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January 27, 2022

Board of Trustees
Pee Dee Electric Cooperative, Inc.
c/o Paul Conway, Esquire
1355 E McIver Rd
Darlington, SC 29532
pconway@marlboro.coop

RE: Electric Cooperative 2021 Compliance Examination in Accordance with S.C. Code Ann. § 33-49-150(A)

Dear Members of the Board:

In accordance with S.C. Code Ann. § 33-49-150(A), the South Carolina Office of Regulatory Staff ("ORS") has conducted its examination of Pee Dee Electric Cooperative, Inc. (the "Cooperative"), pursuant to the provisions of Act 56 which was enacted in 2019, relating to compliance with the provisions of the Act.

ORS conducted its examination in accordance with amended Section 58-4-50. Sections of the Act covered by ORS's examination are listed as follows:

- 33-49-255 - Restrictions on Interruption of Electric Service to Residential Customers for Nonpayment of Bill; Exceptions and Complaints
- 33-49-280 - Bylaws
- 33-49-420 - Meetings
- 33-49-430 - Quorum
- 33-49-440 - Voting
- 33-49-450 - Disposition of Propositions Presented by Not Less Than Ten Percent of Members
- 33-49-610 - Trustees
- 33-49-615 - Disclosure of Compensation and Benefits
- 33-49-620 - Voting Districts for Trustees and For Delegates
- 33-49-625 - Notice, Votes, and Minutes
- 33-49-630 - Compensation or Employment of Trustee; Actions and Conduct Prohibited
- 33-49-640 - Annual Election and Term of Trustees
- 33-49-645 - Conduct of Elections
- 33-49-1420 - Termination Procedures; Contents

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Accordingly, the timing and extent of ORS's procedures were conducted as follows:

- (1) The examination involved reviewing compliance with the sections of Act 56 listed above, for the period from the effective date of the provision to June 30, 2021.
- (2) ORS's examination procedures included the following: questionnaires, inquiries, review of the Cooperative's bylaws, review of board meeting notices, review of minutes of meetings, review of trustee compensation and benefits related to board meeting attendance, and other analytical analysis.
- (3) Regarding trustee compensation and benefits, ORS primarily reviewed the report content and format to ensure the disclosure contained the information required under section 33-49-615. Regarding dollar amounts reported, ORS performed only limited sample tests of payments from the Cooperative.

Based upon the examination procedures performed and the results obtained from the examination and the affirmations provided, Pee Dee Electric Cooperative is in compliance with Act 56, except for:

- (1) The Cooperative's current practice of paying a monthly fixed fee to trustees does not comply with S.C. Code Ann. § 33-49-630(A) which states "compensation shall not be paid [to trustees] except for actual attendance upon activities authorized by the board." The Cooperative indicated during the audit that effective January 2021 its practice is not to pay per diems for attendance at activities authorized by the board such as board meetings and committee meetings but rather pay a monthly fixed fee for monthly activities such as these. In response to a question from ORS regarding how attendance at board-authorized activities impacts compensation, the Cooperative indicated that if trustees fail to meet their commitments, the monthly fee may be withheld and additional board sanctions may be imposed. While the Cooperative indicates the monthly fee *may* be withheld if a trustee does not meet his or her commitments, this indicates action on the part of the board is required before payment is actually withheld and is not sufficient to make the current practice compliant with section 33-49-630(A). That section requires attendance as a condition to receiving compensation.

As part of our examination, ORS also has the following recommendations:

- (1) In ORS's review of minutes, ORS noted that the Cooperative did not document within the minutes the names of board members in attendance. ORS recommends that the Cooperative list each trustee individually in attendance in the minutes of meetings and that the meetings indicate whether a quorum was met. This recommendation ensures written documentation of the Trustees who were in attendance and is standard practice for recording of minutes. It also allows for verification of various statutory requirements, including those related to board member compensation. Without this information being included in the minutes, ORS may be unable to verify compliance with certain provisions of applicable laws for purposes of future audits.
- (2) Eighteen out of twenty-two cooperatives audited by ORS provided the disclosures required under section 33-49-615 broken down by individual board members. Four provided the disclosures as lump sums for the entire boards. As in the review letter after the 2020 audit, ORS continues to recommend that all cooperatives break down their disclosures of compensation on a per board member basis to ensure greater transparency to the membership.

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- (3) The disclosure of board member compensation and benefits required under section 33-49-615(A) for the previous calendar year must be made at a location accessible and visible to the Cooperative membership on the Cooperative's website by May fifteenth of each year. The Cooperative did not post its disclosure of compensation and benefits for calendar year 2020 to the Cooperative's website by May 15, 2021. ORS recommends the Cooperative implement procedures to ensure future disclosures required by S.C. Code Ann. § 615(A) are made by May fifteenth of each year.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Herpel', written over a horizontal line.

David Herpel, CPA
ORS Audit Manager