



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Carlson, Mital, Helgeson, Schlossberg, Brown  
FROM: Sue Fahey, Assistant General Manager/CFO;  
Deborah Hart, Financial Services Manager;  
Leslie Kidd, Interim General Accounting Supervisor  
DATE: August 23, 2019  
SUBJECT: 2018 Audit Management Letter Update  
OBJECTIVE: Information Only

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Attached is the 2018 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, 2018

**2019 Management Update**

## **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, 2018, and have issued our report thereon dated March 18, 2019. 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 January 10, 2019, 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 the 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 4, 2018.

## **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. The Board adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which established new standards for recognizing and measuring OPEB related liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. No other new accounting policies were adopted and there were no changes in the application of existing policies during 2018. 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. 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 statements 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 19 – Commitments and Contingencies and Note 16 – 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.

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 – \$223,000 (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 18, 2019.

***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.

## Communication 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, 2018, 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. Management responses were provided by the Board and have not be subjected to audit procedures.

### **Other Matters**

#### *Billing Controls*

##### **Customer account adjustments**

We noted management review of billing adjustments was not performed during the first eight months of 2018. Management review helps to ensure that controls are in place and operating as intended.

**Recommendation:** New controls were implemented in September 2018 (see management response below). As such, we consider this matter to be resolved.

##### **Management Response: Susan Eicher, Assistant Treasurer**

In September of 2018, EWEB staff began using random sampling techniques to test adjustments made to customer accounts in CIS each month. The staff performing the testing do not have the ability to make adjustments in CIS. The adjustments selected are reviewed to ensure that the adjustments, and the persons making them, were authorized, and that the adjustments were supported and reasonable. Testing is documented and reviewed by a supervisor. In addition to testing, analytical review is performed by EWEB staff in order to identify trends or training opportunities.

### **Review of off-cycle billings**

During our review of the billing cycle controls, we noted that personnel in the customer service department are able to manually input usage information into the billing system before generating and sending an off-cycle bill to a customer for specific circumstances such as a move-out. However, we noted that the usage information in these situations does not go through the exception reporting process and therefore the Board is not able to identify errors in the billing information before the bill is generated and sent to the customer.

**Recommendation:** We recommend that management design and implement controls that require a review of the usage information for any customers receiving off-cycle bills to ensure the usage is accurately reflected in the customer's bill before the bill is generated and sent to the customer.

**Management Response: Julie McGaughey, Customer Operations Manager & Danielle Wright, Accounts Receivable Supervisor**

Management agrees with the comment and has identified steps to implement and enhance controls related to off-cycle billings. System and business constraints prevent implementing the recommendation to review an exception report before the bill is generated.

Management will take the following steps, which they believe will mitigate future risk.

- 1) Management will provide additional process training to all staff who manually enter usage information into CIS. Training will be completed by September of 2019.
- 2) Management, with the help of information services, will create a report showing historically high or low usage by August of 2019. The report will be reviewed weekly by accounting staff to ensure the usage was reasonable. Staff reviewing the report will not have access to make adjustments in CIS.

Management will be monitoring the outcome of these actions and refine the process as necessary.

**2019 Update:**

**Management Response: Julie McGaughey, Customer Operations Manager & Danielle Wright, Accounts Receivable Supervisor**

- 1) The documented data entry process was reviewed with all Customer Service personnel who manually enter usage information. Special attention was given to the step in the process that outlines what to do when a high or low usage warning occurs including resources that are able to assist when more analysis is needed.
- 2) In August 2019, Information Services completed development of a report that identifies historically high and low usage. The report is reviewed by staff no less than once a week to ensure that usage is reasonable. Outliers are investigated and, where appropriate, adjustments are forwarded to Accounts Receivable for review and entry.



- 3) The bill print vendor selected as part of the Customer Experience Improvement Project provides enhanced functionality which includes online bill audit review with 50 different audit thresholds to increase bill accuracy. The new system is anticipated to be implemented in 2020.

### *Work order controls*

#### **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 2018 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: Wally McCullough, Water Engineering Supervisor**

The recommended report was created and used throughout 2018 to assist in identifying open work orders for closure. The issue with the work order noted during testing was a miscommunication between work groups as to responsibility for closure and an associated business process. Going forward a formal team, comprised of members of both engineering and operations, will be created. The team will meet quarterly to review all work orders and their tasks for closure. This effort will enhance the control effectiveness of the recommended report.

**2019 Update:**

**Management Response: Wally McCullough, Water Engineering Supervisor**

A team with a representative from both engineering and operations has been formed with the task of reviewing open work orders for closure. A kickoff meeting was held in July and the team is currently reviewing approximately 150 open work orders. This will be an effort for the third quarter of this year. The effort will be repeated monthly during the last quarter.

### *IT controls*

#### **User access review**

In the prior year's Communication to Those Charged with Governance, we recommended that the user access review process continue to be formalized with application owners of SmartStream, WAM and CIS applications to help ensure user permissions are appropriate for each user's job responsibilities. In the current year we noted that such review is being routinely performed, however, we noted a few items below that should be considered in future reviews of user access:

- In examining the user access review process, it was noted that access to the network, and review of domain and enterprise administrators was not included as part of the annual review process.
- We noted a shared administrator account in the SmartStream application.

- We noted a service account not in use in the CIS Database, which had not been identified and disabled previously.
- We observed that there are activity monitoring solutions in place, however, not all admin activity is or can be tracked by the current systems in place. We believe this is particularly important to help detect unauthorized activity, especially with the use of shared admin accounts, or privileged account activity.

**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. As part of this process, we recommend the following:

- Incorporate a review of domain and enterprise administrators' access into the user access review.
- Remove shared administrator accounts and ensure that each account is assigned to only one user.
- Incorporate a review of unused accounts and disable any accounts identified as no longer in use.
- Lastly, we recommend configuring or upgrading the systems in place to monitor application activity, specifically for any privileged account activity or changes that require elevated access to systems.

**Management Response: Matt Barton, Chief Information Officer**

Management agrees with the recommendations, and the following responses address the recommendations in the order presented above:

- Management will incorporate a review of domain and enterprise administrators' access into the 2019 user access review.
- Management will remove the shared administrator access.
- Management will review and disable unused service accounts, where technically feasible. Technical feasibility will be determined by several factors:
  - Disabling the service account does not cause the system to go out of support with the vendor
  - Disabling the service account does not have negative impacts on the system, other systems, or integrations
- Management will seek to add system configuration functionality as systems are upgraded and replaced. The systems in scope of this audit lack the functionality described.

**2019 Update:**

**Management Response: Matt Barton, Chief Information Officer**

**Management has made the following progress toward addressing the user access review recommendations:**

- Information Services (IS) has begun the process for gathering data for the 2019 user access review. The new process will include user access review of WAM, SmartStream, CIS, NERC CIP Cyber Systems, and Domain Administrators. Once the data is compiled, a report will be sent to managers and supervisors for their review and system owners for their approval.
- In the SmartStream application, it was noted that there is one administrator account used by multiple employees who support the application. IS has created separate administrator accounts for those individuals who support the SmartStream application. We have found that the shared account is required to create scheduled jobs but is not used for other operational activities.
- In the CIS database, it was noted that there was an account that was not in use and had not been identified or disabled previously. That account has been disabled. IS will continue to review and disable unused services accounts as long as disabling the account does not cause the system to malfunction.
- IS has installed a demo of a new centralized log server and is testing its capabilities. IS plans to use it to monitor and alert on privileged account access. IS will continue our efforts to upgrade and/or replace systems that lack the ability to audit activity and changes to our financial applications.

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.

Portland, Oregon  
March 18, 2019

