



Communication to Those Charged with
Governance and Internal Control Related Matters

Eugene Water & Electric Board

December 31, 2014

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Certified Public Accountants | Business Consultants

COMMUNICATION TO 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, 2014 and have issued our report thereon dated March 27, 2015. 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 19, 2015, 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 U.S. generally accepted accounting principles. 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 generally accepted auditing standards and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of 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 on November 4, 2014.

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Significant Accounting Policies

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. There were no additional policies adopted in the current year and no changes in the application of existing policies during 2014. 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.

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 are as follows:

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.

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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.

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 and Note 17 – Commitments and Contingencies.

Audit Adjustments/Passed Adjustments

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 statements to be materially misstated).

The following audit adjustments were noted on the water system in the current year:

- To close work orders in commercial operation at year end: \$2,119,819. This is a Statement of Net Position reclassification entry only.

No audit adjustments were noted on the electric system in the current year.

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:

- Water Passed Adjustments –
 - To reverse improper entry to gross up cash and accounts payable: \$153,661. This is a Statement of Net Position reclassification entry only.
- Electric Passed Adjustments –
 - To close work orders in commercial operation at year end: \$326,206. This is a Statement of Net Position reclassification entry only.

Significant Difficulties Encountered in Performing the Audit

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

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, concerning a financial accounting, reporting, or auditing matter 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 27, 2015

Consultation with Other 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.

Independence

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

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, 2014, 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 our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and therefore, material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.

We consider the following deficiency in the Board's internal control to be a significant deficiency:

EWEB underwent a significant system implementation project in the current year that replaced key financial and operational IT systems. Due to the wide-reaching impact of this system throughout many departments of the organization, having appropriate representation from the departments impacted and, more importantly, collaboration between these departments is vital to a successful system implementation. In addition, not only is inter-department collaboration important, but also appropriate collaboration and understanding of the roles and responsibilities expected between EWEB staff and consultants involved in various aspects of the system implementation and ongoing maintenance / stabilization of the system. We have noted the following:

Coordination between key stakeholders

Given the significant system implementation that occurred during the year and the various departments and functions that it impacted as a result, collaboration within the various representatives from each department involved with project management is considered key to successful project implementation. Through our discussions and observations, we noted that, at times during the project, there was a lack of coordination and collaboration of key stakeholders, which has caused continued reliance on third party consultants and additional projects to realize the full benefit of the system.

Lack of Service Level Agreements

During our discussions with management and our procedures over IT systems, we noted that EWEB has implemented key financial and operational IT systems without a clear understanding of service levels required by the internal IT department. The lack of service level agreements with the internal IT department caused confusion of roles and responsibilities of internal IT versus external contractors, which resulted in extending external IT contracts. Given the upcoming July 2015 contract end date with a key outside consultant related to the new Work Order & Asset Management (WAM) system, establishing a clear understanding in writing between the third party service provider and EWEB staff is key to ensuring system optimization.

Recommendation: The Board should ensure that service level agreements are implemented for all key financial and operational systems and ensure key stakeholder coordination in future system implementations and projects.

Management Response - Roger Gray, General Manager - Management acknowledges the significant deficiency stated above. This response serves to provide additional context around the communicated deficiency as well as to describe the plans that were already underway to address the issue.

Additional context:

Management has been on a multi-year plan to address several issues related to all IT systems at EWEB (financial and operational). We have addressed what we considered primary issues first and are still working on additional secondary issues. Primary issues were lack of disaster recovery (DR) and no business continuity (BC) plans. These primary issues are being addressed. Other accomplishments have been to define the business requirements for all major financial and operational systems so that the BC/DR plans are appropriate. Management has established Service Level Agreements (SLAs) for a number of systems, but that is not yet complete. Completion of these SLAs was already an existing goal (established prior to delivery of this communication) for the IS Division and the organization as a whole and they will be monitored over the course of 2015.

The circumstances surrounding the launch of WAM that are described above are acknowledged. The WAM project steering committee made a risk-based assessment and decision to launch the WAM system based on these circumstances knowing that EWEB was not fully prepared to take on operation of WAM upon launch and that EWEB would need to continue to rely on 3rd party support for a period of several months at least. While the GM does not necessarily disagree with the project steering committee's decision to launch under these circumstances, the decision and implications of that decision should have been discussed and understood more fully and broadly by all stakeholders involved.

Prior to the audit, this issue had already led to internal management and process changes at EWEB. The GM initiated what is called the WAM Business Stabilization Project. It is a formal project with a new project manager to address not only the issues identified in this communication, but to address other business-side issues where the new WAM system and business processes still need improvement to support business and operational results at EWEB. While the WAM system is capable of assisting management to implement financial controls that an auditor is concerned about, it still needs to be improved to support operational processes and results.

Going forward plans that will address this communicated deficiency:

- 1) Complete WAM Business Stabilization Project (current projected finish is August 2015)
- 2) Complete SLAs for all major financial and operational IT systems (2015 IS Division Goals)
- 3) Formally adopt what are now informal “go-live” requirements for launch of any operational or financial IT system (2015 Internal Process Requirements)
- 4) Extend 3rd party WAM support contract if required and/or formally transfer support to EWEB personnel including completion of training. (prior to July 2015 Owned by WAM Stabilization Project, IS and Finance Divisions)

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

Internal audit department

EWEB created a position for an internal auditor in 2014 and appointed the previous Generation Manager to take over this role. The position is structured such that the internal auditor is to report directly to the General Manager and the Board of Commissioners. Going forward, we recommend that the internal auditor develop an internal audit program to document risk assessment for the organization, internal control processes and procedures, and also to implement a testing plan for the coming year. We conclude that this issue has been partially resolved through the creation of the internal audit department in the current year, but further action is necessary to fully realize the benefits of an internal audit department.

Management Response – Roger Kline, Enterprise Risk and Internal Controls Manager – In September of 2014 Roger Kline was appointed to the position of *Enterprise Risk & Internal Controls Manager (ER/IC)*. One of the duties of this position is to provide independent assurance work and oversight for the organization as well as other *governance, risk and compliance* management functions. *Internal Audit* is one integral component to be used in accomplishing this charter work.

The program documents, operating procedures and test plans supporting these efforts are either complete or nearly complete, and the work as referenced above is underway. Periodic regular reporting to the Board of Commissioners and General Manager is forthcoming.

Cross training and documentation of policies and procedures for WAM

During our discussions with employees involved with the core implementation team for the WAM system, we noted that cross training and documentation of policies and procedures had not yet fully occurred to ensure the knowledge of individuals gained throughout the implementation process is passed along to others within the organization and key processes are documented for training purposes. Without such cross training and documentation, the organization is at risk for significant knowledge loss if one of the core team members were to terminate employment with the organization. We recommend that EWEB identify and train additional individuals within the organization to backup those with significant knowledge and experience within the WAM system and document key processes.

Management response – Susan Eicher, General Accounting and Treasury Supervisor and the WAM Steering Committee – Management acknowledges that cross training and documentation of processes are critical to the success of WAM and the organization as a whole. The skills of the core implementation team members were acquired over the course of the implementation process, and cross training additional staff will require time and a commitment of resources that EWEB is prepared to make. A key goal of the WAM Business Stabilization Project is to identify and meet additional training needs. Documentation of policies and procedures related to WAM business practices is ongoing and will continue to be a priority throughout the utility as aided by the Leadership Team’s recent approval to formulate an Operation Policies framework.

Support for Oracle application and database environments

We noted that EWEB significantly expanded its use of Oracle as a result of the recent WAM system implementation. However, resources on staff to adequately support the application and database environments are limited. EWEB employs one FTE who has the skills and knowledge to manage and support the extensive Oracle environment. We recommend that EWEB consider hiring additional Oracle expertise or contracting with a third-party who can provide resources on an as-needed basis.

Management Response - Erin Erben, Manager of Power Planning – The Oracle environment within EWEB is multi-tiered (database, middleware and application) and EWEB maintains expertise at all three levels. Throughout 2014, EWEB had two resources supporting the Oracle database and middleware tiers - a database administrator and application server support person. There are several people that can work in the application tier. As of Q1 2015, EWEB was able to fill an open position (due to retirement) for a third oracle database support person. Third party contractors were used during the WAM roll-out to augment support while this position was open. We will continue to look to contract support should additional support gaps be defined.

Analysis of roles and permissions within IT systems

We noted that a segregation of duties analysis was conducted for the WAM security roles and permissions, however, this analysis did not also consider segregation of duties issues between WAM and other systems. This creates a risk that employees may have access to several different systems that creates an overall segregation of duties conflict between systems. We recommend that EWEB continue the practice of analyzing duty conflicts, but should consider expanding this analysis to other systems.

Management Response - Erin Erben, Manager of Power Planning – EWEB agrees with this recommendation and will continue to implement this recommendation.

Data protection management policy and data classification procedures

A data protection management policy and associated data classification procedure have been developed for the WAM system. This represents a recognition that information and data is an important asset for the organization and requires special handling to ensure the security and confidentiality of information. However, no such policy and procedures have been developed for other systems. We recommend that EWEB go through the process of classifying the systems and data for each system identified as mission critical.

Management Response - Erin Erben, Manager of Power Planning – EWEB agrees with the recommendation to classify systems and data and will continue its data classification efforts. EWEB has developed a data protection management policy and associated data classification procedures for all IT systems, not just WAM. EWEB had been going through the process of classifying the critical systems in 2014 and will look into refining and populating our central repository to store the data classifications already completed in 2015.

Conflicts of interest related to the internal audit function

EWEB created a new internal audit department in 2014 that will report directly to the General Manager and the Board of Commissioners. Through our discussions with management and individuals within the organization, we noted that the employees who transitioned to the internal audit department still maintain responsibilities from their prior positions at EWEB. The internal audit function should be established as an independent function from the internal control processes and procedures that the department may be assessing in the future.

We recommend that the responsibilities and duties of the employees in the internal audit department be reviewed to ensure no conflicts of interest remain.

Management Response – Roger Kline, Enterprise Risk and Internal Controls Manager – There are currently two full time employees dedicated to the Enterprise Risk and Internal Controls Division. All previously held duties and responsibilities from their former positions have now been reassigned or redistributed to others as recommended.

There are non-ER/IC Division staff members working in support of this new division as part of normal and typical cross-functional team responsibilities within the organization. These individuals do not presently report to the ER/IC Manager and do still maintain other business unit responsibilities. It is not management's intent to ever place any individuals into positions with conflicts of interest.

System passwords

Currently, the minimum password length is set to 6 characters, but best practices typically state that the minimum should be set to 8 characters. Shorter password lengths increase risk as they are easier for hackers to unlock. In addition, the minimum age for passwords is set to 0 days. With this setting, users would be able to cycle through a series of passwords back to their original password when the systems force them to change their password, which negates the requirement to regularly change passwords. We recommend that this setting be a minimum of 2 days, which would require 48 days for a user to cycle back to their original password (based on the configuration that the system retains a password history of 24 passwords). We also recommend that this requirement be consistently applied to all users within the organization.

Management Response - Erin Erben, Manager of Power Planning – EWEB does have a standard in place, but it is not consistently applied across various identity management systems. As such, EWEB agrees with this recommendation and will finalize implementation of this recommendation.

Cybersecurity protocols

Through our discussions with the organization's cybersecurity team, we noted that a comprehensive inventory of systems does not exist to ensure proper security protocols have been applied to all systems. We also noted that regular penetration testing of the perimeter focuses primarily on the system components that fall under the NERC regulations. We recommend that EWEB apply similar testing to other systems that do not fall under NERC regulations to cover all areas where risk is identified. This includes penetration testing around all external facing systems and vulnerability scans of both external and internal systems.

Management Response - Erin Erben, Manager of Power Planning – EWEB agrees with this recommendation and has already prioritized this work in its 2015 work plan.

Version control

During our discussions with developers involved in programming scripts, procedures, and other interface components, it was noted that the organization is not using defined coding standards or development protocol. We also noted that this interface development activity was not being managed properly through version control systems. We recommend that that all development activity adhere to proper policy and procedures including storage and management of the code repositories and proper documentation of all customized code to reduce the risk associated with employee turnover.

Management Response - Erin Erben, Manager of Power Planning – EWEB agrees with this recommendation and has already prioritized this work in its 2015 work plan. EWEB is already focusing in 2015 to improve and deliver new policies, procedures, and standards related to version control as well as unifying version management to a single environment standard.

Prior Year Comments Not Fully Resolved in 2014 (see Appendix A for prior year comments resolved in 2014)

Inventory purchases outside of the inventory system

We noted in the prior year that employees had the ability to purchase and maintain significant amounts of inventory items via the use of a EWEB credit cards or through purchase orders. An adjustment was made to inventory in the prior year. We recommended that management discuss inventory held outside of the warehouse to determine 1) whether the inventory would be better held and secured within the warehouse, 2) if inventory is to be held outside of the warehouse, what controls will be implemented to ensure the security of the inventory, 3) what procedures will be established to ensure periodic physical counts of the inventory held outside of the warehouse will be performed, 4) whether inventory purchases should be purchased strictly through PO to ensure State purchasing laws are consistently followed.

2014 Update – We noted that the Board has addressed recommendation number 4 above, and is in the process of addressing the other recommendations, which would include tracking and continued recording of these items. Therefore, though improvements have been made, we believe this issue has not been fully resolved in 2014.

Management Response -Todd Simmons, Electric T&D Operations Manager - Of the inventory located outside warehouse control identified in 2013, the majority has been disposed of as scrap material, identified as a consumable, or will be entered into WAM, controlled, and inventoried by warehouse personnel. In the fourth quarter of 2014 all items in the Warehouse, including Water and Electric Operations inventory, and Emergency Response bins within the Roosevelt Operations yard have been entered into the Warehouse and are controlled by Storekeepers.

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Consumables located in multiple areas throughout the organization are now controlled by an outside vendor and managed by the supervisor in each Section. Each Section has created a Purchase Order that will be charged monthly for any consumables used.

Material and inventory not considered as scrap or identified as a consumable, located at Hayden Bridge, Leaburg/Waltermville, Carmen Smith, and in the Water Pump, Substation, Meter Relay, and Communications Shops, will be entered into WAM by the end of 2015 as part of WAM Phase II.

Timely reconciliation of bank reconciliations

At the time we performed our interim fieldwork testing in December 2013, we noted that bank reconciliations had only been completed through June 2013. Timely reconciliation of all cash accounts is important to ensure that this detective control is able to identify errors or suspicious activity in a timely manner. We recommend that a policy be established to require monthly bank reconciliations to be completed within a month of the month end close.

2014 Update – During 2014, we noted that EWEB went through a significant re-evaluation to the cash reconciliation process. As this process and the improvements were ongoing during 2014, we noted that all material reconciling items were timely addressed through the reconciliation process. We also noted that as of year-end, staff had completed the new process and all months for 2014 were reconciled in accordance with the new process and reviewed accordingly. Though we noted that not all months in 2014 were completely reconciled and reviewed within our recommended timeline, we have noted this timing is included in the new policy and procedures that have been implemented. As such, we believe this comment will be fully addressed in 2015.

Management Response – Susan Eicher, General Accounting and Treasury Supervisor – The General Accounting and Cash Accounting departments continue to work on improvements in reporting tools and processes for the bank reconciliation, and are committed to timely processing.

Customer adjustments report

During our review of the controls surrounding customer adjustments and review of those adjustments, we noted that EWEB policy states that all adjustments over \$300 should be reviewed on a monthly basis to ensure that they are appropriate and have supporting notes in the customer information system. However, we noted a segregation of duties issue since the person responsible for reviewing the monthly adjustments report also has access to record adjustments. Second, no adjustments under \$300 are reviewed, which may leave a significant fraud risk to the organization since most residential customer bills would be below this amount.

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2014 Update – During our procedures in the current year, we noted that a process has been established to review adjustments from various customer service reps each month, including adjustments under \$300 and adjustments recorded by the City of Eugene. The number of adjustments reviewed each month is estimated to be 2-3 adjustments for 12 different customer service reps. However, we did not note any documentation or evidence to support that this process was occurring, other than inquiry of the personnel responsible for performing this process. We also noted issues with the timeliness of this process given that during our walkthrough procedures in December 2014, this process had not been performed since September 2014. Therefore, we believe this issue has not been fully resolved, but improvements have been made. We recommend review of adjustments be documented and performed in a timely manner.

Management Response – Mark Freeman, Energy Management & Customer Service Manager – Timeliness of reviews of the 2014 Billing Adjustment Reports reflect a staffing transition which occurred in the last quarter of 2014, resulting in a delay in processing. As of first quarter, 2015, the staffing transitions have been resolved. The Billing Adjustment Reports now show consistent auditing within 3 weeks of each prior month audited and should stay consistent going forward. A process is in place to run the Report monthly within 10 business days of the end of each month to maintain current practices for proof of documentation. The Billing Control Supervisor reviews the auditing process monthly within 30 days of each prior month.

The Board's written responses to the significant deficiency and other recommendations identified in our audit were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the 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.

Sincerely,



Portland, Oregon
March 27, 2015

APPENDIX A
PRIOR YEAR CONTROL DEFICIENCIES RESOLVED IN 2014

Circumvention of controls

During the prior year procedures, we noted several instances where employees have been able to circumvent the control structure in place, whether knowledgeable of the implications of their actions or not. We noted this to be a material weakness in the prior year, which we believe to be resolved in the current year. We have included additional discussion related to the internal audit department implemented in 2014 as a result of this issue. See current year issue noted in this letter related to this additional discussion.

Approval of pay rate changes

During our internal control testing over payroll, we noted that several employee personnel files did not include signed personnel action forms for the employees' most recent pay adjustments. We recommend that an approved and signed personnel action form be included in each employee's personnel file for each pay change implemented. In addition, we identified several errors in the updated wage rate spreadsheet including incorrect wage rates for a number of employees. We recommend that a detailed review of all wage increases be performed with a final review by the payroll department prior to inputting the updated rates into the system.

2014 Update – During our control procedures over payroll in the current year, we did not note any such lack of documentation for pay rate changes. We believe this issue has been resolved in 2014.

Breach of \$5,000 procurement threshold

During our internal control testing over disbursements, we noted a breach of EWEB's \$5,000 threshold for small procurements. The original purchase order was under the \$5,000 threshold, however, the purchase order was amended with a change order which brought the total PO amount up above EWEB's small procurements threshold.

Per EWEB's small procurements rule 3-0265(1), amendments to small procurements which will cause breach of the \$5,000 threshold may not increase the total contract price to greater than \$6,000. Therefore, this was outside of EWEB's policies, and once it was clear that the \$5,000 threshold was in danger of being breached, 3 quotes should have been sought in order to comply with EWEB policy. We recommend that employees be educated on how to comply with EWEB's procurement rules.

We also recommend that EWEB implement procedures to evaluate disbursements throughout the year for compliance with the procurement thresholds.

2014 Update – EWEB updated its policy and threshold for small procurements from \$5,000 to \$10,000 in the current year. Through our testing procedures, we did not note noncompliance with the new \$10,000 small procurements threshold.

Timeliness of conservation loan receivable reconciliation

During the process of auditing conservation loans receivable, we noted that although the account had been reconciled to the conservation loans system at year end, it hadn't been reconciled prior to that since February 2013. Through the year end reconciliation process, accounting personnel noted that there were loans that were assigned incorrectly to expense FERC accounts rather than receivables. As a best practice, we recommend that loan detail be reconciled to the general ledger on a monthly basis by the personnel responsible for maintaining the conservation loan system so that all errors may be reconciled in a timely manner.

2014 Update – We noted that this reconciliation is now a joint process between finance and loan administration and is generally occurring on a monthly basis. We believe this issue has been resolved in 2014.

EWEB credit cards

During our discussions with EWEB personnel and through review of credit card statements, we noted one case in which a supervisor was using an employee's credit card to make purchases, and then approving that employee's credit card statement.

We recommend that each employee's credit card be used only for purchases made by that specific employee, as required by current policy, and that a supervisor or manager review and approve the charges before being submitted for payment. Any purchases should also be made by the appropriate personnel and go through the normal process to ensure compliance with EWEB policy. We discussed this issue with the employee and noted that the issue has been resolved in 2013. However, we still believe that the risk for additional issues like this is present given the number of employees with EWEB credit cards coupled with the current credit card policy. We recommend decreasing the number of employee's with access to EWEB credit cards and revisiting the credit card policy to ensure that the credit card limits assigned, and the types of items allowed to be purchased are appropriate to achieve a stronger level of internal controls.

2014 Update – EWEB has updated its credit card policy in 2014 to address some of the specific issues noted in our recommendation above. We believe this issue has been resolved in 2014.

Work order documentation consistency

During our review of work orders, we noted that the documentation maintained to explain and support the reason for significant variances from budget / estimate differs significantly from job coordinator to job coordinator. Often, no documentation exists in the job packets to explain the reason for significant variances from budget / estimate, and only limited comments in the Work Tracking system are maintained to explain variances at the project level. As a best practice, we recommend working with the job coordinators to develop a close out sheet to document when the work was completed and why the job was over / under budget (if applicable). It may be helpful to set a threshold for when these controls need to be applied as not all jobs require this detailed level of monitoring.

2014 Update – Through our discussions with engineering and operations personnel, we noted that the organization has established a threshold of \$50,000 for requiring a uniform close-out document. Through our work order control testing, we noted that the policy was implemented and the work orders selected for testing included the new uniform closeout form. We believe this issue has been resolved in 2014.

IT circumvention of controls

It was noted that there was an issue where internal controls were circumvented by IT personnel based on requests from users. A Requisition was altered after it was initially entered, without the appropriate approval. The value of the requisition was changed directly in the database based on a request made in passing without thought about the issue with circumvention of controls. In most cases it is not appropriate to address issues in this manner, however, there may be times when business needs may necessitate a quick or emergency fix. In such cases, documentation of the actions taken and the formal approval of those actions should be retained. In addition to making sure that all requests get documented and approved, consideration should be given to generating reports on a regular basis that shows activity performed within the systems by IT personnel with respect to transactions.

2014 Update – During our current year procedures and discussions with both management and the IT personnel, we did not note similar instances of circumvention of controls in 2014. We believe this issue has been resolved in 2014.