasing laws, including those regarding construction projects.

14. All members of the CNGD Board should comply with MISS. CODE ANN. § 25-4-25 (a), which requires the filing of annual Statement of Economic Interest reports.

15. The board should adopt a board policy that clearly describes the acceptable and unacceptable practices for business relationships between the CNGD staff and the district's vendors and contractors. This policy should also include disciplinary actions for violations up to termination depending on the severity of a policy violation.

For More Information or Clarification, Contact:

PEER Committee
P.O. Box 1204
Jackson, MS 39215-1204
(601) 359-1226
http://www.peer.state.ms.us

Representative Mary Ann Stevens, Chair
West, MS 662-976-2473

Senator Bob Dearing, Vice Chair
Natchez, MS 601-442-0486

Senator Hob Bryan, Secretary
Amory, MS 662-256-9989

A Management Review of the Chickasawhay Natural Gas District

Introduction

Authority

In response to a legislative request, the PEER Committee conducted a management review of the Chickasawhay Natural Gas District (hereafter called "the CNGD" or "the district") pursuant to the authority granted by MISS. CODE ANN. § 5-3-57 et seq. (1972).

Scope and Purpose

PEER sought to determine whether the Chickasawhay Natural Gas District's Board of Directors manages and operates the district in a manner that provides gas services to its customers at a reasonable cost. To accomplish this objective, PEER assessed the district's financial viability to support operational and long-term system requirements, the reasonableness of its prices relative to those of other public and private for-profit gas operations in Mississippi, its financial management and inventory internal controls and practices, and its compliance with state statutes. PEER also conducted a follow-up review of findings in the 1988 PEER report entitled *A Review of the Chickasawhay Natural Gas District.*

Method

PEER collected, reviewed, and analyzed the following information regarding the Chickasawhay Natural Gas District:

- FYs 1988-02 financial audits;
- FYs 1998-02 customer data;
- FYs 1998-02 gas usage data;
- board meeting minutes;
- customer charge tickets;

- construction project specifications, bids, contracts, and payment vouchers;
- procurement specifications, bids, invoices, and payment vouchers;
- appliance inventory valuation report;
- other CNGD contracts; and,
- other related project materials.

PEER reviewed information from the natural gas industry, state statutes, Attorney General's opinions, State Auditor, Public Service Commission, U.S. Census Bureau, U.S. Department of Energy, U.S. Department of Transportation, and other public and private natural gas operations in Mississippi relating to selected policies, procedures, practices, and prices. PEER also interviewed personnel of the CNGD, including contract engineers, natural gas consultant, and other government officials from Mississippi.

PEER conducted a price survey of three Mississippi public and private gas operations to compare their residential and commercial customer costs with the costs charged by the CNGD.

Background

Statutory Authority

In 1950, the Legislature passed a law confirming creation of the Chickasawhay Natural Gas District (CNGD) as a valid state political subdivision (Chapter 666, *Local and Private Laws*, 1950 Regular Session).

Section 1, Chapter 666, granted the CNGD the following powers:

> *Section 5. That said CNGD shall continue to exist as a political subdivision of the State of Mississippi, and shall possess and is hereby granted all power and authority to construct and install a natural gas supply, transmission, and distribution system conferred upon municipalities by Chapter 317, Laws of Mississippi, 1934, being Sections 3537 and 3538, Code of 1942, as amended by Chapter 320, of the Laws of 1948, and all powers authorized by Chapter 317, Laws of Mississippi, 1934, as amended to be exercised by municipalities of the State of Mississippi with respect to the construction and installation of gas supply, transmission, and distribution systems are hereby conferred upon and may be exercised by the aforesaid Chickasawhay Natural Gas District.*

By establishing the authority of the district, the Legislature granted to the CNGD all powers that the Legislature conferred to municipal utilities through Chapter 317, *Laws of 1934*, as amended by Chapter 320, *Laws of 1948*, with respect to providing natural gas to their customers.

The District's Governing Authority

The CNGD's Board of Directors consists of five members. These include the mayors of Quitman, Shubuta, and Waynesboro, and one system-user member each elected from Clarke and Wayne counties. The CNGD's Board of Directors is the policymaking body for the district and carries out this function by adopting resolutions at regular meetings. The board acts as the approving authority for all district contracts, expenditures, personnel decisions, policies, and procedures. The District Director, who also serves as the district's purchasing agent, is responsible for the day-to-day management of the district and implementation of policy.

Service Area and Types of Services Provided

The CNGD provides natural gas services to residential, commercial, and industrial customers in Quitman, Shubuta, and Waynesboro, Mississippi, and to the rural areas along the CNGD's pipeline in Clarke and Wayne counties and in the communities of Clara and Stonewall (outside the town limits). The CNGD cannot provide gas service to individuals who live inside the city limits of Enterprise and Stonewall, since they live in the PSC-certificated areas of other natural gas providers and may obtain natural gas from them. (See Exhibit 1, page 6, for a map of the CNGD's service area.) Gas customers in the CNGD's service area can only buy natural gas from the CNGD due to the district's enabling legislation that adopted the municipalities' original ordinances and the Public Service Commission's certification process.

The district's customers fit into one of the following categories:

- *residential customers,* who consume gas in private dwellings, including apartments, for heating, air conditioning, cooking, water heating, and other household uses;

- *commercial customers*, who consume gas in non-manufacturing establishments or agencies primarily engaged in the sale of goods or services. They include hotels, restaurants, wholesale and retail stores, other service enterprises, and governmental entities; and,

- *industrial customers*, who consume gas for heat, power, or chemical feedstock in manufacturing establishments. They also include establishments engaged in mining or other mineral extraction as well as agriculture, forestry, fishery, and non-regulated electric utility consumers.

The district maintains three office locations for billing and service purposes. The district has a staff of six servicemen and one welder to maintain and operate 184 miles of main distribution line and approximately 18.6 miles of customer service lines, related equipment, and facilities. This staff also reads customer meters monthly and performs service line work for customers, including meter installation, meter removal, and running service lines. They also respond to system emergencies and conduct district construction for some expansion projects.

District Accountability

As with Mississippi's counties and municipalities, the Legislature created the CNGD as a political subdivision. As a political subdivision, the CNGD and its board are subject to certain controls included in law to promote efficient and ethical government. These include the Ethics in Government Act (MISS. CODE ANN. § 25-4-101 et seq.) and state purchasing laws (MISS. CODE ANN. § 31-7-1 et seq.). The district also must comply with prohibitions in the state constitution directed to all entities

created by legislation. Such provisions include Section 109, dealing with public officers' interests in public contracts, and Section 258, dealing with subscription to private debt.

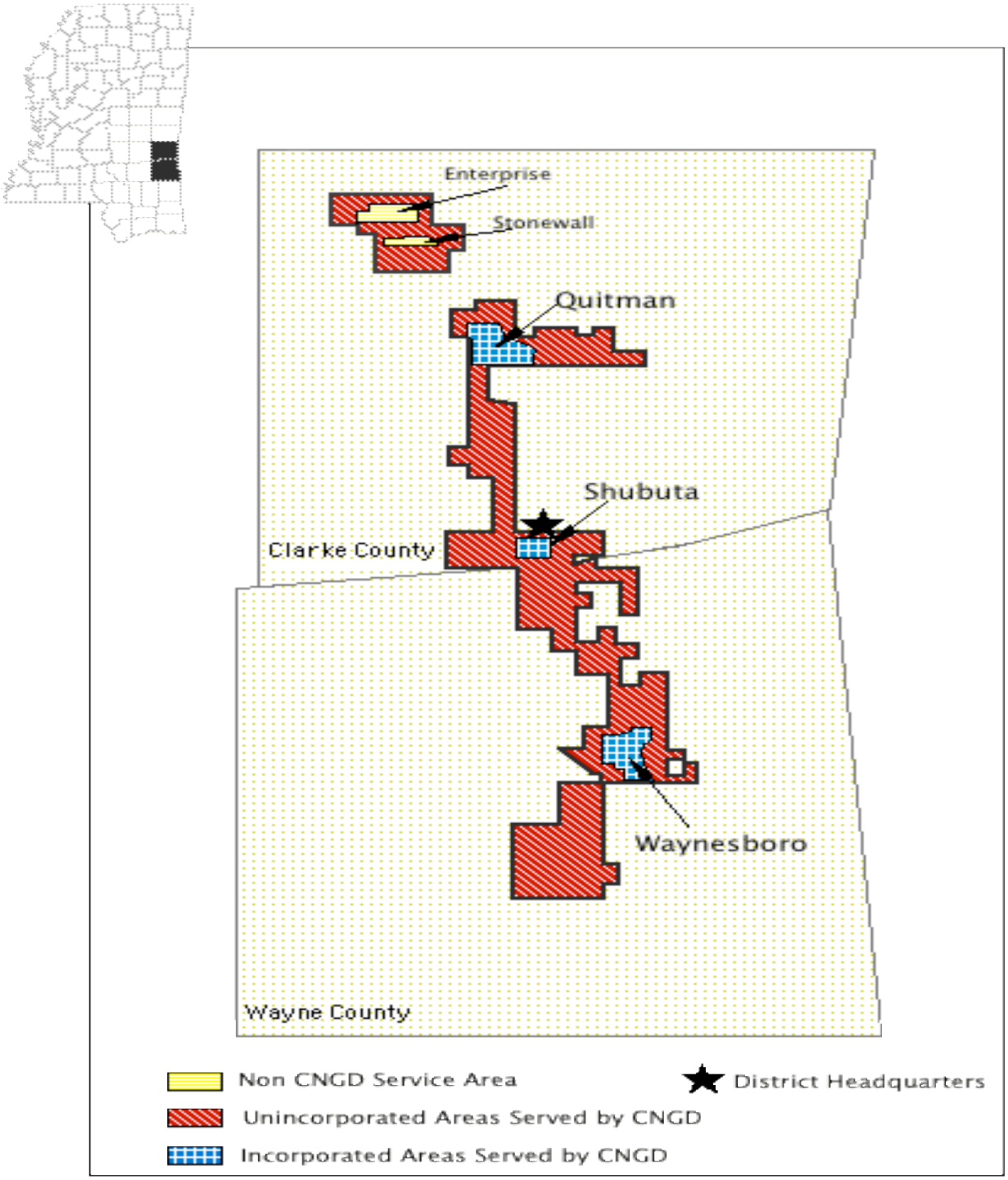
The district's management and operations are subject to some regulations of the U.S. Department of Transportation (USDOT) and the Mississippi Public Service Commission (MPSC). These regulations include:

- USDOT Code of Federal Regulations 49, Parts 186 to 199: Transportation;
- MPSC Rules and Regulations Governing Public Utility Services; and,
- MPSC Public Utilities Rules of Practice and Procedure.

However, unlike private utilities, the CNGD is not subject to the Public Service Commission's rate review and approval process. The CNGD has complete authority to determine its rates and impose charges on customers, without the approval of any other authority. Thus the CNGD may set rates that are as high as it believes it can charge in a market with other forms of competitive energy sources (e.g., electricity, propane, butane).

The CNGD is also not subject to annual audits by the State Auditor, although the State Auditor has authority under MISS. CODE ANN. § 7-7-211 to conduct investigations of the local natural gas districts. Additionally, as a political subdivision, the CNGD is not subject to the state budgeting or accounting controls; state budgeting and accounting controls apply only to state agencies.

Exhibit 1: Service Areas for the Chickasawhay Natural Gas District as Certificated by the Public Service Commission



SOURCE: Mississippi Public Service Commission.

Summary of PEER's 1988 Review of the CNGD

PEER conducted a review of the CNGD in 1988 and issued its report, *A Review of the Chickasawhay Natural Gas District.* (Appendix A, page 43, contains the executive summary of that report.) The report discussed the following management deficiencies that the CNGD has since corrected:

- The district had improperly categorized on its financial statement the additional monthly compensation paid to the district's three mayoral board members. In 1988, PEER determined that the district was reporting the additional compensation paid to the three mayors serving on its board as "Administrative Salaries." Board members are not employees of the district, therefore it was misleading for the CNGD to categorize the mayors' salaries as administrative salaries of the district. The CNGD now reports the mayors' salaries separately on its financial statement as "Directors' Compensation." (See page 23 of this report for a discussion of mayoral board members' additional compensation.)

- The district had paid bonuses to individual board members, district personnel, and the board attorney, which is a violation of the Mississippi Constitution. Section 96 of the constitution specifically prohibits payment of bonuses to public employees. The CNGD no longer pays bonuses to its employees, board members, or board attorney.

- The district had not reported to the Internal Revenue Service as indirect income the insurance premiums paid by the district on behalf of members of its board of directors. According to IRS regulations, insurance premiums paid by the district on behalf of its directors represented indirect compensation that should have been reported to the IRS on Form 1099-MISC. The district no longer pays insurance premiums for board members and reports all board members' income to the federal and state tax authorities.

However, the board has still not corrected one state ethics law requirement and two financial management policies that impact its customer gas prices, as described below.

- The board continues to use a rate formula for residential and commercial customers that does not pass along monthly cost savings (or increases) as a result of the price the district pays for natural gas. (See page 8 for discussion.)

- The board continues to distribute some CNGD operating revenues paid by all district customers to the general funds of Quitman, Shubuta, and Waynesboro. (See page 31 for discussion.)

- The Mayor of Waynesboro has not complied with state law concerning the filing of annual statements of economic interest with the State Ethics Commission. (See page 37 for discussion.)

Financial Viability

The rates that the CNGD charges its customers play a major role in the district's financial viability. However, as PEER first reported in 1988, the district does not adjust residential and commercial customers' rates on a monthly basis to reflect changes in the district's costs of natural gas. Also, according to PEER's survey of rates charged by Mississippi natural gas distributors, the district's rates may not be competitive; the CNGD's residential and commercial rates are high in comparison to those charged by two other municipal natural gas districts and one privately held natural gas utility company.

The CNGD's debt-related financial ratios are good because the district has very little debt outstanding. However, the CNGD's cash has declined since FY 1995, due primarily to use of a portion of its cash reserve for capital expenditures. The district's decreasing profitability has also negatively affected its cash and financial positions. Other factors that could threaten the CNGD's cash position are the declining customer base and projected significant increases in the price of natural gas. Also, highway construction projects planned within the CNGD's service area during 2004 will force the district to relocate portions of its gas lines at district expense.

CNGD's Method of Setting Customer Rates

The CNGD does not adjust residential and commercial customers' rates on a monthly basis to reflect changes in the district's costs of natural gas. Because the district has not made these adjustments, it overcharges or undercharges customers for their gas service to the extent that the gas cost component of their bills deviates from the district's actual cost of gas.

The district's 1950 organizational ordinance vests in the district's board the authority to fix and modify rates that the district charges to its residential, commercial, and industrial customers. According to the organizational ordinance, rates established by the board must be adequate to provide sufficient revenues for the district to:

- pay all operational and maintenance costs for its natural gas supply, transmission, and distribution system and related facilities;
- provide an adequate reserve; and,
- pay the principal of and the interest on any issued bonds.

The board considers changes to customer rates at the recommendation of the District Director, based on data collected and analyzed by the district's utility consulting firm.

The district's charges to customers include a component to cover the cost of gas to the district as well as an add-on to cover the district's administrative costs, distribution costs (the cost of transmitting the gas from the district to the customer), and transmission costs (the cost of transmitting the gas from the

supplier to the district). (See Appendix B, page 46, for an explanation of the district's formulas for calculating the rates charged to each of its three categories of customers.) Although the district's formula for calculating rates charged to its industrial customers includes an automatic monthly adjustment for changes in the price of gas charged to the district by its supplier, the rate formulas for the district's residential and commercial customers do not contain automatic adjustments based on the price of natural gas. Thus the district does not pass on gas price decreases or increases on a monthly basis to residential and commercial customers as it does to industrial customers.

Overcharging for gas service is not fair to customers, who expect a fee-for-service business transaction. Undercharging reduces the district's assurance that it will have sufficient revenues.

PEER noted this rate-setting problem in the report of its 1988 review of the CNGD. However, the district has continued to overcharge or undercharge its residential and commercial customers to the extent that the gas cost component of their bills deviates from the actual cost of gas to the district. Overcharging for gas service is not fair to customers, who expect a fee-for-service business transaction. When the district undercharges customers, it cannot assure that it has revenues sufficient to pay all of the system's operational and maintenance costs, provide an adequate reserve, or pay the principal of and the interest on issued bonds. This could jeopardize the financial viability of the district.

Comparison of the CNGD's Customer Bills to Amounts Charged by Other Natural Gas Distributors in Mississippi

In PEER's survey of prices charged by four natural gas distributors in January of each of the last four years, the CNGD ranked highest in the amount charged to residential and commercial customers. One privately held natural gas utility company charged significantly lower residential and commercial rates during the survey period than did the CNGD.

In order to compare the CNGD's customer charges for gas usage to amounts charged by other Mississippi natural gas distributors, PEER conducted a survey of the three natural gas utility operations in Mississippi that used the same natural gas pipeline supplier (Gulf South Pipeline) and pricing methodology as the CNGD. These operations included two municipal natural gas operations and one privately held company (Bay Springs Natural Gas Utility, Canton Municipal Utilities, and Wilmut Gas Company). Appendices C and D, pages 47 and 48, contain the survey results.

PEER surveyed natural gas providers on how much they charged residential and commercial customers for a specified volume of gas usage for the month of January in calendar years 2000 through 2003.

PEER's method in conducting the survey was to ask respondents how much they charged residential and commercial customers for a specified volume of gas usage for the month of January in calendar years 2000 through 2003. (PEER selected the month of January because it is historically the industry's high-usage month.) To select the "volume of gas usage" for each of the four months included in the survey, PEER used the CNGD's volume of gas used on a per-customer basis. Using these per-customer volumes, PEER asked survey respondents to report how much they would have charged customers using this volume of gas in

the same month converted to its heating value as expressed in MMBTUs. (See Appendix B, page 46, for definition and calculation methodology.)

As shown in the appendices, for the four months included in the survey, the CNGD's bills for a residential customer using the specified volumes of gas totaled $410.06, while the bills for a commercial customer totaled $1,329.63. The CNGD's four-month bill totals ranked the highest of those surveyed.

CNGD's Financial Ratios

The CNGD's debt-related financial ratios are good because it has very little debt outstanding. At the end of FY 2002, the CNGD's cash was 2.6 times larger than its total debt. However, the CNGD's cash has declined since FY 1995, due primarily to use of $4.9 million of its cash reserve for capital expenditures in fiscal years 1996 through 2002. The district's decreasing profitability since FY 1995 has also negatively affected the CNGD's cash and financial positions.

PEER reviewed the financial position of the CNGD and compared it to available industry information on the financial positions of other natural gas distribution utility companies with assets of from two to ten million dollars. For comparison purposes, PEER used the financial ratios published in *Annual Statement Studies 2001/2002* by the Risk Management Association (RMA), recognized nationally by banks and other parties involved in financial analysis.

Strong Liquidity, Net Worth, and Debt Coverage

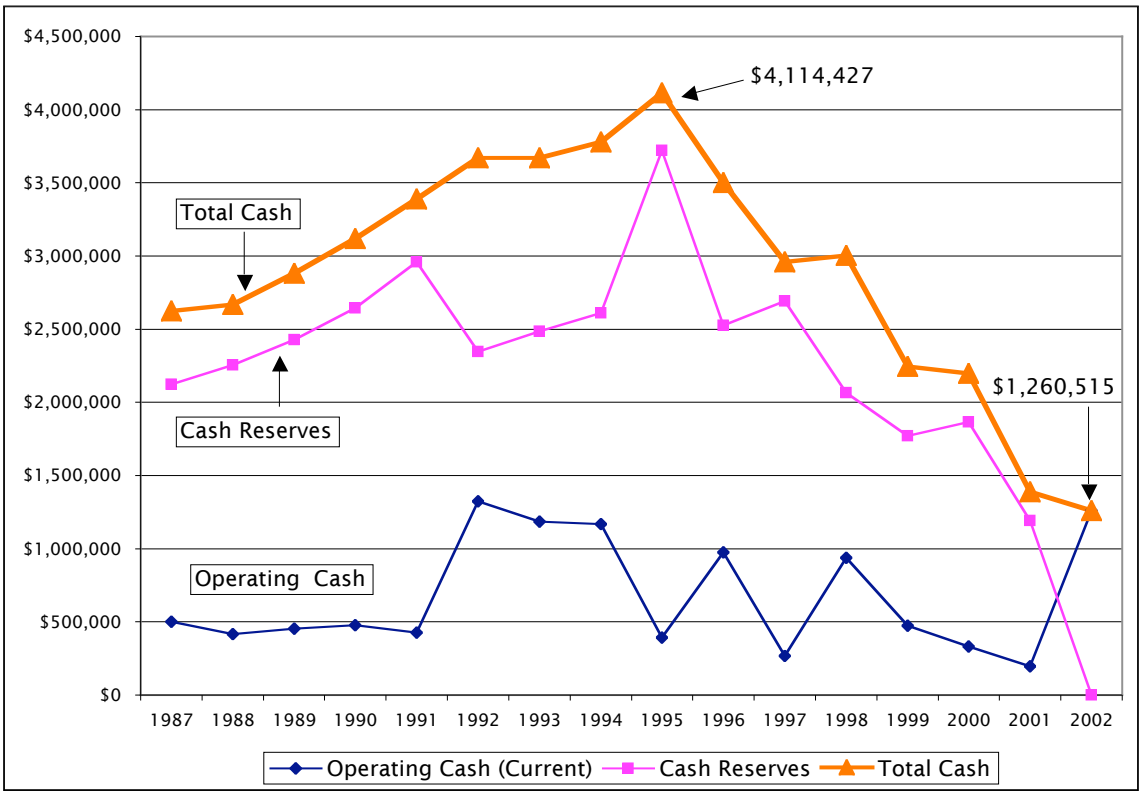
As of June 30, 2002, the CNGD had a strong ability to pay its current debts and its long-term obligations, in general and as compared to the industry.

Company and industry financial ratios indicated that as of June 30, 2002, the CNGD had a strong ability to pay its current debts and its long-term obligations, in general and as compared to the industry. (A comparison of the CNGD's financial ratios and industry ratios is detailed in Appendix E, page 49.) Ratios also indicated that the CNGD is strongly capitalized, because it had low debt in comparison to its net worth as of June 30, 2002. (Net worth consists of total assets minus total liabilities.) The CNGD also had low debt in comparison to its cash. At the end of FY 2002, the CNGD's total cash of $1,260,515 exceeded by 2.6 times the district's $475,741 of total debt.

Decline in Cash

Although the CNGD's cash position is currently strong, cash has declined significantly since FY 1995. Exhibit 2, page 11, presents the current operating cash, cash reserves, and total cash balances of the CNGD during the fifteen-year period from FY 1987 to FY 2002.

Exhibit 2: Trends in the CNGD's Operating Cash and Cash Reserves, FY 1987 to FY 2002



SOURCE: PEER analysis of audited CNGD financial statements.

Exhibit 2 shows that total cash has decreased by $2,853,912 from its fifteen-year high of $4,114,427 in FY 1995 to $1,260,515 in FY 2002. The CNGD has historically maintained restricted cash reserves to fund major gas system replacements. The company has routinely transferred funds between its restricted cash and operating accounts at some point during each year. However, in FY 2002, the CNGD liquidated its reserve account to assure good operating cash flow at all times, as overall cash had been decreasing since FY 1995. (Another reason that the CNGD closed its reserve account was that the interest rate on that account was no longer favorable.)

The primary reason for the CNGD's decreasing cash in a period of rising company net worth is that the district financed its building expansion of gas systems and other assets through the use of cash rather than debt.

The CNGD's net worth has risen from $3,831,801 in FY 1987 to $7,579,146 in FY 2002. The primary reason for the CNGD's decreasing cash in a period of rising company net worth is that the CNGD financed its building expansion of gas systems and other assets through the use of cash rather than debt. During the CNGD's period of declining cash from FY 1995 to 2002, the CNGD used $4.9 million of its cash to finance property, plant, and equipment. (See the balance sheet in CNGD's financial statements in Appendix F, page 50, which details FY 2002 property, plant, and equipment.) The second most significant use of the CNGD's cash and profits from FY 1987 to 2002 was $3,663,192 in

distributions of cash to three municipalities, as discussed on page 31. As discussed in the following section, the CNGD's declining profitability also has negatively affected its cash.

Decreasing Profitability

Financial ratios indicate that the CNGD's earnings for FY 2002 as measured by the profit to net worth ratio were not strong in comparison to companies in the industry survey.

As discussed on page 8, profitability is not a stated goal of the CNGD. Therefore, the CNGD should be concerned about profitability only as it relates to its ability to maintain an adequate level of operating cash and cash reserves sufficient for capital planning needs. (See the discussion of the CNGD's lack of planning for capital needs on page 17.) In fact, financial ratios indicate that the CNGD's earnings for FY 2002 as measured by the profit to net worth ratio were not strong in comparison to companies in the industry survey.

The CNGD's gross profit margin (gas sales minus cost of gas, divided by gas sales) has been variable because it is determined by the price that the CNGD must pay for gas and the price that the CNGD charges its customers. In FY 1995, the CNGD experienced its highest dollar level of gross profit ($1,496,286) and its second highest gross profit margin percentage (58%) over the fifteen-year period from FY 1987 to FY 2002. The gross margin fluctuated downward to 36% in FY 2002, its lowest level since the FY 1987 level of 35%.

A continued decline in profitability would eliminate the CNGD's strong cash position at some point in the future, especially if decreasing profitability occurred in conjunction with unforeseen capital expenditures and during a period of continued revenue distributions to cities.

The CNGD's net profit margin (net profits divided by total sales from operations) has trended downward from a peak of 32% in FY 1995 to 6% in FY 2002, the lowest percentage during the fifteen-year period. The CNGD's net profit margins decreased due to the effect of the decreasing gross margins and also due to the gradual increases in operating and administrative expenses. Except for a decrease in FY 1994, the CNGD's operating and administrative expenses have increased every year, from $533,452 in FY 1987 to $1,249,045 in FY 2002. During the period that gross and net profit fluctuated and declined after FY 1995, operating and administrative expenses increased on average 4.6% annually through FY 2002. (See Appendix G, page 52, for a graphic presentation of the trends in gross and net profit margins and administrative and operating expenses.)

Although the CNGD has a strong net worth and low debt, its cash and profitability are declining. A continued decline in profitability would eliminate the CNGD's strong cash position at some point in the future, especially if decreasing profitability occurred in conjunction with unforeseen capital expenditures (above and beyond proceeds from catastrophic insurance) and during a period of continued revenue distributions to cities.

Threats to the CNGD's Cash Position

Factors that could threaten the CNGD's cash position are the district's declining customer base (a decline of 12% from January 1998 to April 2003) and projected significant increases in the price of natural gas (from the 2001 price of $3.93 per thousand cubic feet to more than $7 per thousand cubic feet in 2025 [in dollars adjusted for inflation]). Also, the Mississippi Department of Transportation has planned highway construction projects within the CNGD's service area during 2004 that will force the district to relocate portions of its gas lines at district expense.

Declining Customer Base

Although CNGD's industrial customer base increased approximately 57% from January 1998 to April 2003, this represents the addition of only eight industrial customers.

The CNGD relies on three types of customers to maintain a broad customer base, including residential, commercial, and industrial customers. Exhibit 3 on page 14 illustrates the change in composition of the CNGD's customer base from January 1998 to April 2003. During that time, the number of residential and commercial customers steadily declined, while the number of industrial customers increased. Although the industrial customer base increased approximately 57% during this period, this represents the addition of only eight industrial customers (from fourteen customers in 1998 to twenty-two customers in 2003). Although the number of industrial customers increased, the total number of CNGD customers in that period declined by 506 customers (approximately 12% of the customer base).

Increasing Cost of Natural Gas

According to the *2001 Natural Gas Annual Report*, compiled by the U.S. Department of Energy's Energy Information Administration, the average price per thousand cubic feet for natural gas in Mississippi increased from $1.73 in 1997 to $3.93 in 2001. As discussed in the Energy Information Administration's Report released January 9, 2003, natural gas prices nationwide are projected to increase to more than $7 per thousand cubic feet in nominal dollars (i.e., constant dollars, adjusted for inflation) by 2025. As the report explains:

> *A major consideration for energy markets through 2025 will be the availability of adequate natural gas supplies at competitive prices to meet growth in demand. . . .Average natural gas prices (including spot purchases and contracts) are projected to drop from $4.12 per thousand cubic feet in 2001 to $2.75 per thousand cubic feet in 2002. After 2002, natural gas prices are projected to move higher as technology improvements prove inadequate to offset the impacts of resource depletion and increased demand. Natural gas prices are projected to increase in an uneven fashion as higher prices allow the introduction of major new, large-volume natural*

gas projects that temporarily depress prices when initially brought on line. Prices are projected to reach about $3.70 per thousand cubic feet by 2020 and $3.90 per thousand cubic feet by 2025 (equivalent to more than $7.00 per thousand cubic feet in nominal dollars).

As the cost of natural gas increases, the CNGD may continue to lose customers to alternative energy sources.

Exhibit 3: Increases (Decreases) in the Number of Chickasawhay Natural Gas District Customers from January 1998 to April 2003, by Customer Category

	Residential Customers	Commercial Customers	Industrial Customers	Total Customers
January 1998	3,497	554	14	4,065
April 2003	3,087	450	22	3,559
Change	(410)	(104)	8	(506)
% Change	(11.7%)	(18.8%)	57.1%	(12.4%)

SOURCE: CNGD records

Note 1: The three customer categories are defined on page 4 of this report.

Note 2: The CNGD divided its Industrial customers into two categories in CY 2002: firm Industrial and Interruptible Industrial. The firm industrial customers use the CNGD as their only energy supplier during the year, while the interruptible industrial customers must use an alternative energy source in any months that the gas pipeline supplier cannot provide the district with its gas supply needs.

Increasing Cost of Natural Gas

According to the *2001 Natural Gas Annual Report*, compiled by the U.S. Department of Energy's Energy Information Administration, the average price per thousand cubic feet for natural gas in Mississippi increased from $1.73 in 1997 to $3.93 in 2001. As discussed in the Energy Information Administration's Report released January 9, 2003, natural gas prices nationwide are projected to increase to more than $7 per thousand cubic feet in nominal dollars (i.e., constant dollars, adjusted for inflation) by 2025. As the report explains:

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As the cost of natural gas increases, the CNGD may continue to lose customers to alternative energy sources.

Relocation Projects

Because state law does not authorize the Department of Transportation to reimburse local gas districts for relocation expenses resulting from highway construction projects, the district will be forced to relocate portions of its gas line at its own expense.

During calendar year 2004, the Mississippi Department of Transportation plans to conduct highway construction projects on portions of Highways 512 and 513 located within the Chickasawhay Natural Gas District.

Because MISS. CODE ANN. § 65-1-8 (1972) does not authorize the Department of Transportation to reimburse local gas districts for relocation expenses, the district will be forced to relocate portions of its gas line at its own expense, which will affect its cash position. According to the preliminary construction budgets of the CNGD engineering firm, the two projects are estimated to cost $95,385.

District Management

According to Peter F. Drucker, a recognized authority on management, managers of business entities should give direction to the entities that they manage. Specifically, managers should think through the entity's mission, set its objectives, and organize resources for the results the entity has to accomplish.

As the policymaking body for the district, the CNGD's Board should establish management processes and controls that will allow the board to operate the district in a financially sound manner while providing natural gas to district customers at the most reasonable price in a safe operating system environment. At a minimum, the board should project its revenues and control its expenses, plan for long-term district needs, and use district assets in an efficient manner. However, as discussed in this chapter, the board's management practices have prevented the district from operating in a financially sound manner.

Deficiencies in the CNGD's management have prevented the district from operating at its maximum level of efficiency. The CNGD's Board of Directors does not use standard business practices such as budgets, a capital improvement plan, or a vehicle fleet management program to manage its administrative functions and assets. The district does not use basic accounting controls such as prenumbered receipts, petty cash controls, or segregation of duties to detect and prevent misappropriation of cash.

Although not required by law, the district provides extra compensation to three members of its board who are mayors of municipalities within district boundaries. By eliminating this unnecessary expense, the board could possibly reduce its monthly bills to customers.

Until October 2002, the CNGD sold gas appliances to customers without direct or implicit statutory authority to do so. In making these sales, the district did not establish adequate financial management controls, allowing some customers to receive appliances without paying for them. The district also exercised little control over its appliance inventory.

Administrative Management

The CNGD's Board of Directors does not use some standard business practices such as budgets, a capital improvement plan, or a vehicle fleet management program to manage its administrative functions and assets.

Lack of Annual Operating Budgets

Since 1993, the board has not used annual operating budgets to project revenue needs and control operating expenses.

An annual budget establishes an organization's financial operating plan for each fiscal year. This plan establishes the financial goals and objectives for the year based on the existing

financial condition of the organization, as well as any new short-term or long-term financial requirements. An annual budget also allows the executive authority to project needed revenues to fund programs, as well as to monitor and control expenditures for the fiscal year. This financial plan may be modified during the year due to unanticipated requirements.

Prior to 1991, the CNGD accounting staff did not prepare annual operating budgets. From 1991 to 1993, the CNGD's accounting staff prepared annual operating budgets that projected needed revenues and controlled operating expenses. However, according to the board chairman for FY 2004, in 1993 the CNGD's Board directed its staff to discontinue preparation of annual operating budgets, since the board did not find their use beneficial. In the absence of an operating budget, the board reviews a monthly balance sheet and a statement of revenues and expenses at its monthly meetings. Reportedly, the board uses these two financial reports to determine the financial condition of the district through comparisons with the information for the same month in the previous fiscal year.

Budgets are the management tools designed to help an organization meet its short- and long-range goals and objectives. Without annual budgets and salary forecasts, the board cannot readily set targeted standards of performance and compare them to actual results.

However, budgets are the management tools designed to help an organization meet its short-and long-range goals and objectives. Without annual budgets and salary forecasts, the board cannot readily set targeted standards of performance and compare them to actual results. By not striving to meet yearly standards for operation, the board reduces its ability to plan for the long term to meet its operational needs. Because the CNGD's operations are affected by the economy and the price of gas, flexible budgets could be set up as targets for different levels of sales.

The CNGD also does not have a comprehensive management information reporting system, nor does it use performance measures, which would also be helpful in financial and organizational planning.

Planning

The CNGD's Board of Directors has not established a capital improvement plan to manage long-term needs of the district such as system improvements and expansions. The lack of a capital improvement plan limits the board's effectiveness in dealing with capital outlays that could have detrimental effects on the district's financial viability.

A capital improvement plan is a management tool to organize and manage capital improvements. Such a document provides the following information:

- applicable administrative and financial policies;
- capital improvement requirements and their priorities;
- estimated project completion times; and,

- estimated costs of construction, equipment, computer systems, vehicles, and related items.

Such a plan also gives the executive authority the capability to monitor and control expenditures, timing, and pace of improvements.

A capital improvement plan is a management tool that gives the executive authority the capability to monitor and control expenditures, timing, and pace of capital improvements.

The CNGD's Board does not use a capital improvement plan for managing the district's improvement program. The board makes "case-by-case" decisions within the context of its financial resources and known capital improvement requirements. Without a capital improvement plan, the board cannot make decisions regarding capital improvements in comparison to stated short-term and long-term goals and objectives in a fiscally responsible and timely manner.

If the CNGD's Board had had an established capital improvement plan with a realistic policy for estimating the number of anticipated new customers, it would have not approved the Clara expansion project for economic reasons and would have avoided the use of its cash reserves.

As an example of the district's need for a capital improvement plan, in November 1999 the CNGD's Board approved a gas service expansion project for the Clara community in Wayne County. Because of the board's reliance on an engineering study with a faulty premise (i.e., a 100% sign-up rate for 400+ new residential and commercial customers and resulting annual net profit of approximately $62,700), the board approved the expansion with unreasonable expectations. The board spent approximately $676,172 to expand its distribution line from Waynesboro to Clara in Phase 1 of the project. From January 2002 through April 2003, the CNGD signed up fifteen new customers, who have generated approximately $6,360 in revenue. The district has postponed completion of Phase 2 of the project (estimated cost: $250,000 in materials plus labor) due to concerns about the fluctuating cost of natural gas in the marketplace and its impact on the district.

If the board had had an established capital improvement plan with a realistic policy for estimating the number of anticipated new customers, it would have not approved this project for economic reasons and would have avoided the use of its cash reserves.

Vehicle Fleet Management

The board has not established a fleet management program to ensure the efficient use of the district's vehicles and compliance with the Internal Revenue Service's regulations regarding employee commuting.

The goal of a fleet management program is to organize and operate an organization's vehicles for official business while providing the management information necessary to operate the vehicles efficiently and effectively in compliance with state and federal laws.

A fleet management program's objectives should be similar to the ones noted in PEER's 1993 report *A Performance Audit of State-Owned Vehicle Management*:

- ensure that the organization operates its vehicle fleet with minimum input of public resources (efficiency);
- deliver the necessary transportation services at the required performance levels with the most appropriate method (effectiveness);
- achieve prudent management goals in vehicle acquisition, inventory, use and control, maintenance, and disposal; and,
- ensure an annual independent performance audit of the program in order to measure its effectiveness and efficiency.

An effective fleet management program allows the executive authority to monitor and control vehicle use and expenditures during the year.

The district's method of managing use of its nine vehicles does not consider the fleet as a system, or unit, and thus does not address the system's efficiency and effectiveness.

The CNGD has no organized, documented management program or any written policies for the use and care of its fleet of nine vehicles. The CNGD assigns vehicles to its staff to be available for twenty-four hours per day, seven days per week, with staff commuting in these vehicles because they are considered "on call" within the district. District staff with assigned vehicles are responsible for scheduling preventive maintenance work for their vehicles and the district complies with state laws regarding purchase of major auto repairs. These drivers purchase gas and oil at district-designated service stations on a charge account basis. The district does not require drivers to document vehicle usage, including trip mileage, and preventive or emergency maintenance costs.

Since drivers do not maintain logs with trip mileage, the board and the District Director have no way to determine whether the staff use these vehicles for personal use.

This method of managing the district's vehicles does not consider the fleet as a system, or unit, and thus does not address the system's efficiency and effectiveness. Further, since drivers do not maintain logs with trip mileage, the board and the District Director have no way to determine whether the staff use these vehicles for personal use. Also, because the district does not either add the value of the commuting privileges to the drivers' W-2 forms or charge a daily commuting fee as an allowable IRS alternative, the CNGD does not comply with Internal Revenue Service Regulation (IRS) 26 CFR Section 1.61 governing non-personal use of state vehicles.

Cash Control Procedures

While the CNGD's accounting system includes some limited internal controls to safeguard and account for the district's assets, the district does not use basic controls such as prenumbered receipts, petty cash controls, and segregation of duties to detect and prevent misappropriation of the district's assets.

The CNGD's staff receive cash and checks daily from customers who come to the district's offices to pay their gas bills. Each of the CNGD's clerks (who also serve as cashiers) receive customer payments into his or her own cash drawer, which is replenished at the beginning of each month to ensure a minimum cash balance

of $200. For every day that cash in a cash drawer exceeds $200, the clerk in charge of the cash drawer must prepare a daily "cash report" of receipts and execute a bank deposit in the same amount of the receipts. Because each daily cash report exactly matches the deposit slip for that day, the CNGD's Administrative Secretary/Comptroller may easily verify that all cash reported as received on a given day has been deposited into the bank. Because it is easy to trace the cash received through the accounting records, the district can control cash to some extent.

The CNGD's Administrative Secretary/Comptroller also conducts various checks to ensure that cash has been properly recorded in the financial statements, including reconciliation of bank statements to the accounting records and comparison of daily cash reports to deposit slips. The Administrative Secretary/Comptroller also conducts cash counts a periodic basis to serve as a control over cash.

While the above-discussed checks are beneficial controls over the district's cash, the CNGD has not implemented other basic procedures described below that would help to ensure that all cash is accounted for.

Lack of Prenumbered Duplicate Cash Receipts

Prenumbered duplicate receipts add a secondary check to ensure that a clerk has not provided a receipt to the customer while keeping the cash for personal use.

One method of controlling cash is to use prenumbered cash receipts when receiving cash payments. Prenumbered duplicate receipts, as found in receipt books, add a secondary check to ensure that a clerk has not provided a receipt to the customer while keeping the cash for personal use.

While the CNGD, as a political subdivision, is not subject to state accounting controls, the *Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual* used by state agencies outlines the basic internal controls necessary for any entity to control cash properly. Section 30.40.20.G of the *MAAPP Manual* states the following regarding internal control over cash receipts:

> *Collections made over the counter or in the field are to be documented by the issuance of sequentially pre-numbered official receipts or through cash registers or automated cashiering systems. All such receipts are to be strictly accounted for and the reason for any missing documents determined and documented.*

Although PEER found no evidence of misappropriation of funds at the CNGD, because the district does not use prenumbered receipt books, the risk exists that this could occur.

The CNGD does not issue prenumbered cash receipts to customers. When the clerks in the district's offices receive customer payments that are accompanied with a bill, they tear off the bill stub for use as an internal record and return the bill to the customer as a form of receipt. If the customer does not present the bill to the clerk, the clerk writes a receipt for the customer and a paper voucher for internal accounting records. Although PEER found no evidence of misappropriation of funds at the CNGD, because the district does not use prenumbered receipt books, the risk exists that this could occur.

Lack of Internal Accounting Controls for Petty Cash Expenditures

One method of documenting disbursements of petty cash is through the use of prenumbered forms.

Internal controls over petty cash are necessary to detect and prevent misappropriation of funds. As noted above, although the CNGD is not subject to state accounting controls, the district should implement basic internal controls over petty cash such as those presented in the *MAAPP Manual*. These procedures require, in part, that a petty cash account:

- be established and maintained as a checking account whenever possible, except for change accounts;
- be vested in only one person; and,
- have disbursements supported by original receipts or vouchers bearing the signature of the payee.

According to district employees, the District Director had a practice of "borrowing" district funds by taking cash advances from the cash drawer without signing a formal record of the transactions.

One method of documenting disbursements is through the use of prenumbered forms to account for monies drawn from petty cash drawers. The CNGD does not use pre-numbered forms to account for petty cash withdrawals from clerks' cash drawers. District employees who need petty cash receive the cash without signing any receipt for the funds and they are expected to bring back a receipt for the items or services and any change from the amount taken from the cash drawer. This invoice becomes part of the documentation used to reconcile the cash drawer in accordance with the district's cash control policies.

According to district employees, the District Director had a practice of "borrowing" district funds by taking cash advances from the cash drawer without signing a formal record of the transactions and not providing invoices to the employees for any items purchased for the district. The District Director would reimburse the cash drawers at a later date for the amounts he "borrowed."

PEER also found two instances in which the District Director directed a clerk to prepare payout tickets from her cash drawer for alleged district expenditures. In the first instance, the District Director instructed a clerk to prepare two pay out tickets of $50 each for window washing at the office in Quitman that never occurred. These tickets were necessary to cover $100 that the Director "borrowed" from the cash drawer in November 2001, reportedly for some small district expenditures. However, the

District Director never brought an invoice and/or change back to the clerk and did not reimburse the cash drawer for the $100 in "borrowed" funds.

In the second instance, the District Director instructed a clerk to prepare two payout tickets for $25 and $20, respectively, to the Boy Scouts and $40.57 to H. C. Watkins Hospital for unspecified services in CY 2002. The Director repaid the funds to the cash drawer during the week of March 10, 2003, more than a year after the clerk gave the Director the funds from petty cash.

Lack of Segregation of Cash Receipt and Accounting Duties

As noted above, although the CNGD is not subject to state accounting controls, the district should assure that, whenever possible, separate individuals receive cash, account for money in the records, and deposit the money. Section 30.40.20 of the *MAAPP Manual* for state agencies states that:

> *Division of duties in the handling of cash is one of the most effective ways to ensure control of cash. No one individual is to have complete control in the handling of cash. Specifically, there is to be a separation of duties in the actual handling of money, recording the transactions, and reconciling bank accounts. Employees handling cash are to be assigned duties that are complementary to or checked by another employee.*
> *. . . .*
> *A person other than the cashier or receivable bookkeeper is to make the bank or treasury deposit.*

A basic component of effective internal control over cash is to segregate staff accounting duties to detect and prevent misappropriation of assets.

At the CNGD, individuals other than the receiving clerks reconcile the bank statements. However, for cash that a clerk in a CNGD office receives, the clerk is responsible for preparing daily cash reports, entering those receipts into the computer accounting records, and also depositing those amounts.

The risk in these procedures is that a clerk could receive cash over the counter without recording the receipt or depositing the funds. The CNGD does not have enough personnel to make each person responsible for only one duty in each of its three offices. In fact, when only one clerk is working in an office on a given day, complete segregation of duties could be impossible. However, by requiring its staff to "switch duties" to the extent possible for each batch of cash, the district could increase safekeeping of cash. For instance, when only one clerk is working in an office on a particular day, the next available courier could take the receipts records to a clerk in a second office to enter the receipts into the computer accounting system and check that all prenumbered receipts are accounted for. (If it is deemed unsafe to keep the cash on hand in the office without depositing it that same day, the

first clerk must prepare the daily cash report, which leaves some duties integrated.)

The risk in not segregating accounting duties is that a clerk could receive cash over the counter without recording the receipt or depositing the funds.

When two clerks are working in an office, the CNGD may totally segregate the duties. The clerk that receives the cash could pass the cash and duplicate receipts to another clerk to prepare the daily cash report and deposit the money. In preparing the daily cash report, the second clerk could check to see that all prenumbered receipts are accounted for. The records could be sent by courier to a third clerk in another office to enter the receipts into the computer accounting records.

Additional Compensation for Some Board Members

Despite the five CNGD Board members having identical responsibilities, with the exception of mayoral members signing checks on behalf of the district, the three mayoral members of the CNGD's Board of Directors received a total of $150,400 more in compensation than the two system-user elected members of the board for the period 1998 through 2002.

MISS. CODE ANN. § 77-15-1 (1972) states that local gas districts containing two or more municipalities and nonmunicipal customers shall establish a board composed of the mayors of each municipality within the district and one system-user from each county within the district. As stated on page 3, the mayors of Quitman, Shubuta, and Waynesboro and one member each elected from Clarke and Wayne counties compose the CNGD's Board.

The district pays mayoral board members from $1,000 to $1,100 per month compensation plus travel expenses, while elected system-user board members receive $50 per day for meetings attended plus travel expenses.

Section 77-15-1 states that any mayor who "devotes a substantial amount of time to the operations of a local natural gas district may receive additional compensation as approved by the board." The section states that such additional compensation shall be no more than $1,250 per month. As allowed by Section 77-15-1, the CNGD's Board of Directors presently pays the mayor who serves as the board chairman $1,100 per month, while the other two mayoral members are authorized to receive $1,000 per month. The three mayors are paid their additional compensation whether they attend any meetings, sign any checks, or answer any customer questions.

All CNGD board members also receive travel reimbursement as provided by state law for official business travel other than attendance at monthly board meetings. In compliance with § 77-15-1, elected system-users who serve on the board receive $50 per day for meetings attended.

The district's mayoral board members receive a substantial amount of additional compensation each month for performing only one duty additional to those of the system-user members.

Section 77-15-1 does not differentiate between the responsibilities of the mayoral board members and system-user board members--i.e., all five members have identical responsibilities according to state law. However, because mayoral board members receive significantly more compensation than the system-user board members, the CNGD authorized in its minutes a policy whereby mayoral board members sign district payroll and payable checks. Thus the mayors receive a substantial amount of additional compensation each month for performing only one duty additional to those of the system-user members. From August 2002 through July 2, 2003, the mayoral board members signed a total of 1,543 checks, or an average of 129 checks per month. As illustrated in Exhibit 4, page 25, the mayoral members of the CNGD's Board of Directors received $150,440 more in compensation than the system-user members from 1998 through 2002. This is money that the district could have used for other purposes. By eliminating this unnecessary expense, the board could possibly reduce its monthly bills to customers.

Although state law provides authority for the mayors to receive additional compensation, this authority is permissive and does not require such.

While PEER acknowledges that state law provides authority for the mayors to receive additional compensation, this authority is permissive. Nothing precludes the mayors from receiving only a monthly per diem and travel expenses, especially in light of the district's rising administrative expenses.

Gas Appliance Sales and Service Program

Until October 2002, the CNGD sold gas appliances to customers without direct or implicit statutory authority to do so. In making these sales, the district did not establish adequate financial management controls, allowing some customers to receive appliances without paying for them. The district also exercised little control over its appliance inventory, which resulted in at least fifty-three items of inventory, valued at approximately $6,329, missing as of March 14, 2003.

From early in its history until October 2002, the CNGD sold natural and propane gas appliances through its district offices without statutory authority. The board had implemented this policy in order to promote the use of natural gas in the CNGD's service area and to generate additional revenues through the sales to individuals residing in and outside its service area.

The board discontinued the sales and service of appliances in October 2002; the district still lacks authority for such sales.

The board discontinued the sales and service of appliances in October 2002. Reportedly, the catalyst for the board's decision was an official position taken by the State Auditor that the district did not have statutory authority to sell appliances. Because no legislator introduced local and private legislation during the 2003 legislative session to provide the district with authority to sell appliances, the district still lacks authority for such sales.

While the gas appliance sales were ongoing, the CNGD did not properly manage the sales. In addition to the lack of statutory authority, specific problems included inadequate financial management practices and lax inventory controls.

Exhibit 4: CYs 1998-02 Board of Director Compensation and Additional Cost for Mayors' Signing District Checks

Calendar Year	Town Mayors (See Note 1)	County Members	Total Board Compensation	Cost for Mayors' Check Signings (See Note 2) Percentage of Total Board Compensation
1998	$30,000	$1,400	$31,400	$28,600 91%
1999	30,000	1,400	31,400	28,600 91%
2000	30,000	1,300	31,300	28,700 92%
2001	32,400	1,500	33,900	30,900 91%
2002	34,800	1,200	36,000	33,600 93%
Total	$157,200	$6,800	$164,000	$150,400 92%

SOURCE: CNGD Board of Directors' meeting minutes.

Note 1: The 1998 figures include the compensation for a deceased mayor (ten months), a mayor pro tem (two months), and the elected replacement mayor (one month).

Note 2: The additional cost for check signing is the difference between the compensation of the mayors and the elected county representatives.

Lack of Statutory Authority

Although Chapter 317, Laws of 1934, did not include direct or implicit authority for the district to do so, the CNGD sold gas appliances to customers on a cash and credit basis until it ceased the practice in October 2002.

The State Auditor reviewed the district's practice of selling appliances and concluded that the district had no authority to do so.

As stated on page 3, Chapter 317, *Laws of 1934*, serves as the foundational authority for the CNGD's operations. Careful reading of the general law shows that the Legislature did not grant authority, expressly or by implication, to the CNGD to sell gas appliances. During an investigation of the district's operations in FY 2002, the State Auditor reviewed the district's practice of selling appliances and concluded that the district had no authority to do so.

Inadequate Financial Management Practices

Because the CNGD's Board of Directors did not establish financial management controls for the district's gas appliance sales and service program, the district provided at least six customers with items for which the customers did not provide payment.

From 1995 through 2003, PEER reviewed a sample of eighty-three cash and credit transactions, representing a total of 143 appliances, components, and/or related accessories with a retail value of $36,324. The district sold these items to board members, the district's attorney, district employees, district customers, and family members of district employees.

PEER's review of these transactions identified the following deficiencies:

- *no policies established in minutes*--The CNGD's Board of Directors did not establish sales and service policies or procedures in its minutes to govern appliance sales.

- *no written sales agreements*--The CNGD did not utilize written customer sales agreements for credit sales that established the legal obligation of the customer to pay the CNGD for the purchase.

- *no credit billing cycle*--The CNGD did not establish a customer payment billing cycle for credit sales that would ensure timely payment of the debt owed to the district. (PEER identified transactions for which three customers, including a mayoral board member, still owe the district $544 in outstanding payments).

- *no delivery or installation charges*--The CNGD did not charge for delivery and appliance installation to recoup the district's labor and travel expenses. Also, the district did not consistently charge for materials used to install appliances.

- *no timely deposit of credit payments*--The CNGD's clerical staff did not deposit customer credit payments in the bank on a daily basis. The district kept such payments in the safe of the collecting office until the customers paid off their debt to the CNGD. This practice deprived the district of interest on the funds and presented an opportunity of theft of a greater amount of funds.

Although the board adopted a cash-only policy relative to the sale of appliances at its November 1996 meeting, the district made at least fifty-one credit sales after that time.

At the recommendation of the board's attorney, during its November 1996 meeting, the CNGD's Board of Directors adopted a cash-only policy relative to the sale of appliances and related items. Despite the board's policy, PEER identified at least forty-three credit sales that occurred after November 1996. The district made twelve of the unauthorized credit sales to current or former board members and attorneys. In fact, according to the minutes, on the day of the November 1996 board meeting, the board attorney, who had recommended that the board discontinue credit sales, purchased a gas appliance on credit.

Because the CNGD allowed some customers to keep appliances without paying for them, the district reduced the amount of funds available for other district purposes.

PEER also identified seven instances in which the six customers involved did not make any payments for items received from the district. Exhibit 5, page 28, shows a $2,889 retail value for these items. The effect of this practice is that the district reduced the amount of funds available for other district purposes. The practice also presents a fairness issue for customers, because selected customers received gas appliances and other components at no cost or reduced cost.

Exhibit 5: CYs 1995 through 2003 Items Delivered to Individual Customers Without a Record of Customer Payment to the CNGD

Customer Number	CNGD Customer Charge Ticket	Number of Items	Retail Cost	Appliance Item
1	June 1, 1995	1	$332	Ducane 1204 Gas Grill
	March 6, 1996	1	107	Corner Mantle
2	August 21, 2000	1	508	Aqua Star Tankless Hot Water Heater
3	November 27, 2000	1	320	DLX 24/28 PT Fireplace
		1	128	Set of Aged Split Logs
4	January 23, 2001	1	417	Empire SR30T Heater with 24" 3/8 Flex Line
5	April 20, 2001	1	484	D133NTAS Fireplace
		1	158	Jade Trim Kit
6	January 30, 2003	1	435	Hot Tot Heater
	Total	**9**	**$2,889**	

SOURCE: CNGD records.

Lack of Inventory Control over Appliances

Because the CNGD did not establish accountability policies regarding its gas appliance inventory, the district's inventory records are unreliable, with at least fifty-three items of inventory valued at approximately $6,329 missing as of March 14, 2003.

From fiscal years 1998 through 2002, the CNGD wrote off $9,513 in appliance inventory losses.

On February 26, 2003, PEER conducted an unannounced count of the CNGD's appliance inventory. According to the district's inventory records on that date, the district should have had 770 items on hand with a book value of $63,019. PEER selected 475 items (62% of the on-hand inventory) to locate by physical count.

After receiving assistance from district employees with the physical count and reconciling purchase documents with

inventory records, PEER determined that fifty-three items with a book value of $6,329 could not be located. Apparently, the district's inventory control problems have existed for some time. For example, the district "wrote off" $9,513 in appliance inventory losses through auditor-directed adjusting entries as part of the district's annual financial audits for fiscal years 1998 through 2002.

PEER identified approximately $2,580 worth of appliance inventory that was never recorded in the CNGD's official records.

PEER's physical count of the CNGD's on-hand inventory also identified nineteen appliance items with a book value of approximately $2,580 that were not ever recorded at all in the official inventory records. These items were vulnerable to theft and loss because they did not officially exist in the inventory records.

PEER concluded that the district's inventory records were unreliable due to the following deficiencies:

- The CNGD's Board of Directors did not establish policies and procedures regarding accounting and control of appliance inventory.
- The firm's auditor did not consistently conduct a physical count of the inventory during the district's annual financial audit.
- The CNGD does not utilize a standard inventory numbering system for appliance items.
- The CNGD does not have a standard inventory storage plan for the three district offices.

These problems create a management environment in which controlling inventory and maintaining records accurately is difficult at best. However, although the CNGD's Board and District Director were aware of these problems and their impact, they have not taken action to make corrections.

Because the district had to pay for the appliances when purchasing them for resale, the effect of losing these items is that it reduces the amount of funds available for other district purposes.

These inventory management problems have resulted in loss of appliance inventory that represents financial loss for the district because it could not recover its appliance cost and profit mark-up. Thus the district lost dollars that it could have used for other purposes, such as financing construction projects or unforeseen expenses. Further, the CNGD has on hand appliance items not being accounted for, thus establishing an environment for potential loss without detection.

Controls over Employee Travel

The CNGD's Board of Directors has established adequate controls for the approval of and reimbursement of employee travel.

The board has established adequate controls for the approval of and reimbursement of travel by district employees. The components of this system include:

- pre-approval of all trips to conferences, seminars, and organizational meetings, including board meetings involving the District Director;

- pre-approval of employees' use of a private vehicle for district business (e.g., the trips of the Administrative Secretary/Comptroller to the other two offices);

- a set per diem rate for meals and standard travel mileage for private vehicles;

- payment of travel, lodging, and other legitimate business expenses; and,

- travel expense claim forms with attached receipts that are audited prior to reimbursement.

After reviewing the board minutes and the travel claims of the District Director and other employees, PEER determined that the CNGD has implemented the above-mentioned controls. For example, PEER found instances, such as movie rentals, cash advances on the District Director's credit card, and golf green fees, in which the district administrative staff had disallowed reimbursement of expenses that were not consistent with the board's policies.

Compliance With State Laws

The CNGD's Board of Directors and district staff have not complied with applicable state laws regarding distribution of revenues, purchasing, ethics, and public trust.

Distribution of the CNGD's Operational Revenues

Without statutory authority, since July 1, 1986, the CNGD's Board of Directors has distributed $3,663,192 of its monthly operational revenues to Quitman, Shubuta, and Waynesboro.

During its March 11, 1969, meeting, the CNGD's Board of Directors established a policy of distributing a percentage of the district's monthly gross revenues to the municipalities of Quitman, Shubuta, and Waynesboro. The resolution establishing the policy stated the board's belief that there would be ample funds to operate the system, expand and make repairs to the system, and make reasonable distribution of funds to the three municipalities. The board's policy stated that the revenues would be distributed to the three municipalities on the basis of 10% of the monthly gross revenues generated by each of the municipalities. In 1979, the board passed a resolution to reduce the distribution percentage from 10% to 6% of each municipality's gross revenues. Effective July 1, 2002, the CNGD began basing the monthly distributions to the municipalities on 6% of the net monthly revenues generated by each municipality. From July 1, 1986, through April 30, 2003, the CNGD distributed a total of $3,663,192 to the three municipalities, with each municipality receiving the following amounts: Quitman, $1,572,527; Shubuta, $508,469; and Waynesboro, $1,582,196.

While several provisions of law enacted since 1934 confer authority to municipal utilities to transfer excess balances to the general fund of a municipality, these enactments were not sections of or amendments to Chapter 317, *Laws of 1934*, which specifically grants authority to the CNGD.

As noted on page 3, the Legislature specifically granted to the CNGD all authority granted to a municipal utility by Chapter 317, *Laws of 1934*. While several provisions of law enacted since 1934 confer authority to municipal utilities to transfer excess balances to the general fund of a municipality, these enactments were not sections of or amendments to Chapter 317, *Laws of 1934*. Consequently, the CNGD lacks the statutory authority to make transfers to the three municipalities of Quitman, Shubuta, and Waynesboro.

Not only are the distributions not authorized by law, they also have a harmful effect on the customers of the district and on the long-term cash position of the CNGD. The effect is that the district uses utility payments as a tax upon city and county users to support municipal government and to weaken the cash position of the district unnecessarily. The district's revenue distribution policy raises the issue of fairness—who pays and who derives benefits. For example, at least 903 municipal residents have all-electric houses or purchase their fuel from suppliers other than the CNGD, such as propane companies, but receive city

services funded in part from the CNGD's distributions. Conversely, at least 885 county residents who are customers of the CNGD do not receive any municipal services because they reside outside of city limits, even though their payments generated revenues, some of which were distributed to the municipalities. (Some county residents residing within approximately five miles of municipal limits may receive fire protection services from the cities through mutual aid agreements between the cities and counties or through their homeowner's insurance policy coverage.)

By making these revenue distributions to the municipalities, the district is in effect using utility payments as a tax upon city and county users to support municipal government and to weaken the cash position of the district unnecessarily.

As illustrated on page 11, financial trends show that the CNGD's cash position is deteriorating. Other trends show that gas prices are rising and that the district will incur additional operating expenses in future years, such as utility relocation expenses. All such trends point to a need for adequate cash flow and reserves to operate the district. The district's policy of distributing a percentage of its operating revenues to the three municipalities affects the availability of cash for ongoing operations.

In its 1988 report entitled *A Review of the Chickasawhay Natural Gas District*, the PEER Committee noted the district's policy of distributing operational revenues to the three municipalities and noted that average monthly bills of district customers were higher than necessary because of the distributions. In its response to the 1988 report, the CNGD's Board of Directors defended the distribution policy and stated that municipal operated gas and/or electric systems traditionally subsidize other general fund needs. As it did in 1988, PEER disagrees with this logic and comparison to other systems, since the Legislature created the CNGD as a political subdivision of the state, rather than a gas system owned wholly by one municipality.

Purchasing Laws and Regulations

For twenty-nine of the thirty-nine purchase transactions reviewed by PEER, the CNGD complied with applicable state purchasing laws. However, PEER determined that ten transactions do not comply with state purchasing laws due to the board's failure to verify prices paid for vehicles, to develop specifications for a construction project, and to competitively bid a construction project. Also, the district has obtained credit cards for employees without statutory authority.

State purchasing laws, primarily MISS. CODE ANN. § 3I-7-13 and 3I-7-18 (1972), are applicable to governing authorities, including political subdivisions such as the CNGD. These laws establish requirements for the purchase of commodities, construction contracts, services, and vehicles. The laws' purpose is to ensure the purchase of items or services at the lowest possible cost available in an open, fair, competitive marketplace that meets the needs of the purchasing entity.

To determine the CNGD's compliance with applicable state purchasing laws, PEER reviewed thirty-nine selected purchase transactions for the period FY 1996 through FY 2003. These

transactions involved the purchase of vehicles, equipment, construction and engineering services, and commodities. With the exception of ten transactions, the CNGD's purchases reviewed by PEER complied with state purchasing laws. The following sections discuss these ten transactions, as well as the use of district credit cards without statutory authority.

Purchase of Three Pick-up Trucks

The CNGD's Board of Directors did not document that it verified that the bid prices for three trucks purchased by the district were no more than three percent higher than the dealer's invoice cost. This verification is a step required by MISS. CODE ANN. § 31-7-18.

During FY 1999 and FY 2000, the CNGD purchased three F-250 Ford pick-up trucks from a Wayne County Ford dealer for a total of $61,075. The district solicited competitive bids because these heavy-duty trucks were not on the Department of Finance and Administration's state vehicle contract.

The district adhered to state purchasing laws by developing specifications, advertising its desire to purchase the trucks, and opening the bids as stated in the bid advertisement. However, the board did not document that it had complied with MISS. CODE ANN. § 3I-7-18, which required the district to ensure that the purchase price did not "exceed a sum equal to three percent (3%) greater than the price or cost which the dealer pays the manufacturer, as evidenced by the factory invoice for the motor vehicle." The CNGD's records for these purchases do not contain copies of the dealer's invoices to document that the prices paid by the district were only three percent higher than the invoice cost.

Service Agreement for District-Wide Communications

Because the CNGD's Board of Directors did not develop exact specifications for a communication system and did not approve purchase of the system before the District Director signed a service agreement, the district has not complied with MISS. CODE ANN. § 31-7-13 (b).

MISS. CODE ANN. § 31-7-13 (b) states that purchases that involve an expenditure of more than $1,500 but less than $10,000 may be made from the lowest and best bidder without publishing or posting advertisement for bids, provided at least two competitive written bids have been obtained. The section also states that the governing authority may authorize its purchasing agent or designee to accept the lowest and best competitive written bid. The section further states that such authorization shall be made in writing and be maintained on file in the primary office of the agency and recorded in the official minutes of the governing authority.

During its January 1998 meeting, the CNGD's Board of Directors instructed the District Director to investigate the feasibility of

upgrading the district's communication system. In response to the board's instructions, the District Director developed written specifications for the system, citing generic communication requirements of the system such as truck-to-truck, office-to-office, private mode, full district coverage, and telephone capability.

According to the board's February 1998 meeting minutes, the CNGD received two proposals in response to its written specifications for a new communications system. A Motorola vendor submitted a proposal and offered two-way radio equipment and related accessories at a cost of approximately $19,000. According to the board's minutes, another vendor offered a proposal for digital equipment with monthly airtime rental. The board did not take action on either bid during its February meeting, but instructed the District Director to research the feasibility of purchasing a communication system at a lower cost.

The board did not discuss the purchase of a communications system again until its July 1998 meeting, during which it took no official action on such purchase. During its August 1998 meeting, the board approved the purchase of hardware for a digital communication system costing approximately $4,600 from Southern LINC. (The transaction with Southern LINC also included airtime rental of $217 per month.)

The District Director developed inadequate specifications for a communication system that allowed variance of more than $14,000 between the two bids submitted. Also, the District Director completed the purchase transaction without the board's authority.

PEER has two concerns with the district's purchase of a communication system. At the outset, the District Director developed specifications containing only generic requirements for a communication system. As a result, the only two vendors submitting proposals did so on two different types of systems with a cost variance of more than $14,000. Specifications should be designed to communicate to potential vendors the exact requirements of a purchase so that the vendor can submit a valid proposal based on an identified need rather than speculation. Also, a well-developed set of specifications provides the purchaser with evaluation criteria to determine the responsiveness of each proposal.

As well as using a set of inadequate specifications, the District Director completed the purchase transaction without the board's authority. According to the district's records, the District Director signed two customer service agreements with Southern LINC (one for communications equipment and one for related accessories) on July 16, 1998. The District Director also signed a customer agreement addendum for one month of free access fees as a new company customer on the same date. The airtime agreement covered three years and was renewed in 2001. The board's minutes contain no record that the board granted approval to the director to complete the purchase transaction prior to its August 1998 meeting.

The District Director's actions could have created the appearance of impropriety to some district personnel and customers, since his brother signed the bid proposal and customer service agreements for the communications vendor.

The District Director's actions usurped the legal authority of the board as described in MISS. CODE ANN. § 31-7-13. This section states that individuals who willfully and knowingly violate Chapter 7, Title 31 (the state's purchasing laws) shall be guilty of a misdemeanor, and be fined not less than $100 and not more than $500 for each offense, or sentenced for up to six months in the county jail or both and shall be removed from office or position.

The District Director's actions in completing the purchase transaction for a communication system prior to the board's approval also could have created the appearance of impropriety to some district personnel and customers, since his brother signed the bid proposal and customer service agreements for Southern LINC. This action is contrary to MISS. CODE ANN. Section 25-4-101 (1972), which states:

> *Therefore, public servants shall endeavor to pursue a course of conduct which will not raise suspicion among the public that they are likely to be engaged in acts that are in violation of this trust and which will not reflect unfavorably upon the state and local governments.*

Construction Bidding Process for New Waynesboro Office

Although the district complied with bid laws for the exterior construction of a new office building in Waynesboro, the CNGD did not solicit competitive bids for the interior construction of the building and made two separate payments to a contractor for a job that should have been competitively bid and paid as one project.

MISS. CODE ANN. § 31-7-13 states that purchases (including public construction projects) involving an expenditure of more than $10,000 (the limit in force and effect at the time the services were provided to the CNGD) shall be made from the lowest and best bidder after advertising for competitive sealed bids.

In June 2000, the CNGD's Board decided to move its office building in Waynesboro to a new facility. The board authorized the purchase of property (and the removal of a residence on the property) for $33,800. On September 6, 2000, the board engaged Cooke and Coggin, a state-licensed engineering firm, to plan and oversee the construction of the Waynesboro office. In October 2000, the board awarded a construction contract to Terrymark Construction Company to construct the exterior of the facility consisting of a pre-fabricated building with a concrete floor, most plumbing, and brick exterior. The district completed the construction project in June 2001 and expended $92,512 for both the engineering and construction work. Based on the district's records for these contracts, PEER concludes that the district adhered to applicable state purchasing laws for the exterior construction of the Waynesboro office.

The District Director did not prepare written specifications for interior construction work in order to obtain competitive price proposals. He also accepted a written bid for air conditioning and heating equipment before issuing the written bid solicitation.

The district's contract with Terrymark Construction Company did not include the air conditioning and heating equipment, parking lot, and completed interior work. This work was to be performed and paid for separately. In an effort to limit additional expenses associated with the construction of the Waynesboro office, the district authorized the District Director to perform any contracting and purchasing duties with multiple bidders as well as supervise the work necessary to complete the interior of the facility, which included carpentry, drop ceilings, electrical, flooring, insulation, kitchen, lighting, painting, minor plumbing, walls, and wiring.

The District Director did not adhere to state purchasing laws for the remaining construction transactions associated with the Waynesboro office. For example, he did not prepare definitive written bid specifications for the interior construction in order to obtain competitive price proposals from prospective contractors. The District Director accepted a written bid for air conditioning and heating equipment before issuing the written bid solicitation containing the specifications for the equipment. He also did not establish bid award dates for the equipment, commodity, or construction services needed to complete the Waynesboro office.

The District Director's failure to develop formal specifications and solicit competitive sealed bids might have excluded individuals or construction companies from submitting price proposals that could have been lower than the amount paid for the portion of the work done on the interior of the Waynesboro office.

In addition to his failure to develop formal specifications, the District Director made two separate payments to a contractor, an apparent violation of state purchasing laws. The CNGD issued two checks, sequentially numbered as 015146 and 015147 and both dated August 1, 2001, to a contractor for $9,900 and $5,412, respectively. One check was issued in the contractor's first and last name while the other check was issued in the contractor's initials and last name. The District Director contends that the two checks represented payments for different services. He states that the first voucher was payment for the labor to build or install the walls, sheet rock, kitchen cabinets, work counter, windows, and doors and the second voucher was payment for the labor to build or install the drop ceilings with clips, plumbing, and light fixtures. Despite the District Director's contention, PEER takes the position that the work for which the contractor was paid a total of $15,312, amounts to one construction project involving a portion of the work done on the interior of the Waynesboro office.

As noted above, state law requires that purchases (including public construction projects) involving an expenditure of more than $10,000 be made from the lowest and best bidder after advertising for competitive sealed bids. Given the total amount paid to one contractor for the interior work, the district should have complied with state law by soliciting competitive bids. The District Director's failure to develop formal specifications and solicit competitive sealed bids might have excluded individuals or construction companies from submitting price proposals that could have been lower than the $15,312 paid for the portion of the work done on the interior of the Waynesboro office.

Use of District Credit Cards

Without specific statutory authority, the CNGD's Board of Directors obtained two credit cards for use by the District Director and Administrative Secretary/Comptroller.

MISS. CODE ANN. Section 31-7-9 (1)(b) authorizes the Department of Finance and Administration's Office of Purchasing and Travel to adopt purchasing regulations governing the use of credit cards, procurement cards, and purchasing club membership cards to be used by state agencies and governing authorities of counties and municipalities.

During its April 2001 meeting, the CNGD's Board of Directors authorized the application for two VISA credit cards to be used by the District Director and Administrative Secretary/Comptroller. The board authorized use of the credit cards to eliminate the District Director's need to charge district expenses to his personal credit card. The board also believed that credit cards issued in the district's name would provide a centralized and convenient accounting of district expenses, primarily travel expenses of board members and district staff.

Because the CNGD is neither a state agency nor the governing authority of a county or municipality, the district has no statutory authority to obtain and use credit cards.

As noted above, CODE Section 31-7-9 (1)(b) authorizes the use of credit cards, procurement cards and purchasing club membership cards by state agencies and governing authorities of counties and municipalities. However, the CNGD is not a state agency or governing authority of a county or municipality. By statute, it was created as a political subdivision of the state. Since political subdivisions are not referred to in Section 31-7-9 (1) (b), the CNGD has no statutory authority to obtain and use credit cards for its expenses.

State Ethics Laws

The Mayor of Waynesboro, a member of the CNGD's Board of Directors, did not file annual Statement of Economic Interest reports for calendar years 1999, 2002, and 2003, which is required by MISS. CODE ANN. § 25-4-25 (a).

MISS. CODE ANN. § 25-4-25 (a) requires any person elected by popular vote (except for U.S. Senators and Representatives) to file annual Statement of Economic Interest reports with the Mississippi Ethics Commission by May 1 of each year. The economic interest report is primarily a description of the businesses or corporations in which the individual (and his/her spouse) has an interest, as well as the sources of gross income for the individual and his/her spouse.

Without the Mayor of Waynesboro's formal declaration of his sources of income, the CNGD's customers do not have assurances that businesses or corporations in which he has a financial interest have not influenced his decisions as a board member of the CNGD.

According to records of the Mississippi Ethics Commission, the mayors of Quitman and Shubuta filed Statement of Economic Interest reports annually for calendar years 1998 through 2003. Commission records indicate that the Mayor of Waynesboro failed to file economic interest reports for calendar years 1999, 2002, and 2003, three of the six years covered in PEER's review. The mayor told PEER that his failure to file the required reports was an oversight on his part. Based on an interpretation of state ethics statutes by the Mississippi Ethics Commission, the two county-elected members of the CNGD's Board of Directors are not required to file annual Statement of Economic Interest reports.

MISS. CODE ANN. § 25-4-31 (3) states that any person who knowingly fails to file a Statement of Economic Interest report shall be guilty of a misdemeanor and, upon conviction, shall be punished by a fine of not more than $5,000. Without the Mayor of Waynesboro's formal declaration of his sources of income, the CNGD's customers do not have assurances that businesses or corporations in which he has a financial interest have not influenced his decisions as a board member of the CNGD.

In its 1988 report entitled *A Review of the Chickasawhay Natural Gas District*, the PEER Committee noted that the three mayors serving on the board at that time had not consistently filed Statement of Economic Interest reports with the Mississippi Ethics Commission. In its response to the 1988 PEER report, the CNGD stated that steps had been taken to correct this mistake with the Ethics Commission. Apparently the district's corrective measures were not sufficient, since at least one mayor who serves on the CNGD still does not consistently file the required annual reports with the Mississippi Ethics Commission.

Appearance of Improper Business Relationship

The CNGD's District Director created the appearance of impropriety through his relationship with a contractor who was working for the gas district. MISS. CODE ANN. § 25-4-101 (1972) strongly advises against behavior of a public servant that creates the appearance of impropriety.

MISS. CODE ANN. Section 25-4-101 (1972) establishes public policy regarding conduct of public officials and public trust, as described below.

> *The Legislature declares that elective and public office and employment is a public trust and any effort to realize personal gain through official conduct, other than as provided by law, or as a natural consequence of the employment or position is a violation of that trust.* ***Therefore, public servants shall endeavor to pursue a course of conduct which will not raise suspicion among the public that they are likely to be engaged in acts that are in violation of this trust and which will***

not reflect unfavorably upon the state and local governments. *[PEER emphasis]*

The District Director borrowed heavy equipment from a district contractor. While PEER found no evidence of wrongdoing, the District Director's actions created an appearance of impropriety.

However, the CNGD's Board of Directors has not adopted a policy that prohibits business relationships between district employees and contractors of the district. During the fall of 1996, the District Director asked a contractor who was working on a district construction project if he could borrow a bulldozer and backhoe in order to improve a two-acre pond on his personal property. Apparently the District Director asked to borrow the equipment in order to avoid the costs associated with renting such equipment from a commercial company. The contractor agreed to loan him the equipment with the provisions that the director would operate the equipment, pay the operating expenses, and pay for any damage to the equipment.

While PEER found no evidence of wrongdoing on the District Director's part, his borrowing of equipment from a contractor of the district could raise suspicion among district employees and customers. One might conclude that the contractor agreed to loan the equipment to the District Director in return for consideration of future contracts. The District Director's actions clearly created an appearance of impropriety and were not acceptable public employee behavior.

Recommendations

Legislative

1. The Legislature should amend MISS. CODE ANN. § 7-7-211 to require the State Auditor to perform annual financial audits of all local natural gas districts. Further, the Legislature should repeal MISS. CODE ANN. §77-15-1 and 77-15-3 that address governance and oversight of certain natural gas districts.

2. The Legislature should amend Chapter 666, *Laws of 1950*:

   -- to remove the mayors from the CNGD Board of Directors and to replace them with a system user member elected from each municipality;

   -- to provide for two additional elected board members, one elected by gas district users residing outside of the municipalities in Clarke County and one elected by the gas district users residing outside of the municipalities in Wayne County; and,

   -- to provide for a fair annual compensation for each of the five board members.

3. The Legislature should amend MISS. CODE ANN. § 31-7-9 to allow all local natural gas districts to use commercial credit cards in accordance with the published regulations of the Department of Finance and Administration.

4. The Legislature should amend MISS. CODE ANN. § 65-1-8 to authorize the Mississippi Department of Transportation to pay system relocation expenses for any local natural gas district construction project that has to be accomplished due to the MDOT's construction or maintenance projects.

5. The Legislature should direct the Public Staff of the Public Service Commission to conduct a feasibility study of selling the CNGD's system to a private natural gas company and report the study's results to the Legislature no later than December 1, 2004. If the study determines it is more beneficial to the customer from a gas cost and service viewpoint to sell the CNGD system, a draft bill to accomplish such should be submitted with the study.

Other State Entities

6. The State Auditor should consider whether the board of directors and/or district staff should repay the CNGD for:

- missing appliance inventory items (i.e., $2,889 in items not paid for by customers and $6,329 in items unaccounted for by physical count);

- missing funds for documented sales and delivery transactions where the district has not collected the total retail cost (i.e., $544); and,

- funds related to other matters identified in the report (e.g., the District Director signing the 1998 communication services agreements before the Board of Directors approved them).

Management

7. The CNGD's Board should prepare and maintain an administrative policies and procedures manual for the use of the district staff.

   One of these policies should implement internal controls for cash, petty cash funds, and purchasing such as those required of state entities in the *Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual* of the Department of Finance and Administration. Some examples of these controls are:

   - prenumbered customer charge tickets, cash receipt books, customer service orders, meter orders, and petty cash forms;

   - segregation of clerk duties;

   - pre-audit of amounts billed to individual customers; and,

   - a standard bid quote form.

8. The CNGD's Board should revise its monthly pricing formula for residential and commercial customers to include a purchased gas adjustment factor.

9. The CNGD's Board of Directors should implement standard business practices, including annual budgets, a capital improvement plan, and a vehicle fleet management program, to manage its administrative functions and assets.

10. The CNGD should comply with Internal Revenue Service Regulation 26 CFR Section 1.61 governing reporting of personal use of vehicles.

11. The CNGD's Board should request instructions from the State Auditor as to how to legally conduct a bulk sale of its remaining gas appliance inventory. Upon receipt of the instructions, the district should conduct the sale as soon as possible in order to recoup some of its investment in the appliances.

12. The CNGD's Board should consider contracting with an individual or firm for a performance audit every three to five years.

13. The District Director should comply with all state purchasing laws, including those regarding construction projects.

Ethics

14. All members of the CNGD's Board should comply with MISS. CODE ANN. § 25-4-25 (a), which requires the filing of annual Statement of Economic Interest reports.

15. The CNGD's Board should adopt a policy that clearly describes acceptable and unacceptable practices for business relationships between the CNGD's staff and the district's vendors and contractors. This policy should also include disciplinary actions for violations up to termination, depending on the severity of a policy violation.

A REVIEW OF THE CHICKASAWHAY NATURAL GAS DISTRICT

EXECUTIVE SUMMARY

Background

Chapter 666, Laws of 1950 (Local and Private) establishes the Chickasawhay Natural Gas District, composed of the cities of Quitman, Shubuta, and Waynesboro. This act declares the district to be a valid political subdivision of the state and grants to the district all of the powers to operate a natural gas supply, transmission, and distribution system conferred upon municipalities under state law.

The Chickasawhay Natural Gas District operates outside the regular jurisdiction of both federal and state utility regulatory agencies and is therefore responsible for policing its own actions and assuring customers quality service at a reasonable price. All policies and pricing are determined by a board of directors, composed of the mayors of Quitman, Shubuta and Waynesboro.

Financial Disclosure

For calendar year 1987, the three directors received $14,200 each in fees. In addition, the district paid life and health insurance premiums averaging $3,200 for each director.

The district currently pays each director $1,250 per month in director fees. In addition to the monthly fee, each director receives $100 for every special board meeting called during the month. During calendar year 1987, current board members each received a total of $14,200 in director fees, representing twelve regular meetings, five special meetings, and a $500 Christmas bonus. In addition to the director fees, the district also pays an average of $3,200 in life and health insurance premiums for each director.

On its financial statements, the district classifies the director fees as "administrative salaries." PEER considers this as an improper categorization because the term "salaries" is routinely associated with payments made to employees of a firm or organizations. Board members are not employees of the district. By using this method of categorization, the district misrepresents to the general public payments made to its board of directors.

District's Comments: Based on an accounting classification decision of its outside accounting firm, the district contends that the directors of the district are employees of the district and that their compensation has been fairly and properly disclosed. The district concludes that board members are employees because the directors are active in the day-to-day operation of the district and spend a significant portion of their working days discharging administrative/executive decisionmaking duties and formulating and implementing policy decisions. Since board members are considered employees, the district concludes that the payment of life and health insurance premiums is consistent with the industry's treatment of employee compensation. The district stated that it would comply in the future with the PEER staff recommendation and disclose all payments to directors as "directors' compensation."

For the period FY 1981 through December 1987, the Chickasawhay Board of Directors violated Mississippi Constitution Section 96 by authorizing the payment of $72,885.14 in bonuses to individual board members, district personnel and the board's attorney.

PEER determined that the directors on the Chickasawhay board for the period reviewed had authorized and approved the payment of $72,885.14 in Christmas bonuses to themselves, employees of the district, and the board attorney. Section 96 of the state constitution specifically prohibits the payment of bonuses to public employee.

District's Comments: The district agrees that Section 96 of the Constitution prohibits the payment of bonuses to public employees, and applies to the district's employees. The district states that it has paid additional compensation to employees, the district's attorney and board members under the belief that additional compensation was authorized and not violative of Section 96, since the monies the payments represented had become part of the regular pay all employees had grown to expect. The district contends that such "additional compensation" is a part of the employees' regular rate of pay as that term is interpreted under the federal Fair Labor Standards Act. The district states

that district employees consider themselves entitled to the compensation and the district considers itself obligated to pay it.

The district has violated Internal Revenue Service Code Sections 6041 through 6050L by underreporting the amount of income paid to its directors.

According to Internal Revenue Service regulations, insurance premiums paid by the district on behalf of its directors represent indirect compensation which should have been reported to the IRS on the 1099-MISC forms. District personnel did not report the director's insurance benefits to the IRS, resulting in incorrect forms and tax returns being filed with the IRS and State Tax Commission.

District's Comments: The district states that competent accountants employed by the district have concluded that the board members are employees and it was unnecessary to report the directors' insurance benefits separately. The district further states that neither the Internal Revenue Service nor the State Tax Commission has been cheated as a result of this practice. Although this practice has been consistently followed in the past, the district's accountant will begin utilizing a W-2 form to report the payments in the future.

For the period 1980 through 1988, three of the district's six directors have failed to comply with the state's ethics laws regarding statements of economic interest.

MISS. CODE ANN. Sections 25-4-25 and 25-4-27 require elected officials to file a statement of economic interest with the state Ethics Commission. A public official is to report on the form all public bodies from which he or his spouse receives $1,000 during a calendar year. Between 1980 and 1987, three of the district's six directors for one or more calendar years failed to report director fees received from the Chickasawhay district.

District's Comments: The district agreed that this was a proper observation and further stated that steps have been taken to correct this mistake with the Ethics Commission. The district explained that Mayor Gordon's failure to list the income from the district as a separate item on the ethics form resulted from a mistaken belief that the income was part of his income as Mayor of Waynesboro since that mayor is automatically a director of the district.

Regulatory Oversight

Customer rates are higher than required because the district does not pass along its cost savings on a timely basis.

Currently, the Chickasawhay Natural Gas District purchases gas from United Gas Pipeline. According to the board of directors, the district's customer gas rates are based on the district's gas costs. For the period January 1981 through January 1988, United Gas Pipeline had twenty-four price changes which affected district operations. PEER determined that the district adjusted its customer rates in only eight of the twenty-four changes by its supplier, five of which represented increases in customer rates. The district's customer rates have not been responsive to price changes made by its supplier.

District's Comments: The district states that its prices have been responsive to the underlying price increases/decreases of the natural gas purchased from United Gas Pipeline, the district's prime supplier. The district contends that it has attempted to provide service during "roller coaster" days at the cheapest price consistent with the direction contained in the statute to operate the system and maintain a reserve. The district surveyed six other municipal gas providers and determined that Chickasawhay charges its customers less than five of the six providers. The district notes that until recently it has not had data processing help available to change bills and the task of changing thousands of bills to thousands of customers every time United Gas' price fluctuates a few pennies has been overwhelming. The district states that the cost to the district to change its bills to respond to each fluctuation in United Gas' price to the district is cost inefficient and unwarranted.

The district distributes approximately six percent of its annual gross sales to its municipalities. Thus gas customers help to defray a portion of the nonusers' city tax burden.

According to the district's records, the district distributes approximately six percent of each year's gross sales to the three cities who own the gas district. Each city's distribution is based on gross sales in that city and its surrounding community. According to PEER calculations, the board's cash distribution policy has resulted in the average monthly gas bill for the district's customers being six percent higher than necessary. According to the directors, the district

continues to make the distribution because the cities have become accustomed to receiving these funds.

District's Comments: The district makes the six percent contribution because the mayors, since 1950, have believed that the district could be operated on an economically sound basis while returning to the communities some of the revenues generated by the district. The district notes that this practice is similar to community contributions made by many private businesses. The district notes that during the thirty-eight years that the system has been in operation, the district has not received any complaints from citizens of the three communities regarding the payments.

The district's gas line replacement policy has resulted in substantial cash reserves.

The district maintains two cash accounts on its balance sheet, one representing cash on deposit and the other representing reserved cash. The district's board of directors established the cash reserve account as a method of providing for the future replacement of the gas system. Currently, the board has a goal of $2,400,000 for this reserve account. On June 30, 1987, the board had $2,123,438 in the cash reserve account. The board feels that, due to the nature of the service it provides, it should have available resources necessary to replace the majority of the gas system in case of a disaster or blowout of the system.

District's Comments: The district states that an adequate reserve must be maintained not only to replace the system but also to operate during the winter months. The district states that a cash reserve has been accumulated and maintained to a level considered proper based on the evaluation of the district's qualified, long-time expert in the field. The district reported that it will secure a second appraisal from an outside expert and decisions as to what constitutes "an adequate reserve" will be based on the results of those appraisals.

Recommendations

- The Chickasawhay Board of Directors should comply with Section 96 of the Mississippi Constitution and discontinue the practice of bonus (additional compensation) payments.

- The district should file corrected 1099 forms with the IRS and provide corrected 1099 forms to each director. In future years the district should include all life and health insurance premiums paid on behalf of directors on the 1099 forms issued.

- Each member of the Board of Directors of the Chickasawhay Natural Gas District should file an accurate statement of economic interest with the Ethics Commission.

- When creating other natural gas districts similar to the Chickasawhay Natural Gas District, the Legislature should establish a board of directors composed of both municipal/county government officials and users of the system. In addition, the Legislature should statutorily require any new district to adhere to policies of full financial and public disclosure regarding district operations.

- The PEER Executive Director should furnish the Attorney General a copy of this report upon its release.

Appendix B: The CNGD's Rate-Setting Formulas, by Customer Category

Residential and Commercial Customers – The customer bill formula for monthly natural gas consumption equals:

A fixed fee for 200 or less cubic feet (currently $8.00)
plus
A fixed dollar rate times the monthly MMBTU equivalent for 300 or more cubic feet. The CNGD uses two volume consumption categories with different dollar rates for their MMBTU equivalents:

- $8.75 per used cubic foot between 201 to 399; and,
- $8.60 per used cubic foot for 400 and above.

To determine the MMBTU equivalents, the CNGD multiplies the actual number of consumed per thousand cubic feet equivalents (MCF) by the average number of British Thermal Units per MCF. The gas supplier provides this heating value factor per MCF monthly to the CNGD, which pays for its gas on this basis.

While commercial customers must pay state sales tax on their gas bill, residential customers do not pay this tax.

Industrial gas customers choose one of the following two rate-setting methods in their contracts with the CNGD:

Interruptible Industrial Customers – The customer bill formula is the gas cost plus a fixed fee times the volume of monthly usage plus a $20.00 service charge. The fixed fee equals the supplier contract charge to these industrials in their contract with the district. The current rates for monthly volume usage are:

- $2.00 per used MMBTU between 0-9,999 MMBTUs;
- $1.25 per used MMBTU between 10,000-24,999 MMBTUs; and,
- $1.00 per used MMBTU between 25,000-150,000 MMBTUs.

Firm Industrial Cost – The customer bill formula is the actual gas cost plus a fixed fee times the volume of monthly MMBTU usage plus actual pipeline transportation cost plus $20.00 service charge. The fixed fee is the district's supplier cost to distribute the gas to the facility and does consider overhead cost relative to the volume of gas usage. The CNGD uses the same fixed fee amount and monthly volume usage categories for this category as its interruptible industrial customers.

All industrial customers pay state sales tax on their gas bill.

SOURCE: PEER analysis of CNGD information.

Appendix C: PEER Natural Gas Cost Survey Comparing CNGD Residential Customer Cost to Other Mississippi Public and Private Natural Gas Providers Using the Same Pipeline Supplier and Pricing Methodology as CNGD During January in Calendar Years 2000 Through 2003 (Ranked Highest to Lowest)

Rank Order Number	Name of Gas Utility	**Customer Gas Cost Inside City Limit** Type of Operation	**See Notes 1 and 2** Jan-00 8.10	**See Notes 1 and 2** Jan-01 12.80	**See Notes 1 and 2** Jan-02 8.40	**See Notes 1 and 2** Jan-03 7.40	Peak Month Totals 2000-03
1	**Chickasawhay**	**Local Gas District**	**$57.75**	**$183.20**	**$89.36**	**$79.75**	**$410.06**
2	Wilmut Gas Company	Private	50.28	167.45	77.49	73.19	368.41
3	Bay Springs	Municipal	48.24	127.39	64.06	54.65	294.33
4	Canton	Municipal	52.60	96.00	67.00	59.50	275.10

SOURCE: PEER Customer Survey

Note 1: PEER asked the participant to provide the customer bill cost using its normal pricing methodology for the same month and year. The volumes of natural gas usage amounts for each month are "Thousand Cubic Feet" (MCF) figures.

Note 2: The basic pricing methodology formula of the survey respondents converts the average CNGD volume of gas usage to their MMBTU equivalents (heat value/MCF) multiplied by their established MMBTU dollar rates, which may include multiple rates based on a tiered structure of customer gas usage.

Note 3: The Wilmut Gas Company customer costs include a monthly purchased gas adjustment cost factor in three of the four months to collect previously uncollected natural gas costs and to reimburse customers in one month for an overcollection of gas costs in a previous billing period. *These actions added $90.38 to the total four-month cost for residential customers.*

Note 4: While each survey operation established its own pricing formulas, each respondent used the same pricing formula for its residential and commercial customers.

Appendix D: PEER Natural Gas Cost Survey Comparing CNGD Commercial Customer Cost to Selected Other Mississippi Public and Private Natural Gas Providers Using the Same Pipeline Supplier and Pricing Methodology as CNGD During January in Calendar Years 2000 Through 2003 (Ranked Highest to Lowest)

Rank Order Number	Name of Gas Utility	**Customer Gas Cost Inside City Limit** Type of Operation	**See Notes 1 and 2** Jan-00 23.40	**See Notes 1 and 2** Jan-01 40.60	**See Notes 1 and 2** Jan-02 24.90	**See Notes 1 and 2** Jan-03 26.10	Peak Month Totals 2000-03
1	**Chickasawhay**	**Local Gas District**	**$168.22**	**$606.90**	**$271.64**	**$282.87**	**$1,329.63**
2	Wilmut Gas Company	Private	156.11	550.35	167.17	260.88	1,140.51
3	Bay Springs	Municipal	139.35	404.06	189.88	192.74	926.03
4	Canton	Municipal	145.40	309.50	191.75	200.75	847.40

SOURCE: PEER Customer Survey

Note 1: PEER asked the participant to provide the customer bill cost using its normal pricing methodology for the same month and year. The volumes of natural gas usage amounts for each month are "Thousand Cubic Feet" (MCF) figures.

Note 2: The basic pricing methodology formula of the survey respondents converts the average CNGD volume of gas usage to their MMBTU equivalents (heat value/MCF) multiplied by their established MMBTU dollar rates, which may include multiple rates based on a tiered structure of customer gas usage.

Note 3: The Wilmut Gas Company customer costs include a monthly purchased gas adjustment cost factor in three of the four months to collect previously uncollected natural gas costs and to reimburse customers in one month for an overcollection of gas costs in a previous billing period. *These actions added $299.14 to the total four-month cost for commercial customers.*

Note 4: While each survey operation established its own pricing formulas, each respondent used the same pricing formula for its residential and commercial customers.

Appendix E: Financial Ratio Comparison of the CNGD to the Natural Gas Distribution Utility Industry

Liquidity indicators	CNGD - FY 2002	CNGD - FY 2002 Adjusted *	2002 Industry Ratios (upper/middle/lower quartiles)
Current Ratio (current assets ÷ current liabilities)	7.9	3.0	1.5/1.2/0.7
Quick Ratio (cash and receivables ÷ current liabilities)	7.0	2.1	1.0/0.9/0.4
Current Assets	$1,925,501	$734,506	
Cash and Receivables	$1,694,126	$503,131	
Current Liabilities	$243,117	$243,117	

* The adjusted numbers measure the financial position that would have occurred if CNGD had not converted its non-current cash reserve into current operating cash. The current ratio remained strong after adjustment.

Debt coverage indicator	FY 2002	2002 Industry Ratios (upper/middle/lower quartiles)
Net profit + depreciation* ÷ current portion of long-term debt (or lease obligations)	19.4	12.7/4.7/1.7
Net Income	$218,654	
Depreciation	$201,065	
Current maturities of long-term capital leases	$21,619	

* In this ratio, non-cash expenses such as depreciation are added back to the net profit to better reflect the operating cash of the company. For instance, depreciation is an expense that reduces the net profit, but it does not reduce cash.

Leverage Indicator	CNGD 2002	2002 Industry Ratios (upper/middle/lower quartiles)
Debt ÷ Net Worth	0.1	1.0/2.1/3.8
Total Debt (current and non-current liabilities)	$475,741	
Total Net Worth	$7,579,146	

Cash Indicator	CNGD 2002	2002 Industry Ratios (based on average balance sheet of surveyed companies)
Cash ÷ Debt	2.6	0.12 - 0.34 *
Cash and Equivalents	$1,260,515	$336,888
"Other" Non-current Assets**	N/A	$606,398
Total Debt and Liabilities	$475,741	$2,796,170

* 0.12 represents the average current cash divided by average total liabilities. 0.34 represents the average current cash plus "other" non-current assets, divided by average total liabilities. The industry ratios do not detail the amount of cash reserves included in "other" non-current assets (if any). 0.34 is shown as the highest possible cash position of the average company--it assumes that average "other" non-current assets of surveyed companies consist totally of cash reserves.

** "Other" non-current assets consist of assets that are not current, fixed assets or intangibles (e.g., goodwill). The industry data does not indicate whether cash reserves are included in this amount.

Operating Indicator	CNGD 2002	2002 Industry Ratios (upper/middle/lower quartiles)
(Profit Before Taxes/ Net Worth) X 100	2.9	22.2/12.3/6.9
Net Profit (Profit Before Taxes)	$218,654	
Net Worth (assets minus total liabilities)	$7,579,146	

SOURCE: PEER analysis of audited FY 2002 CNGD Financial Statements and Risk Management Associates *Annual Statement Studies 2001/2002*

Appendix F: Analysis of FY 2002 Financial Statements for Chickasawhay Natural Gas District

Balance Sheet

	Assets		Liabilities and Retained Earnings
Cash and Cash Equivalents	$1,260,515	Accounts Payable	$126,218
Accounts Receivable	433,611	Gas PurchasesPayable	22,133
Stored Gas Inventory	3,098	Other Accrued Expenses	73,147
Supplies and Appliance Inventory	179,098	Notes Payable	
Prepaid Insurance	48,405	Capital Lease Obligation--	
Acccrued Interest Receivable	774	Current Portion	21,619
Current Assets	$1,925,501	**Current Liabilities**	$243,117
Meter Deposit Fund	$269,700		
Cash Reserves	0	Capital Lease Obligation	$71,304
Unemployment Fund	8,263	Meter Deposits--Payable from	
Restricted Funds	**$277,963**	Restricted Funds	161,320
Land	$117,710	**Total Liabilities**	$475,741
Buildings	533,791		
Gas System	6,975,013		
Tools and Work Equipment	414,971	Reserve for Restricted Funds	$116,642
Autos and Trucks	156,169	Unreserved	7,462,504
Office Furniture	157,871	**Total Retained Earnings**	
Accumulated Depreciation	(2,513,631)	**(Net Worth) ***	$7,579,146
Property-Plant-Equipment	$5,841,894		
Other Assets	$9,529		
Total Assets	**$8,054,887**	**Total Liabilities & Retained Earnings ***	**$8,054,887**

Note 1: The company's net worth consists totally of retained earnings.

SOURCE: PEER Analysis of CNGD audited financial statements

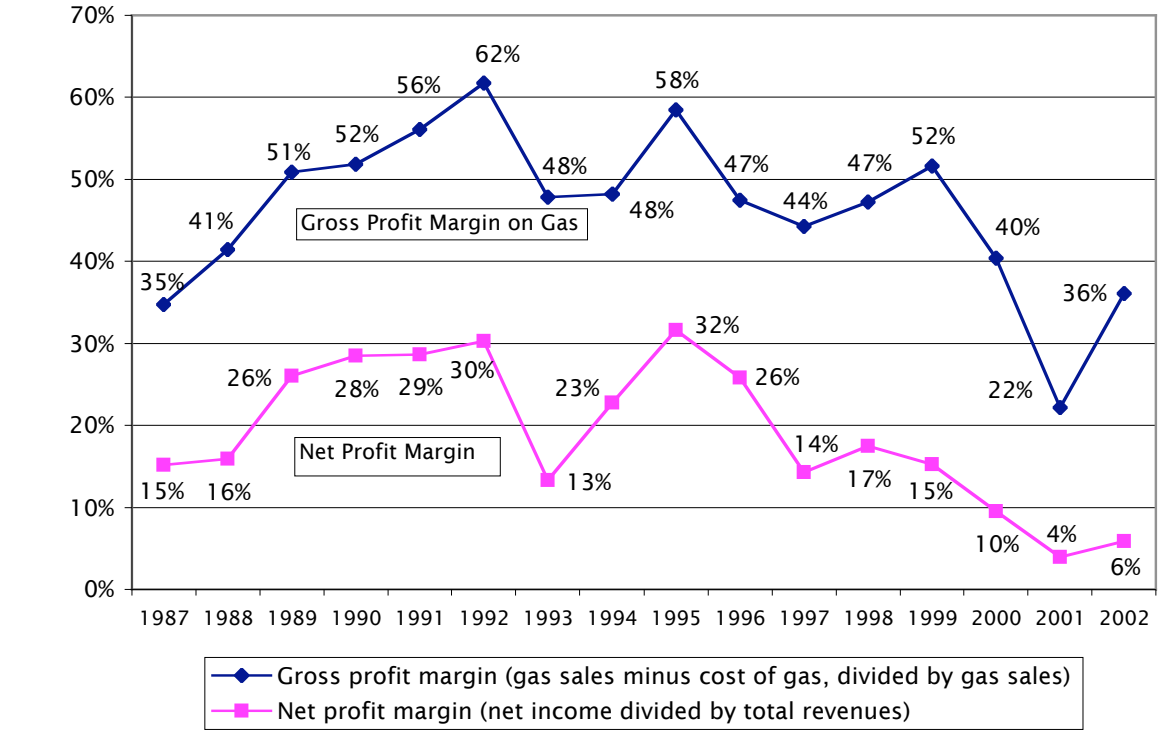
Appendix F, continued: Analysis of FY 2002 Financial Statements for Chickasawhay Natural Gas District

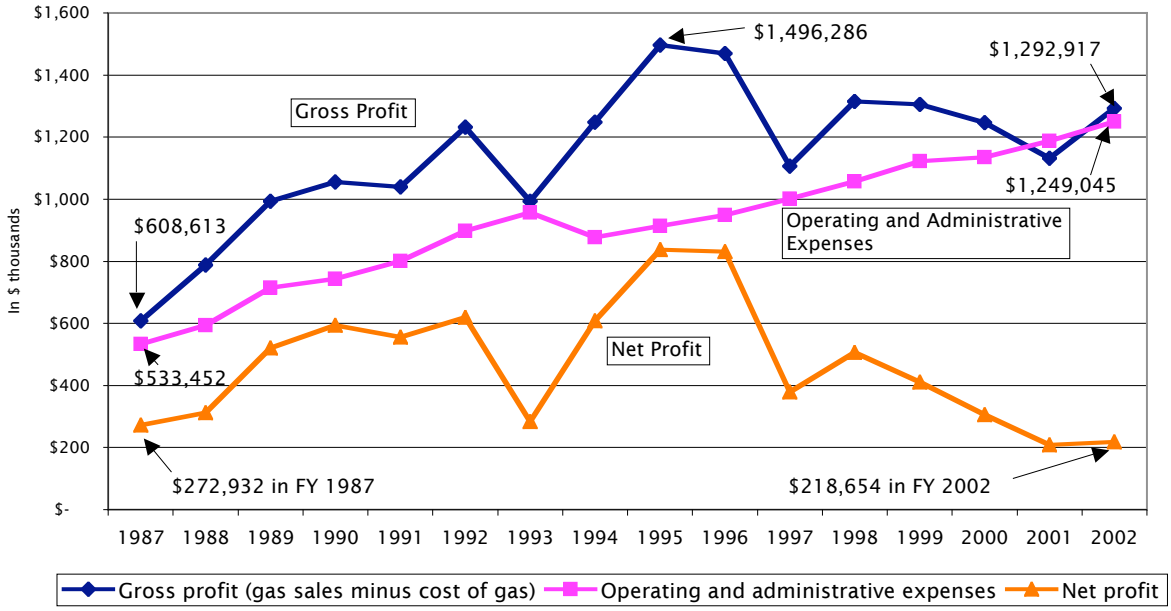
Income Statement

Quitman Gas Sales	$1,734,349
Shubuta Gas Sales	352,331
Waynesboro Gas Sales	1,496,761
Sale of Gas	$3,583,441
Cost of Gas Sales	(2,290,524)
Gross Profit from Gas Sales	$1,292,917
Sale of Appliances and Repair Orders	$54,669
Cost of Appliance Sales and Repairs	(36,055)
Gross Profit from Appliances and Repair Orders	$18,614
Connection Fees	$15,611
Forfeited Discounts	49,756
Recovery of Bad Debts	5,834
Service Line Charges	124
Internal Rental Charges	968
Total Other Operating Revenues	$72,293
Operating and Administrative Expense	($1,249,045)
Other Income from Interest	$83,875
Net Income	$218,654

SOURCE: PEER analysis of CNGD audited financial statements

Appendix G: Trends in the CNGD's Gross and Net Profit and Operating and Administrative Expenses – FY 1987 to FY 2002





SOURCE: PEER analysis of audited FYs 1987-02 CNGD Financial Statements

PEER's Addendum to the CNGD Report

As is its usual practice, the PEER Committee is including with the Committee's report the following response by the directors and management of the Chickasawhay Natural Gas District (see pages 54 through 67). After reviewing the district's response, the Committee chose to take the unusual step of attaching this clarifying addendum to the report. While CNGD's response notes that the district "appreciates the validity and usefulness of many of PEER's recommendations," the reader should also note that the district response contains references to issues no longer relevant to the final report. Specifically, the PEER Committee believes it necessary to respond to the district's allegations that the report contains factual errors and promulgates a "prejudicial stance" in its customer cost comparison.

While PEER's exit conferences with CNGD resulted in some corrections and text clarifications to the report draft, CNGD has not provided PEER with documentation indicating that any of the facts, exhibits, or appendices in the PEER report as published are in error. All statements contained in this PEER report are supported by written documentation obtained from the district's records, interviews with district staff, or other sources as noted in the Method section on page 1.

With respect to the customer cost comparison, PEER initially compared CNGD's customer gas usage cost to the customer cost charged by seventeen other gas districts operating in Mississippi for the same gas usage consumption amount. PEER used the same seventeen districts that CNGD had used in a customer natural gas rate comparison conducted by its consultant in 1996. During the first exit conference with PEER, the district noted that the seventeen-district comparison was unfair (even though the district had previously made this same comparison) because it included districts that used different gas suppliers and pricing methodologies than did CNGD.

In response to the district's concern, PEER limited its survey to the three Mississippi natural gas districts using the same supplier and pricing methodology as CNGD, though it was not necessary to do so to obtain a reasonable price comparison among districts. This comparison of actual customer costs for the same gas usage consumption amounts, like the first comparison, showed that the district's customer costs are high. Contrary to the district's allegation that PEER took a prejudicial stance in its comparisons, PEER had no preconceived notion of the outcome of either comparison of customer costs. PEER's comparison of actual customer costs, as contained in the report, is a valid and accurate comparison.

In an effort to make its customer costs look more competitive (refer to pages 64 through 67 of the CNGD response), CNGD recalculated its customer costs using a pricing methodology that the district does not use in charging its customers. The costs that the district reports in its comparison are not actual costs to its customers, but hypothetical costs based on a formula that the district does not use.

In conclusion, the PEER Committee makes every effort to ensure thorough, factually correct reports; at least in part by retaining the services of a technically proficient, unbiased staff. While reasonable people may disagree, the PEER Committee rejects any assertion that may be taken from the Chickasawhay response stating or implying unfairness, lack of proficiency, or factual errors in the production of the report as released.

Chickasawhay Natural Gas District

Serving Quitman, Shubuta, Waynesboro and Surrounding Areas

MAIN OFFICE: PO Box 268 • 178 Eucutta Street • Shubuta, Mississippi 39360 • Telephone 601 687-1544 • Fax 601 687-1291

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PEER
COMMITTEE

August 11, 2003

Dr. Max Arinder, Executive Director

Joint Legislative Committee on Performance Evaluation and Expenditure Review
3rd Floor Woolfolk State Office Building
501 North West Street
Jackson, Ms 39201

Re: Chickasawhay Natural Gas District Management Review

Dear Dr. Arinder and Members of the Committee:

In beginning, please allow CNGD to issue each of you the same invitation offered to District 86 Representative Joe Taylor in January of 2003. That invitation, as this one, was to come and visit CNGD offices to discuss whatever concerns that you may have in respect to the operations of the CNGD with the management and staff of CNGD. Furthermore, the invitation consisted, as this one, for a meeting with the directors of CNGD to discuss the same or additional concerns that you might have in respect to any issue concerning the operations and management of the CNGD. CNGD hopes that you will choose to accept this invitation instead of choosing to reject it as District 86 Representative Joe Taylor has done. CNGD issues this invitation in order to provide an avenue of truth. The kind of truth of which CNGD speaks is the kind that can only be obtained by an individual's quest through personal inquiry and personal observation. Truth, in its purest sense, is determined at the personal level and not as provided by another party.

CNGD believes it is important for you to be aware of the steps that have been undertaken in order to respond properly to the contents of the Management Review issued by PEER staff. CNGD begins by referring to its response in the form of letter dated July 21, 2003 and included as "Appendix A" in this current response. In response to CNGD's letter, "Appendix A", PEER staff chose to afford CNGD another opportunity for review and conference as referenced in PEER's letter of August 1, 2003 and included as "Appendix B" in this current response. In accordance with provisions of "Appendix B", CNGD made note of a number of factual errors contained in the Executive Summary and the Management Review itself. These errors were provided to PEER staff via fax on Friday, August 08, 2003. In conversation via phone with PEER staff on the same date, these

errors were dealt with in one of three ways. First, in some instances, PEER and CNGD were able to agree on the content as factual. In other instances, PEER was inclined to make adjustments to the satisfaction of CNGD. And finally, there were instances where elements included in the Management Review are deemed to be erroneous by CNGD.

In continuing, CNGD was told that it would need to have its' response to the Management Review in Jackson by Monday, August 11, 2003. It is the position of the CNGD that the time frames allowed for response have not been conducive to a complete response of the CNGD. The time allowed for response in conjunction with extremely limited access to the Management Review itself makes it very difficult to respond. CNGD issues this current response subject to the caveat that PEER's reports will not have changed, except as agreed to, from CNGD's last opportunity to review PEER's reports. Any error in reference in CNGD's response can be deemed to be a result of changes made by PEER after CNGD review.

In proceeding with its response, CNGD feels that it must address the tone and content of the Executive Summary and the Management Review of the CNGD. In reading the aforementioned documents CNGD, as well as a number of independent readers, has found much of the verbiage in PEER's detailed Management Review to be prejudicial, argumentative, and assailing against the directors, management, and staff of the CNGD. CNGD believes this precept to be borne out through the findings represented in "Appendix C" and "Appendix D" of the current Management Review as written by PEER staff. These appendices are titled "PEER Natural Gas Cost Survey Comparing CNGD Residential and Commercial Customer Cost to Selected Other Mississippi Public and Private Natural Gas Providers During January and Calendar Years 2000 – 2003 Ranked Highest to Lowest," respectively.

It is interesting to note that differing schedules of similar title and purpose were included in PEER's original report and are included as "Appendix C" and "Appendix D" on pages 11 and 12 of this response for your review. CNGD strongly disagreed with the calculations used by PEER staff in making these comparisons in the original report. The original report made it appear that CNGD was high in its cost to both residential and commercial users as compared to other entities. CNGD made accurate calculations using the same entities and has included the corresponding schedules as "Appendix E" and "Appendix F" in the current response of CNGD. In reviewing the contents of this schedule computed accurately, CNGD's rank is highly favorable as compared to the other entities originally chosen by PEER. One can only wonder as to why the comparisons of the same name and included in the current Management Review uses only a select group of entities with which CNGD does not compare favorably.

It should be noted that the rate comparison is but one example of the prejudicial stance promulgated throughout the text of the Executive Summary and the Management Review itself. CNGD does not feel it necessary to point out other of many similar instances as it will rely on the reader's ability to discern for themselves the content and nature of the Management Review.

In the text to follow, CNGD will address specific content of the Executive Summary of the Management Review of the Chickasawhay Natural Gas District by section as defined by PEER in its reporting format.

Introduction

In the introduction of the Executive Summary, the purpose of the review is stated as being to determine whether the CNGD Board of Directors manages and operates the district in a manner that provides gas services to its customers at a reasonable cost. CNGD contends that nowhere in the Executive Summary or in the Management Review itself is any statement made that specifically addresses the accomplishment of purpose as defined by PEER itself. CNGD believes that this determination can be made by simply glancing at the rankings as calculated and presented in "Appendix E" and "Appendix F" of this response. CNGD would like to refer to "Appendix A" of this response to validate its concerns as to the qualifications and qualifying procedures and standards PEER staff maintains and employees in field work and reporting.

Financial Viability

PEER's assertions as to CNGD rate comparisons are believed to be inaccurate. CNGD's position is based on comparison made between Appendices C, D, E, and F.

In the second paragraph under this section of the report, it appears that the report contradicts itself in the first and third sentences. The report provides that ratios are good but there are concerns as to CNGD's future financial position. These assertions are not consistent and CNGD once again points to "Exhibit A" of this response as to the qualifications of PEER staff and the qualifying procedures that may or may not have been employed by PEER staff.

District Management

In respect to the assertions of PEER, CNGD contends that a considerable level of efficiency in management has been maintained through the exercise of sound business judgement as evidenced by PEER's own assertions as to the sound financial ratios of CNGD. It should also be noted the Net Worth of the CNGD has close to doubled over the course of the past twelve years. CNGD believes that these facts represent the presence of practical, efficient, and effective management.

PEER asserts that there are several internal control issues that exist in respect to the financial operations of CNGD. CNGD acknowledges that there are improvements that can be made in this area and are presently considering such through the services of a Certified Public Accountant. CNGD would like to note that the assertions made in this regard by PEER are accurate according to textbooks. CNGD would also like to point out that the cost associated with employing textbook internal controls often outweighs the benefits garnered from their implementation. CNGD also points out that such are not required by statute.

In response to PEER's comments in the third paragraph of this section pertaining to the compensation of the Mayoral directors; "Although not required by law," CNGD provides that the compensation is set for all CNGD directors by state statute and paid in full compliance with state statute. PEER's question appears to be concerned with an allowance versus limitation issue which in CNGD's opinion is a mute point.

In the final paragraph under this section of the Executive Summary PEER asserts that some customers received appliances without paying for them. CNGD provides that efforts to collect full and accurate payment for all appliances sold have been undertaken.

Compliance With State Laws

It has and continues to be the intent of the management and staff of the CNGD to comply with all applicable state laws regarding the distribution of revenues, purchasing, ethics, and public trust. CNGD makes no claims as to being perfect in any of these regards but does claim to endeavor to conduct itself consistently within the scope of the law.

In respect to questions concerning revenue distributions, CNGD deems such to be consistent with the allowances by statute for utility franchise fees. CNGD will continue to monitor these distributions and consider any recommendation from appropriate authority in regard to this issue.

The third paragraph of this section provides that issues of non compliance with purchasing laws was noted in three instances. CNGD accepts this finding and responds to such as making an innocent mistake in carrying out the letter of the law on these three occasions. CNGD's intent to comply with all purchasing laws is evidenced through the lack of additional findings under great scrutiny and months of testing.

Paragraph four of this section addresses the Mayor of Waynesboro not filing an Annual Statement of Economic Interest for calendar years 1999, 2002, and 2003. All such statements have been filed and no conflict of interest has been noted in any area.

The final paragraph of this sections addresses an appearance of impropriety on behalf of the CNGD District Director. Inquiry and observation has provided that no actual impropriety existed. CNGD provides that it will consider action that may be undertaken to prevent such appearance in the future.

Responses To PEER's Recommendations

1. CNGD has been scrutinized by the performance of Audits by an independent auditor for the past 30 years. These reports have been filed with the Office of the State since 1989.
2. CNGD came into existence through legislation, operates according to the provisions of that legislation, governs according to the provisions of that legislation, and pays all of its directors as provided in that legislation. CNGD willfully respects the wishes of the State Of Mississippi through legislative action.
3. This recommendation is a result of PEER note of non compliance in paragraph three of the section on Compliance With State Laws of the Executive Summary. CNGD appreciates this recommendation as it would be beneficial to CNGD.
4. Legislation to this effect would be of monumental benefit to local natural gas districts. CNGD salutes PEER in this recommendation.
5. The sale of CNGD would be a viable consideration. CNGD feels that the interest of all parties concerned would be served best by allowing CNGD itself to conduct any study and negotiations for a prospective sale. CNGD understands that any such endeavor could only take place as a result of legislative action. CNGD, with legislative blessing, could conduct relative studies and have a valid proposal for sale before the legislature a full year earlier than provided in the recommendation of PEER.
6. PEER's concerns over alleged missing inventory items as described in its recommendation have been addressed, where needed, by CNGD. Request for payment for any outstanding balance has been authorized and issued by CNGD management. CNGD contends that the amounts recorded by PEER for items not accounted for are inaccurate. A Certified Public Accountant is presently engaged by CNGD to reconcile any differences and to make recommendations as to future transactions of this nature that might be undertaken by CNGD.
7. CNGD will consider this recommendation under the counsel of a Certified Public Accountant. As previously noted in this response, portions of the recommendation may not meet the cost benefit requirements of efficiency and practicality. All elements will be considered by CNGD under the aforementioned counsel.
8. CNGD is not convinced that implementing a purchased gas adjustment factor would best serve the interests of its consumers. CNGD consumers would have suffered greatly in years past with such a practice in place. CNGD will consult appropriate counsel in this area
9. CNGD will consider this recommendation within the practicality demanded through cost-benefit analysis.
10. CNGD will consult with a Certified Public Accountant concerning this recommendation. CNGD is not convinced at this time that the recommendation of PEER is consistent, for CNGD's circumstances with the provision of the Internal Revenue Code as quoted.
11. CNGD is under the impression that its organizational documents grant it this right. CNGD has planned to seek Local & Private Legislation to clarify this issue. If such legislation can not be granted, CNGD will proceed within the prescription of state statute to dispose of these items.

12. CNGD feels that cost – benefit analysis will preclude the practicality of a performance audit.
13. CNGD agrees with this recommendation, and as compliance has been a goal of CNGD in the past, so shall it be in the future.
14. CNGD agrees with this recommendation, and as noted in response, all such filings are made and no conflicts have been noted.
15. CNGD will consider the propriety, under legal counsel, of adopting any such policy and will decide based on the advice of such counsel.

In closing, CNGD has endeavored to respond in a manner consistent with the content and tone established in PEER's Executive Summary and Management Review. CNGD greatly respects the merit of this review process. Furthermore, CNGD appreciates the validity and usefulness of many of PEER's recommendations as noted in this response. Nevertheless, CNGD's contention remains in respect to the reporting processes employed by PEER and the inconsistencies allowed in the processes when compared to what is accepted and expected under the provisions of state law. The provisions of which CNGD refers are those statutes requiring Certified Public Accountants to address issues that PEER has addressed and reported on as CNGD refers, one last time, to "Appendix A" of this current response. The standards of reporting as accepted by statute, and practiced by members of the American Institute of Certified Public Accountants could have, and would have provided for a far more efficient process than what PEER and CNGD has been subject to over the course of the past six months.

Sincerely,

Marshall B. Wood
Chairman of The Board / Chickasawhay Natural Gas District

Chickasawhay Natural Gas District

Serving Quitman, Shubuta, Waynesboro and Surrounding Areas

MAIN OFFICE: PO Box 268• 178 Eucutta Street• Shubuta, Mississippi 39360• Telephone 601 687-1544• Fax 601 687-1291

July 21,2003

Dr. Max Arinder, Executive Director

Joint Legislative Committee on Performance Evaluation and Expenditure Review

3rd Floor Woolfolk State Office Building
501 North West Street
Jackson, MS 39201

Re: Chickasawhay Natural Gas District Management Review

Dear Dr. Arinder and Members of the Committee,

The Chickasawhay Natural Gas District wishes to thank you for the opportunity of response, such as it is, to your Management Review, the findings, comments and recommendations included therein. Please know that although we may strongly disagree with the performance of this review, some of the conduct of PEER Staff of the execution of this review, and some assertions by your staff and included in your report, we respect your authority, position, and service to The Great State Of Mississippi.

The Chickasawhay Natural Gas District has and continues to express strong concern as to the timing of the exit conference. Chickasawhay Natural Gas District was told that if it were to have an opporunity to review PEER's report and respond to whatever findings were included, Chickasawhay Natural Gas District would have to do so no later than Thursday, July 3, 2003.As per a letter to the Executive Director of PEER requesting for a late July date, Chickasawhay Natural Gas District felt that the timing of this conference was awkward and did not provide for Chickasawhay Natural Gas District an appropriate hearing by the due process as established by PEER staff and policy. Chickasawhay Natural Gas District position is based on the fact that Chickasawhay Natural Gas District was led to an appointment in PEER's office complex on July 3, 2003. This meeting was attended by, in part, by three representatives of PEER and in whole, by three representatives of Chickasawhay Natural Gas District. Representing PEER for the entire conference was General Counsel and a member of PEER's evaluation staff. One of PEER's Evaluation Division Managers was present for a portion of the conference. Representing the Chickasawhay Natural Gas District for the entire conference was the acting Chairman, Manager and Business Officer.

Your staff had approximately six months to review Chickasawhay Natural Gas District and to issue a report based on that review. Chickasawhay Natural Gas District was given one day to review the contents of PEER's report, discuss needed corrections with PEER staff, and discuss the findings and recommendations of PEER's staff. In the course of the time afforded Chickasawhay Natural Gas District for conference, Chickasawhay Natural Gas District representation spent more than half of their time reviewing and noting a number of factual errors that had to be addressed prior to the discussion of any findings or recommendations. Chickasawahy Natural Gas District does not feel that it was given adequate consideration in the opportunity provided for review and response, particularly in consideration of the numerous errors contained in the report. This position is born out of an attitude that Chickasawhay Natural Gas District representation was greeted with in the form of a statement during conference by one of PEER's representatives. The statement to which Chickasawhay Natural Gas District refers is a quote as follows; "all I want to do is to finish and get the Hell out of here!" This quote is on tape and can be attested to by the other PEER representatives attending this conference.

Furthermore, at the exit conference, Chickasawhay Natural Gas District was presented a copy of the Executive Summary along with the detailed report for review and reponse. As noted in the previous paragraph of this response there were a number of factual errors that all present agreed were in need of correction. To this date, Chickasawhay has not been provided any written corrections for review and response. In consideration of this fact Chickasawhay Natural Gas District can not possibly know what it is responding to in fact. Chickasawhay Natural Gas District will respond based on assumptions that it has been forced into making.

Generally speaking, in respect to PEER's report, Chickasawhay Natural Gas District is greatly concerned in it's belief that many of the assertions contained in your report may be made by personnel who are either not qualified to make such assertions in a manner which is consistent with the spirit and the intention of certain parts of Mississippi Statute or, although qualified by profession, may not claiming to make such assertions in a manner consistent with the standards of the profession or thereby, the spirit of the Mississippi State Statute.

It is on the basis as described in the preceding paragraph that Chickasawhay Natural Gas District can grant no viable credence or consideration to any assertions, findings, or recommendations pertaining to financial matters contained in this PEER report. These matters include all of PEER's assertions as to the financial viability, operation, and management of Chickasawhay Natural Gas District.

In closing, Chickasawhay Natural Gas District would like to express its appreciation for your willingness to serve the Great State of Mississippi and its people. Chickasawhay Natural Gas District knows your burdens and responsibilities are many. As stated in the opening words of this response, Chickasawhay Natural Gas District may not agree with the proceeding, findings, comments, or recommendations of your staff but does respect your position, your authority, and your willingness to try to make Mississippi better. Chickasawhay Natural Gas District looks forward to working with your committee and staff, as you may desire, for the betterment of Community, State, and Country.

Sincerely ,

The Directors and Management of The Chickasawhay Natural Gas District

Tommy Blackburn, Mayor of Quitman ,MS

_____

Clyde Brown, Mayor of Shubuta, MS

_____

Paul Duvall, Clarke County Director

_____

Joe McMichael, Wayne County Director

_____

Marshall B. Wood, Mayor of Waynesboro, MS

_____

Randy Fleming, Manager

_____

Mary Taylor Jones, Business Officer

_____

The Mississippi Legislature

Joint Committee on Performance Evaluation and Expenditure Review

PEER Committee

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Vice Chair
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Secretary
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Post Office Box 1204
Jackson, Mississippi 39215-1204

Max K. Arinder, Ph. D.
Executive Director

TELEPHONE:
(601) 359-1226

FAX:
(601) 359-1420

OFFICES:
Woolfolk Building, Suite 301-A
501 North West Street
Jackson, Mississippi 39201

August 1, 2003

Marshall Wood
P.O. Box 912
Waynesboro, MS 39367

COPY HAND DELIVERED

Dear Mr. Wood:

After reviewing the draft report that is being offered for your review on this date, it is possible that you may have questions regarding the substance of the report. The PEER staff invites you or any member of your board to come to the PEER offices in Jackson to discuss any matter in the report. Please feel free to contact James Barber, Deputy Director, at (601) 359-1226, if you wish to set a meeting date. Please contact him no later than Tuesday, August 5, 2003. Any such visit must be made no later than August 8, 2003.

Sincerely,

Max Arinder
Executive Director

PEER Natual Gas Cost Survey Comparing CNGD Residential Costs to Other State Public Gas Districts (Highest to Lowest)

Number	Name of Gas Utility	Survey Respondent	Telephone Number	Use Inside City Limit Rates			The Average Usage Per Month Figure Is MCFs.					Average Gas Bill Cost	Adjust Rates Monthly Based on Cost of Gas	Different Rate for Outside City	Type of Survey Response
				Jan-00 8.10	Aug-00 1.10	Jan-01 12.80	Aug-01 0.90	Jan-02 8.40	Aug-02 1.10	Jan-03 7.40	Apr-03 2.70				
1	Caledonia Gas District	Sam Barnette	662-356-4250	$74.62	$16.70	$165.85	$14.44	$101.75	$17.43	$93.30	$38.00	$65.26	Yes	No	E-mail Response
2	Chickasawhay Natural Gas District	Randy Fleming	601-687-1544	57.75	12.32	183.20	15.00	89.36	17.62	79.75	37.00	61.50	No	No	Fax Response
3	Northeast Mississippi Gas District	Mike Horton <mhorton@network-one.com>	662-282-4262	66.43	12.68	178.97	12.66	100.04	14.99	76.25	29.76	61.47	No - Lock-in Rates for 12 or 24 Months	No	Faxed Response
4	Batesville	Susan Berryhill	662-561-2560	64.38	9.93	150.51	9.53	81.35	59.66	76.29	27.65	59.91	Yes	No	Faxed Response
5	Holly Springs Utility Department	Don Hollingsworth	662-252-4411	79.35	16.28	118.46	14.16	81.90	16.24	73.40	32.88	54.08	No	Yes	Faxed Response
6	Pontotoc Natural Gas System	Samuel H. Jordan Terri Flaherty	662-489-9618 662-489-1722	52.65	7.15	190.46	7.94	74.09	9.70	65.27	23.81	53.88	No	No	Telephone Response
7	Iuka, MS	Benny Gray	662-423-3781	68.93	9.36	166.78	6.41	64.26	7.62	53.58	28.38	50.67	Yes	No	E-mail Response
8	Mississippi Valley Gas Company	Thomas Gilbert (Thomas.Gilbert@mvgas.com)	601-961-6872	46.53	11.39	169.15	10.54	63.11	9.62	63.30	24.51	49.77	Yes	No	E-mail Response
9	Baldwyn Municipal Gas System	Amy Hogue	662-365-8171	53.67	7.82	148.05	6.71	73.72	8.45	71.40	27.55	49.67	Yes	No	Telephone Response
10	Senatobia Municpal Gas District	R.R. Morris	662-562-8288	51.27	6.96	143.23	5.70	67.45	8.59	62.46	37.45	47.89	Yes	No	Faxed Response
11	Town of Shuqualak	Joy Marro	662-793-4675	61.75	9.35	97.00	11.12	86.00	11.12	75.88	28.32	47.57	No	No	E-mail Response
12	Center Point Energy (Formerly Entex)	Douglas Palmer (doug.palmer@centerpoint energy.com)	601-824-8055	47.98	15.87	130.08	14.61	52.90	15.50	61.84	32.43	46.40	Yes	Yes	E-mail Response
13	Booneville Municipal Gas System	Trent Johnson (Tjohnson1@Tsbroads.com)	662-728-6259	53.00	7.50	128.00	7.88	73.50	9.63	64.75	23.63	45.99	No	No	Telephone Response
14	Bay Springs Natural Gas	Tim McRee	601-764-4112	48.24	8.16	127.39	7.48	64.06	7.73	54.65	23.82	42.69	Yes	No	E-mail Response
15	New Albany Gas System	Harold Smith	662-534-1041	49.47	6.91	125.05	8.25	63.25	8.50	57.60	21.17	42.53	No (Use PGA Factor for Larger Variations)	No	Faxed Response
16	Ripley	Elizabeth Shelton (City Clerk) <ripley@dixie-net.com>	662-837-8578	48.60	6.60	116.16	6.75	63.00	8.25	55.50	20.25	40.64	No	Yes	E-mail Response
17	Corinth Gas and Water	Dennis Coleman (Bill Caldwell)	662-286-2263	46.98	6.38	125.70	6.10	54.43	7.22	55.94	22.17	40.62	Yes	No	E-mail Response
18	Walnut Municipal Gas	Cheril Voyles	662-223-4405	$52.65	$7.15	$93.70	$6.59	$61.49	$8.05	$54.17	$19.76	37.95	No	Yes	Faxed Response
		Average Residential Gas Bill Cost		$56.90	$9.92	$142.10	$9.55	$73.09	$13.66	$66.41	$27.70	$49.92	$399.32		

1	CNGD Ranked As The X Lowest Price.												Additional Eight Months CNGD Cost	% of Additional Cost	
2	CNGD Was Over (Under) The Average Price By:			$0.85	$2.40	$41.10	$5.45	$16.27	$3.96	$13.34	$9.30	$11.58	$92.68	23.2%	
3	CNGD Was Over (Under) The Center Point Energy Price By:			$9.77	($3.55)	$53.12	$0.39	$36.46	$2.12	$17.91	$4.57	$15.10	$120.79	32.5%	
4	CNGD Was Over (Under) The Mississippi Valley Gas Company Price By:			$11.22	$0.93	$14.05	$4.46	$26.25	$8.00	$16.45	$12.49	$11.73	$93.85	23.6%	

PEER Natual Gas Cost Survey Comparing CNGD Commercial Costs to Other State Public Gas Districts (Highest to Lowest)

Number	Name of Gas Utility	Survey Respondent	Telephone Number	Use Inside City Limit Rates			The Average Usage Per Month Figure Is MCFs.					Average Gas Bill Cost	Adjust Rates Monthly Based on Cost of Gas	Different Outside City Cost	
				Jan-00 23.40	Aug-00 5.50	Jan-01 40.60	Aug-01 4.70	Jan-02 24.90	Aug-02 7.60	Jan-03 26.10	Apr-03 11.60				
1	Caledonia Gas District	Sam Barnette	662-356-4250	$207.73	$62.20	$516.96	$51.87	$292.32	$92.51	$317.70	$150.13	$211.43	Yes	No	E-mail Response
2	Chickasawhay Natural Gas District	Randy Fleming	601-687-1544	168.22	63.94	606.90	57.24	271.64	90.00	282.87	147.66	208.56	No	No	Fax Response
3	Holly Springs Utility Department	Don Hollingsworth	662-252-4411	253.27	74.02	415.22	65.81	267.39	95.59	278.69	136.68	198.33	No	Yes	Faxed Request
4	Pontotoc Natural Gas System	Samuel H. Jordan Terri Flaherty	662-489-9618 662-489-1722	152.10	35.75	604.13	41.45	219.62	67.03	230.20	102.31	181.57	No	No	Telephone Response
5	Northeast Mississippi Gas District	Mike Horton (Mhorton@network-one.com)	662-534-1042	186.40	46.95	579.29	56.93	110.53	90.72	261.19	117.78	181.22	No (Use PGA Factor for Larger Variations)	No	Faxed Response
6	Iuka, MS	Don McNeely	662-423-3781	199.13	46.81	529.02	33.46	190.49	52.67	188.96	121.92	170.31	Yes	No	Faxed Request
7	Baldwyn Municipal Gas System	Mayor Robert Coggins	662-365-8361	153.88	36.64	477.48	39.20	221.07	64.67	246.20	115.30	169.31	Yes	No	Telephone Response
8	Senatobia Municpal Gas District	R.R. Morris	662-562-8288	150.70	35.42	454.31	30.27	202.44	60.12	222.89	162.05	164.78	Yes	No	Faxed Response
9	Town of Shuqualak	Joy Marro	662-793-4675	178.39	46.75	307.67	58.07	254.93	76.83	267.63	121.67	163.99	No	No	E-mail Response
10	Batesville, MS	William Wilson	662-563-4576	182.70	46.80	476.97	53.60	78.03	73.85	273.30	124.24	163.69	Yes	No	Faxed Response
11	Mississippi Valley Gas Company	Dan Oglesbee (oglesbed@mvgas.com)	601-961-6881	126.34	45.38	529.96	39.83	177.86	48.40	212.14	94.17	159.26	Yes	No	Voice Mail Request
12	Booneville Municipal Gas System	Trent Johnson (Tjohnson1@Tsbroads.com)	662-728-6259	204.75	48.13	355.25	41.13	217.88	66.50	228.38	101.50	157.94	No	No	Telephone Response
13	Center Point Energy (Formerly Entex)	Douglas Palmer (doug.palmer@centerpoint energy.com)	601-824-8055	141.51	50.51	425.56	45.01	142.33	67.83	232.76	130.10	154.45	Yes	Yes	E-mail Response
14	Bay Springs Natural Gas	Tim McRee	601-764-4112	139.35	40.80	404.06	39.04	189.88	53.40	192.74	102.35	145.20	Yes	No	E-mail Response
15	New Albany Gas System	Harold Smith	662-534-1041	142.19	33.66	396.10	37.85	194.50	57.25	202.52	89.90	144.25	No-Use PGA Factor for Larger Variations	No	Faxed Response
16	City of Ripley	Bobby Heavener	662-837-8578	140.40	33.00	368.45	35.25	186.75	57.00	195.75	87.00	137.95	No	Yes	E-mail Response
17	Corinth Gas and Water	Dennis Coleman	662-286-2263	135.72	31.90	398.69	31.87	161.35	49.86	197.32	95.24	137.74	Yes	No	E-mail Response
18	Walnut Municipal Gas	Cheril Voyles	662-223-4405	$152.10	$35.75	$297.19	$34.40	$182.24	$55.63	$191.85	$84.91	129.16	No	Yes	Faxed Response
		Average Commercial Gas Bill Cost		$167.49	$44.13	$452.40	$44.02	$197.85	$67.77	$234.57	$115.83	$165.51	$1,324.06		

1	CNGD Ranked As The X Lowest Price.											Additional Eight Months CNGD Cost	% of Additional Cost
2	CNGD Was Over (Under) The Average Price By:		$0.73	($0.19)	$154.50	$13.22	$73.79	$22.23	$48.30	$31.83	$43.05	$344.41	26.0%
3	CNGD Was Over (Under) The Center Point Energy Price By:		$26.71	($6.57)	$181.34	$12.23	$129.31	$22.17	$50.11	$17.56	$54.11	$432.86	35.0%
4	CNGD Was Over (Under) The Mississippi Valley Gas Company Price By:		$41.88	($1.44)	$76.94	$17.41	$93.78	$41.60	$70.73	$53.49	$49.30	$394.39	31.0%

CNGD Natual Gas Cost Survey Comparing CNGD Residential Costs to Other State Public Gas Districts (Highest to Lowest)

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3	Batesville	Susan Berryhill	662-561-2560	64.38	9.93	150.51	9.53	81.35	59.66	76.29	27.65	59.91	Yes	No	Faxed Response
4	Holly Springs Utility Department	Don Hollingsworth	662-252-4411	79.35	16.28	118.46	14.16	81.90	16.24	73.40	32.88	54.08	No	Yes	Faxed Response
5	Pontotoc Natural Gas System	Samuel H. Jordan Terri Flaherty	662-489-9618 662-489-1722	52.65	7.15	190.46	7.94	74.09	9.70	65.27	23.81	53.88	No	No	Telephone Response
6	Iuka, MS	Benny Gray	662-423-3781	68.93	9.36	166.78	6.41	64.26	7.62	53.58	28.38	50.67	Yes	No	E-mail Response
7	Mississippi Valley Gas Company	Thomas Gilbert (Thomas.Gilbert@mvgas.com)	601-961-6872	46.53	11.39	169.15	10.54	63.11	9.62	63.30	24.51	49.77	Yes	No	E-mail Response
8	Baldwyn Municipal Gas System	Amy Hogue	662-365-8171	53.67	7.82	148.05	6.71	73.72	8.45	71.40	27.55	49.67	Yes	No	Telephone Response
9	Chickasawhay Natural Gas District	Randy Fleming	601-687-1544	46.13	10.52	139.04	13.29	79.75	14.71	63.58	30.00	49.62	No	No	Faxed Response
10	Senatobia Municpal Gas District	R.R. Morris	662-562-8288	51.27	6.96	143.23	5.70	67.45	8.59	62.46	37.45	47.89	Yes	No	Faxed Response
11	Town of Shuqualak	Joy Marro	662-793-4675	61.75	9.35	97.00	11.12	86.00	11.12	75.88	28.32	47.57	No	No	E-mail Response
12	Center Point Energy (Formerly Entex)	Douglas Palmer (doug.palmer@centerpoint energy.com)	601-824-8055	47.98	15.87	130.08	14.61	52.90	15.50	61.84	32.43	46.40	Yes	Yes	E-mail Response
13	Booneville Municipal Gas System	Trent Johnson (Tjohnson1@Tsbroads.com)	662-728-6259	53.00	7.50	128.00	7.88	73.50	9.63	64.75	23.63	45.99	No	No	Telephone Response
14	Bay Springs Natural Gas	Tim McRee	601-764-4112	48.24	8.16	127.39	7.48	64.06	7.73	54.65	23.82	42.69	Yes	No	E-mail Response
15	New Albany Gas System	Harold Smith	662-534-1041	49.47	6.91	125.05	8.25	63.25	8.50	57.60	21.17	42.53	No (Use PGA Factor for Larger Variations)	No	Faxed Response
16	Ripley	Elizabeth Shelton (City Clerk) <ripley@dixie-net.com>	662-837-8578	48.60	6.60	116.16	6.75	63.00	8.25	55.50	20.25	40.64	No	Yes	E-mail Response
17	Corinth Gas and Water	Dennis Coleman (Bill Caldwell)	662-286-2263	46.98	6.38	125.70	6.10	54.43	7.22	55.94	22.17	40.62	Yes	No	E-mail Response
18	Walnut Municipal Gas	Cheril Voyles	662-223-4405	$52.65	$7.15	$93.70	$6.59	$61.49	$8.05	$54.17	$19.76	37.95	No	Yes	Faxed Response
		Average Residential Gas Bill Cost		$56.26	$9.82	$139.64	$9.45	$72.56	$13.50	$65.51	$27.31	$49.26	$394.05		

1	CNGD Ranked As The X Lowest Price.											Additional Eight Months CNGD Cost	% of Additional Cost	
2	CNGD Was Over (Under) The Average Price By:			($10.13)	$0.70	($0.60)	$3.84	$7.19	$1.21	($1.93)	$2.69	$0.36	$2.97	0.8%
3	CNGD Was Over (Under) The Center Point Energy Price By:			($1.85)	($5.35)	$8.96	($1.32)	$26.85	($0.79)	$1.74	($2.43)	$3.22	$25.81	7.0%
4	CNGD Was Over (Under) The Mississippi Valley Gas Company Price By:			($0.40)	($0.87)	($30.11)	$2.75	$16.64	$5.09	$0.28	$5.49	($0.15)	($1.13)	-0.3%

CNGD Natual Gas Cost Survey Comparing CNGD Commercial Costs to Other State Public Gas Districts (Highest to Lowest)

Number	Name of Gas Utility	Survey Respondent	Telephone Number	Use Inside City Limit Rates			The Average Usage Per Month Figure Is MCFs.					Average Gas Bill Cost	Adjust Rates Monthly Based on Cost of Gas	Different Outside City Cost	
				Jan-00 23.40	Aug-00 5.50	Jan-01 40.60	Aug-01 4.70	Jan-02 24.90	Aug-02 7.60	Jan-03 26.10	Apr-03 11.60				
1	Caledonia Gas District	Sam Barnette	662-356-4250	$207.73	$62.20	$516.96	$51.87	$292.32	$92.51	$317.70	$150.13	$211.43	Yes	No	E-mail Response
2	Holly Springs Utility Department	Don Hollingsworth	662-252-4411	253.27	74.02	415.22	65.81	267.39	95.59	278.69	136.68	198.33	No	Yes	Faxed Request
3	Pontotoc Natural Gas System	Samuel H. Jordan Terri Flaherty	662-489-9618 662-489-1722	152.10	35.75	604.13	41.45	219.62	67.03	230.20	102.31	181.57	No	No	Telephone Response
4	Northeast Mississippi Gas District	Mike Horton (Mhorton@network-one.com)	662-534-1042	186.40	46.95	579.29	56.93	110.53	90.72	261.19	117.78	181.22	No (Use PGA Factor for Larger Variations)	No	Faxed Response
5	Iuka, MS	Don McNeely	662-423-3781	199.13	46.81	529.02	33.46	190.49	52.67	188.96	121.92	170.31	Yes	No	Faxed Request
6	Baldwyn Municipal Gas System	Mayor Robert Coggins	662-365-8361	153.88	36.64	477.48	39.20	221.07	64.67	246.20	115.30	169.31	Yes	No	Telephone Response
7	Senatobia Municpal Gas District	R.R. Morris	662-562-8288	150.70	35.42	454.31	30.27	202.44	60.12	222.89	162.05	164.78	Yes	No	Faxed Response
8	Town of Shuqualak	Joy Marro	662-793-4675	178.39	46.75	307.67	58.07	254.93	76.83	267.63	121.67	163.99	No	No	E-mail Response
9	Batesville, MS	William Wilson	662-563-4576	182.70	46.80	476.97	53.60	78.03	73.85	273.30	124.24	163.69	Yes	No	Faxed Response
10	Mississippi Valley Gas Company	Dan Oglesbee (oglesbed@mvgas.com)	601-961-6881	126.34	45.38	529.96	39.83	177.86	48.40	212.14	94.17	159.26	Yes	No	Voice Mail Request
11	Booneville Municipal Gas System	Trent Johnson (Tjohnson1@Tahxroads.com)	662-728-6259	204.75	48.13	355.25	41.13	217.88	66.50	228.38	101.50	157.94	No	No	Telephone Response
12	Center Point Energy (Formerly Entex)	Douglas Palmer (doug.palmer@centerpoint energy.com)	601-824-8055	141.51	50.51	425.56	45.01	142.33	67.83	232.76	130.10	154.45	Yes	Yes	E-mail Response
13	Chickasawhay Natural Gas District	Randy Fleming	601-687-1544	123.85	34.92	428.16	41.93	198.19	66.52	207.94	108.32	151.22	No	No	Faxed
14	Bay Springs Natural Gas	Tim McRee	601-764-4112	139.35	40.80	404.06	39.04	189.88	53.40	192.74	102.35	145.20	Yes	No	E-mail Response
15	New Albany Gas System	Harold Smith	662-534-1041	142.19	33.66	396.10	37.85	194.50	57.25	202.52	89.90	144.25	No-Use PGA Factor for Larger Variations	No	Faxed Response
16	City of Ripley	Bobby Heavener	662-837-8578	140.40	33.00	368.45	35.25	186.75	57.00	195.75	87.00	137.95	No	Yes	E-mail Response
17	Corinth Gas and Water	Dennis Coleman	662-286-2263	135.72	31.90	398.69	31.87	161.35	49.86	197.32	95.24	137.74	Yes	No	E-mail Response
18	Walnut Municipal Gas	Cheril Voyles	662-223-4405	$152.10	$35.75	$297.19	$34.40	$182.24	$55.63	$191.05	$84.91	129.16	No	Yes	Faxed Response
		Average Commercial Gas Bill Cost		$165.03	$43.63	$442.47	$43.17	$193.77	$66.47	$230.41	$113.64	$162.32	$1,298.58		

1	CNGD Ranked As The X Lowest Price.											Additional Eight Months CNGD Cost	% of Additional Cost
2	CNGD Was Over (Under) The Average Price By:		($41.18)	($8.71)	($14.31)	($1.24)	$4.42	$0.05	($22.47)	($5.32)	($11.10)	($88.76)	-6.8%
3	CNGD Was Over (Under) The Center Point Energy Price By:		($17.66)	($15.59)	$2.60	($3.08)	$55.86	($1.31)	($24.82)	($21.78)	($3.23)	($25.78)	-2.1%
4	CNGD Was Over (Under) The Mississippi Valley Gas Company Price By:		($2.49)	($10.46)	($101.80)	$2.10	$20.33	$18.12	($4.20)	$14.15	($8.04)	($64.25)	-5.0%

PEER Committee Staff

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Linda Triplett, Division Manager
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Corrections Audit
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