



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson  
FROM: Sue Fahey, Chief Financial Officer; Deborah Hart, Interim Finance Manager;  
Ben Ulrich, Interim General Accounting Supervisor  
DATE: August 24, 2018  
SUBJECT: 2017 Audit Management Letter Update  
OBJECTIVE: Information Only

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Attached is the 2017 Audit Management Letter, which includes an update by Management to outline the progress made since the letter was presented to the Board in April.



COMMUNICATIONS WITH THOSE  
CHARGED WITH GOVERNANCE

**EUGENE WATER & ELECTRIC BOARD**

December 31, 2017

## **Communications with Those Charged with Governance and Internal Control Related Matters**

To the Board of Commissioners  
Eugene Water & Electric Board

Dear Commissioners:

We have audited the financial statements of Eugene Water & Electric Board (EWEB or the Board) as of and for the year ended December 31, 2017, and have issued our report thereon dated March 19, 2018. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated September 6, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we considered Board's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our planning meeting held on December 5, 2017.

## **Significant Audit Findings and issues**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in Note 1 to the financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during 2017. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### ***Significant Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

**Unbilled Revenue** – Unbilled revenue is a measure of revenue earned through the end of the reporting period that has yet to be billed. This generally represents accounts with billing cycles that start in the reporting year and end in the subsequent year. We have evaluated the key factors and assumptions used to develop unbilled revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

**Allowance for Doubtful Accounts** – This represents an estimate of the amount of accounts receivable that will not be collected. We have evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

**Recovery Periods for the Cost of Plant** – This represents the depreciation of plant assets. Management's estimate of the recovery periods for the cost of plant is based on regulatory-prescribed depreciation recovery periods. We have evaluated the key factors and assumptions used to develop the recovery periods in determining that they are reasonable in relation to the financial statements taken as a whole.

**Other Post-employment Benefit Obligations** – This represents the amount of annual expense recognized for post-employment benefits. The amount is actuarially determined, with management input. No liability is recognized in EWEB's financial statements because the annual required contribution, as actuarially determined, is transferred to an external trust. We have evaluated the key factors and assumptions used to develop the annual expense in determining that it is reasonable in relation to the financial statements taken as a whole.

**Mark-to-Market Adjustment** – Certain derivative instruments are marked to market at year end. However, the impact to the statement of revenues, expenses, and changes in net position is deferred in accordance with GAAP. We have evaluated the key factors and assumptions used to develop year-end amounts and have determined that they are reasonable in relation to the financial statements taken as a whole.

**Net Pension Liability** – This represents the amount of pension liability. The amount is actuarially determined, with OPERS management input. We have evaluated the key factors and assumptions used to develop the annual expense in determining that it is reasonable in relation to the financial statements taken as a whole.

**Valuation of Investments** – Management’s estimate of investments is based on current market rates and conditions. We evaluated the key factors and assumptions used to develop the valuation of investments and determined that they are reasonable in relation to the financial statements taken as a whole.

### ***Financial Statement Disclosures***

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Significant disclosures include: Note 2 – Power Risk Management, Note 17 – Commitments and Contingencies and Note 15 – Retirement Benefits.

### ***Significant Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Audit adjustments – For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements made subsequent to the start of audit final fieldwork. An audit adjustment may or may not indicate matters that could have a significant effect on the Board’s financial reporting process (that is, cause future financial statement to be materially misstated).

The following audit adjustments were noted in the current year:

- 1) To correct the accrued payroll entry to include non-labor hours – \$405,000 (electric)
- 2) To correct the accrued payroll entry to include non-labor hours – \$127,000 (water)

Passed adjustments – Passed adjustments are those entries found during the course of the audit that management has decided to not post to the financial statements of the Board. It has been concluded by management, and agreed upon by Moss Adams, that the adjustments are immaterial to the financial statements as a whole. Passed adjustments are as follows:

- 1) To close work orders in commercial operation at year end – \$130,000 (water)

### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated March 19, 2018.

### ***Management Consultation with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Board's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Significant Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### ***Independence***

Moss Adams is independent in appearance and fact with respect to Eugene Water & Electric Board.

## **Communications of Internal Control Related Matters**

In planning and performing our audit of the financial statements of EWEB as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

In addition to the required communications, we have identified the following matters for your consideration. Our recommendations are based on observations and testing during the course of our audit. These recommendations should be evaluated by management and the Commissioners for implementation and EWEB should conduct a cost benefit analysis including consideration of the risks for the recommended action.

### ***Other Matters***

#### **Accrued Payroll**

During our review of the year end accrued payroll amounts, we noted that the payroll accrual was not complete as it did not contain the non-labor hours (vacation, sick time, etc.) portion of the accrual. This resulted in an audit adjustment, which management recorded as of December 31, 2017.

**Recommendation:** We recommend that the payroll reports generated and utilized for the year end accrual be adjusted to include non-labor hours so that the accrual is complete and accurate at the end of the reporting period.

#### **Management Response:**

TiaMarie Harwood, Interim General Accounting Supervisor

Management agrees with the recommendation. Staff have been working with consultants to implement new payroll and time management systems over the course of the past two years. Fiscal year 2017 was the first time staff closed the year within the new payroll application.

System reports have been identified to use in the year-end accrual process to ensure completeness with respect to payroll liabilities.

**2018 Update - Management Response:**

Ben Ulrich, Interim General Accounting Supervisor

The new payroll and time management systems have been live for 2018 and are functioning as intended. Monthly payroll accrual procedures have been modified to assure completeness and accuracy. They include non-labor hours.

**Timely closing of work orders**

During our testing of open work orders, we noted that one of the work orders selected was in commercial operation in 2017 and should have been closed to plant in service prior to year end.

**Recommendation:** We recommend that management generate a report at year end to show the date of the last charge for each of the open work orders to help identify work orders that should be closed to plant in service at year end.

**Management Response:**

Mel Damewood, Chief Water Engineering and Operations Officer

Management agrees with the above recommendation. The open work order was placed in Finished status in June 2017 and was ready to close in a routine manner. However, in final review before closeout a new task was added to the work order which reopened it. Staff was unaware of the status change.

Although the recommended report exists and was reviewed at year end, the format and size make it difficult to review, and the work order was not identified in the review process. Management plans to undertake process improvements to make the report more easily consumed by end-users and will continue to review the report on a quarterly basis.

**2018 Update - Management Response:**

Mel Damewood, Chief Water Engineering and Operations Officer

Staff reviews the report on a quarterly basis, and will review reports monthly for the remainder of the year. To ensure completeness for year-end capital close, reports will be reviewed bi-weekly during the month of December. The reports for July will be run the week of August 6th.

**User Access**

Segregation of duties conflicts within each of the applications are not currently tracked and monitored by application owners. During our user access testing procedures, we noted the following for each of the major applications subject to our testing:



#### *WAM User Access*

We noted 2 business users were assigned “ADMIN” role within WAM. This role allows for full access and rights to work orders and inventory within WAM, creating segregation of duties conflicts.

#### *CIS User Access*

We noted that 5 users have “super user” access via 5 key roles within CIS. This poses a risk if user activity performed by these individuals is not properly monitored (e.g. unauthorized changes made to rates).

#### *Segregation of Duties Across Systems*

We noted that several users have access to more than one of the applications thus allowing access to potentially do more than what should be allowed. For example:

- a) One of the four WAM ADMIN users also has access to create journal entries in SmartStream.
- b) One accounting employee is assigned to the WAM G/L ADMIN role and has access to create journal entries in SmartStream.

**Recommendation:** We recommend that the user access review process continue to be formalized with application owners for SmartStream, WAM, and CIS applications to help ensure user permissions are appropriate for each user’s job responsibilities. A similar user access review process should be implemented for the new UltiPro (Human Resource Information System) application as well. Any segregation of duties conflicts identified as a result of the review should be documented with an approved business use case and the related mitigating and/or monitoring controls that will help ensure the excess access was not exploited.

With respect to WAM user access, we recommend that generic, privileged users be removed, if possible, to help ensure user accountability for actions taken within the system. We further recommend that management limit administrative rights to IT personnel in order to prevent unnecessary access.

With respect to CIS user access, we recommend that if management is not able to segregate responsibilities to limit access to these individuals due to their current job function, then a periodic (e.g. semi-annual or quarterly) review of user activity of these individuals should be performed to ensure that no unauthorized changes or transactions are made.

#### **Management Response:**

Matt Barton, Chief Information Officer; Sue Fahey, Chief Financial Officer; Julie McGaughey, Customer Operations Manager

Management agrees that system access should be reviewed on a regular basis. EWEB developed a process in 2017 to review user access conflicts, however, additional refinements

to the process are needed for it to be an effective internal control. Additional work will be completed in 2018 to better define what user access, by role, means. This will enable EWEB business units to effectively evaluate user access conflicts.

With respect to WAM user access, there are a total of three employees who have administrative rights in WAM. EWEB has limited the administrative rights to only one business user outside of IS. This user is assigned administrative rights to ensure we have continuity of coverage and system support for WAM.

User access to the system and a user's ability to approve a transaction in WAM are different controls. Going forward Finance will review approval limits on an annual basis.

With respect to CIS, all five users with "super user" access are IS employees who require this level of access to operate the system. While EWEB Management agrees that a regular review of user activity is a best practice, CIS does not have that capability due to its age.

To monitor and control system changes, EWEB staff are required to follow IS's System Change & Configuration Management Policy. The overall mission of system change & configuration management is to ensure that Change Requestors conform to standardized methods and procedures. This is to ensure that changes to IS production systems may be tracked and deployed promptly and efficiently, minimizing the impact of change-related incidents upon service quality, and consequently improve the day-to-day operations of the organization.

EWEB developed a process in 2017 to review user access conflicts however, additional refinements to the process are needed for it to be an effective internal control. Additional work will be completed in 2018 to better define what user access, by role, means. This will enable EWEB business units to effectively evaluate user access conflicts.

**2018 Update - Management Response:**

Matt Barton, Chief Information Officer; Sue Fahey, Chief Financial Officer; Julie McGaughey, Customer Operations Manager

Information Services has created the user access definitions for the WAM, CIS, SmartStream and Ultipro systems. Information Services began reviewing user access with EWEB Business Units in August with the goal of completing the reviews by December.

Finance will be reviewing approval limits within WAM on an annual basis starting in Q3 2018.

This communication is intended solely for the information and use of the board and members of management and is not intended to be and should not be used by anyone other than these specified parties.

