MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO:	Commissioners Schlossberg, Brown, Carlson, Barofsky and McRae
FROM:	Deborah Hart, CFO; Aaron Balmer, Accounting & Treasury Supervisor
DATE:	September 1, 2021
SUBJECT:	2020 Audit Management Letter Update
OBJECTIVE:	Information Only

Attached is the 2020 Audit Management Letter, which includes updates by Management to outline the progress made since the letter was presented to the Board in April.

Two recommendations were presented by Moss-Adams in their Management Letter for the period ending December 31, 2020, as presented to the Board on April 6, 2021. As of August 2021, both recommendations in the Management Letter are either complete or demonstrating progress as described.

Updates are provided based on recommendations related to “Other Matters” in the Management Letter, as highlighted on pages 5 and 6. These updates pertain to the “Work Order Controls - Timely closing of work orders” and “IT Controls” as pertaining to the auditors’ recommendation to perform formalized Service and Organization Controls (SOC) reports on SaaS (Software as a Service…i.e. cloud applications). SOC reports are based on SysTrust and WebTrust principles, and evaluate an organization’s information systems relevant to security, availability, processing, integrity, confidentiality, and privacy.

COMMUNICATIONS WITH THOSE
CHARGED WITH GOVERNANCE

EUGENE WATER & ELECTRIC BOARD

December 31, 2020

MOSSADAMS

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, 2020, and have issued our report thereon dated March 19, 2021. 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 24, 2020, 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 September 24, 2020.

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.

In 2019, 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. In 2020, the Board implemented GASB 97, *Certain Component Unit Criteria,* which did not impact financial reporting.

The Board adopted GASB 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which provides temporary relief from certain new accounting and financial reporting requirements in light of the COVID-19 pandemic.

The Board adopted GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplifies accounting for interest cost incurred before the end a construction period. The Board previously used provisions of regulatory accounting to discontinue the capitalized interest process and early adopted this pronouncement prospectively for fiscal year 2019 resulting in no current year impact.

No other new accounting policies were adopted and there were no changes in the application of existing policies during 2020. 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 20 – Commitments and Contingencies and Note 17 – 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 – $2,654,000 (Electric)
2) To close work orders in commercial operation at year end – $115,000 (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, 2021.

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, 2020, 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 certain work orders selected were in commercial operation in 2020 and should have been closed to plant in service prior to year-end.

Recommendation – We recommend that management consider implementing an automated control, if possible, to close out workorders 60 to 90 days after completion. If an automated control is not possible, consider a manual control 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

The Electric Division will establish process improvements by the end of Q3 and plans to perform the following tasks:

- Re-evaluate the as-is closeout process, confirming the roles and responsibilities for each task in the process
- Analyze root cause of open work order issue
- Partner with Finance to determine options for controls and automation
- Document and implement feasible improvements to ensure open work orders are in the proper status by year end.

2021 Update: Tyler Nice, Electric Operations Manager

The Electric Division is following the improvement plan noted above including quarterly review of open work orders instead of only at year end. This review has occurred in Q1 and Q2 of 2021. Additionally, a project has been initiated with the internal Continuous Improvement Department to work through Q3 and Q4 to complete the following:

- Identify stakeholders, roles, and responsibilities
- Document as-is process
- Isolate problems resulting in unclosed work orders
- Determine the goal/target of the process
- Brainstorm improvements and mitigations (both manual, process, and automated possibilities)
- Implement improvements
- Communicate and train stakeholders on changes and assess new process after initial use

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.

Management Response: Ed Penn, Cyber Security Supervisor

We agree that a regular review of SOC reports would assist in vendor and risk management activities. EWEB's cyber security team has created a process for reviewing SOC reports for all of EWEB's critical SaaS providers. It will be formalized in the second quarter of 2021. This process will be performed annually, and will map complimentary user control considerations to EWEB's controls where necessary. EWEB has classified the following SaaS providers as critical: UltiPro, Sensus RNI, Milestone, Paymentus, and Utilitec.

2021 Update: Ed Penn, Cyber Security Supervisor

EWEB's Cyber Security team formalized the process for reviewing SOC reports on April 19, 2021. This process was used for reviewing SOC reports for UKG (UltiPro), Sensus, Paymentus, and Utilitec. Ultipro and Paymentus provided both SOC1 and SOC2 reports, and both were reviewed and documented per the process. Utilitec provided a SOC1 which was reviewed and documented on May 7, 2021. Sensus provided a SOC2 which was reviewed and documented on May 4, 2021. Milestone does not perform either SOC1 or SOC2 assessments. This process will continue to be performed every year.

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.

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