



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Schlossberg, Helgeson, Brown, and Carlson
FROM: Deborah Hart, Chief Financial Officer;
Aaron Balmer, Accounting & Treasury Supervisor
DATE: August 21, 2020
SUBJECT: 2019 Audit Management Letter Update
OBJECTIVE: Information Only

Attached is the 2019 Audit Management Letter, which includes updates 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, 2019

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, 2019, and have issued our report thereon dated March 13, 2020. 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 December 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 communications letter dated December 10, 2019.

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 84, *Fiduciary Activities*, which established new standards for accounting and financial reporting for fiduciary activities. As a result of adopting GASB 84, the Board identified the EWEB Retirement Benefits Trust (the "Trust") as a fiduciary component unit and has included the balances and activities of the Trust as a fiduciary fund in the current year financial statements. No other new accounting policies were adopted and there were no changes in the application of existing policies during 2019. 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.

Corrected Misstatements: None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements as a whole.

- 1) To close work orders in commercial operation at year end – \$655,000 (Electric)

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 13, 2020.

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, 2019, 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

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 2019 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. Once this report is generated, management should establish controls to review the report to help identify work orders that have not had a charge for several months, which could indicate the work order should be closed to plant in service at year end. This should be performed in conjunction with EWEB's review of open work orders at year end to further improve the ability to identify and close work orders that are in commercial operation at year end.

Management Response: Tyler Nice, Electric Operations Manager –

Management agrees with the recommendation for additional reporting and open work order auditing. Controls will be developed around 'no-charge' duration in collaboration with Finance.

2020 Update: Tyler Nice, Electric Operations Manager

Electric Management now has access to reporting that identifies work orders without charges for the past 90 days. Electric Division staff will run this report quarterly to identify and finish work orders ready for closeout. Finance will continue to review this report prior to year-end as a final quality assurance check.

IT Controls

Operations

During our review of the IT control operations it was Noted that management was not performing formalized reviews of vendor SOC reports for SaaS Solutions, nor mapping of Complimentary User Control Considerations (CUEC's) to controls at the business.

Recommendation – We recommend regular review of SOC reports to assist in vendor and risk management activities. Mapping of CUEC's ensures the business understand their roles and responsibilities, as well as what controls they should have in place to ensure the application is functioning as the vendor intends.

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:

- We noted that manager approval was not captured on the new hire ticket before one user was granted access to the network.
- Noted there are multiple SmartStream service accounts that are enabled and no longer in use.

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:

- A help desk ticket is created for all access provisioning, de-provisioning, and any changes requested for employees. Activities should be detailed as to the specific systems or applications, and should include effective start/end dates of the access.
- Dormant service accounts are disabled or removed from the SmartStream system if they are not functioning.

Management Response: Travis Knabe, Information Services Manager and TiaMarie Harwood, Corporate Systems Supervisor

With respect to the recommendations under operations, EWEB agrees a regular review of SOC reports would assist in vendor and risk management activities. EWEB’s Cyber Security Team will create a formalized process to review SOC reports for critical SaaS Solutions and map Complimentary User Control Considerations, if any, to EWEB’s controls. This process will be performed annually for all current SaaS providers.

In regard to the recommendations under User Access Review, the Information Services division is 75% of the way through redeveloping our internal processes and reconfiguration of the ticketing system. Both onboarding and departure processes are high on the priority list and IS plans to have new processes implemented by year-end. The new processes will include working with management to define standard access for new employees as well as work/approval flows for employee transfers, promotions, and terminations. All changes and approvals for user access will be tracked in our ticketing system, and all access removals will be tracked and resolved in a timely manner.

The Corporate Services team has looked into the dormant SmartStream service accounts and has determined they are no longer needed in the functioning of SmartStream. The team is currently testing to ensure system processing is not adversely affected by disabling these service accounts in the development environment and once testing has completed, they will move forward with disabling the accounts in the production environment.

2020 Update: Travis Knabe, Information Services Manager and TiaMarie Harwood, Corporate Systems Supervisor

Operations

Cyber Security will work to formalize the SOC report review process during Q3 2020 and aims to have the reviews completed for all critical SaaS providers by the end of the year.

User Access Review

The IS Division recently completed the reconfiguration of the ticketing system at the end of July and is continuing to implement, refine, and improve the work/approval flows for all employee onboarding, transfer, and departure processes. A dedicated help desk ticket type has been introduced to formalize the collection, system owner approval, and retrievability of access requests. The formal annual user access review process is scheduled to occur in Q4 2020.

The dormant SmartStream service accounts were disabled in March 2020.

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.

