



Communication to Those Charged with  
Governance and Internal Control Related Matters

**Eugene Water & Electric Board**

December 31, 2016

**MOSS-ADAMS<sub>LLP</sub>**

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, 2016 and have issued our report thereon dated March 10, 2017. 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 3, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with 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 December 1, 2016.

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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. The Board adopted the following new accounting pronouncement in the current year:

**GASB Statement No. 72, Fair Value Measurement:** Effective for periods beginning after June 30, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard will require additional footnote disclosure for EWEB the overall impact is considered minor as EWEB is required to invest in high grade investments which would typically be classified as Level 1 or Level 2 investments.

No other new accounting policies were adopted and there were no changes in the application of existing policies during fiscal year 2016. 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.

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

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

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

**Pension Asset (Liability)** – This represents the amount of pension asset or 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.

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

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

### ***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).

No audit adjustments were noted on the electric or water systems 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.

No passed adjustments were noted on the electric or water systems in the current year.

***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 10, 2017.

***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, 2016, 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.

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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.

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**

#### ***User Access Conflicts***

During our review of IT user access, we noted that several users have access to more than one of the applications we reviewed (WAM, SmartStream, and CIS), thus potentially allowing access to do more than what should be allowed. Due to the number of users within each system, we recommend that management consider performing an assessment of all user access rights and compare access across applications. This review should consider users within SmartStream, WAM, and CIS to ensure that each user is granted appropriate access based on their job title. Correspondingly, management should perform the review to ensure there is no inappropriate access across systems allowing a user to override controls.

#### ***Management Response – Matt Barton, Information Services Manager***

EWEB agrees with this recommendation. In 2017 Information Services will work to develop a review process to evaluate user access across multiple systems. In instances where users are required to have access to multiple systems due to EWEB's size or other factors, EWEB will evaluate mitigating controls to monitor or limit our exposure.

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**MOSS ADAMS** LLP

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,

*Moss Adams LLP*

Portland, Oregon

March 10, 2017

**APPENDIX A**  
**PRIOR YEAR CONTROL COMMENTS RESOLVED IN 2016**

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***Overhead rate calculation and application***

We noted that the WAM system does not currently have the capability to automatically allocate and apply overhead to work orders each month. Instead, the plant accountant exports the work order activity each month and performs a manual calculation outside of WAM to apply overhead to each work order. The updated spreadsheet with the overhead allocation is then re-uploaded into WAM to ensure the overhead adjustments are properly reflected on each work order. We also noted that there is no detailed review of this calculation to ensure that the correct overhead rate was applied and that the allocation was performed completely and accurately. We recommend that if management is not able to add functionality to the WAM system to allow for this calculation to be done automatically, that a detailed review of the manual calculation be completed on a monthly basis by someone other than the plant accountant.

**2016 Update** – Automation of the overhead application process was performed in April 2016 and therefore the issue is deemed to be resolved at year end 2016.

***Change Management***

Through discussions with management and based upon our observations, we noted there are different teams that support application changes and that documentation and evidence is not always retained and is not always consistent from one change to the next. While management has formalized change management policies and procedures, the activities do not consistently follow the policies and procedures. We recommend that management monitor and enforce the formalized documented procedures to ensure that different teams are consistently performing the same activities.

**2016 Update** – We tested a selection of changes made for the year and noted change management procedures were followed and documented. Each change ticket evidenced that the developer was separate from the testers and approvers. The issue is deemed to be resolved in 2016.

***Conservation loan receivable reconciliation***

During the process of auditing conservation loans, we noted that the detailed loan reconciliation to the general ledger for 2015 was only performed on an annual basis. This reconciliation is from the CIS to the general ledger only, and no reconciliation of the detailed loan disbursements and repayments received is maintained within the department responsible for approving the loans. As a best practice, we recommend that loan detail of disbursements and repayments received be maintained and 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. Also, to strengthen segregation of duties, we would recommend that loans be entered into the system by personnel who are not responsible for approval or processing.

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**2016 Update** – We noted that the conservation loan receivable reconciliation was being performed more frequently and that both EMS and accounting staff were involved in the reconciliation process. We deem this issue resolved in 2016.

**Coordination between key stakeholders and lack of service level agreements** – In 2014, these issues were considered significant deficiencies. We have noted significant improvement in this area in 2015 and 2016, especially as it relates to WAM. Though these will always be areas of emphasis for the organization, the continuous improvement has resolved our consideration of significant deficiencies for these issues in the current year.

**2016 Update** – We noted no issues in this area in 2016 and deem this issue to be resolved in the current year.

**Internal audit department** – The internal audit department continued to evolve during 2015. With the departure of key individuals, the department was reorganized under the finance department as the finance staff have experience in internal controls assessment, design and testing. We encourage EWEB to continue to assess the internal audit department and develop roles and responsibilities within that department that will support and strengthen internal controls throughout the Organization.

**2016 Update** – EWEB hired an internal auditor in 2016 and an internal audit program is currently being developed. This issue is deemed to be resolved in 2016.

**Cross training and documentation of policies and procedures for WAM**

We have noted through our testing that there has been some improvement in this area, however, additional documentation and cross training is still needed. We have noted that this is in the 2016 goals provided to us by management.

**2016 Update** – We noted additional cross training for WAM was a focus in 2016 and therefore we deem this issue to be resolved.

**Analysis of roles and permissions within IT systems**

We updated our testing of roles and permission with IT systems during the current year audit. See **User Access Conflicts** under the current year comments for our recommendations.

**2016 Update** – See the **User Access Conflicts** comment in the current year related to our recommendations related to this issue.

**MOSS ADAMS** LLP***Cybersecurity protocols***

We saw an increase of protocols across the Organization in regard to cybersecurity protocols and have no further current recommendations over this area, other than the ***Change Management*** recommendation listed in the current year comments. However, as this is an emerging area with a significant amount of public and federal scrutiny, we recommend management continue significant diligence in this area.

***2016 Update*** – We believe this issue to be resolved in 2016. No additional issues were noted in this area.

***Version control***

Please see ***Change Management*** under the current year comments for our recommendations.

***2016 Update*** – We believe this issue to be resolved in 2016. No additional issues were noted in this area.

***Inventory purchases outside of the inventory system***

The tracking and purchasing of inventory items appears to have been resolved in the current year. However, management is still assessing how to handle the inventory that was found in 2013. As such, we recommend continued assessment of the inventory found in 2013.

***2016 Update*** – We noted that this project was completed in 2016 and additional controls were implemented to ensure offsite inventory is properly identified, secured and monitored. We deem this issue to be resolved in 2016.