

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
DECEMBER 2, 2008
6:30 P.M.

Commissioners present: John Simpson, Ron Farmer, John Brown, Mel Menegat, and Bob Cassidy.

Others present: Randy Berggren, Patty Boyle, Debra Smith, Jim Origliosso, Jim Wiley, Cathy Bloom, Sheila Crawford, Susan Eicher, Mark Freeman, Todd Simmons, Dick Varner, Garilyn Johnston, Leslie Monk, Edward Yan, and Krista Hince of the EWEB staff; Rich Cunningham, Commissioner-elect; Julie Desimone, Scott Johnson, Moss-Adams LLP; Ruth Atcherson, City of Eugene minutes recorder. Joann Ernst, Commissioner-elect, arrived at 6:50 p.m.

President Simpson convened the work session of the Eugene Water & Electric Board (EWEB) at 6:04 p.m.

AUDIT PLANNING FOR 2008

Assistant Treasurer Cathy Bloom introduced the Audit Managers from Moss Adams LLP, Julie Desimone and Scott Johnson. She stated that audit planning had just begun.

Ms. Desimone reviewed the audit process using a “standard presentation” with power points. She said for the present week they were planning on accomplishing all of the internal control testing. She noted that they were already ahead of schedule. She stated that a couple of the commissioners would be selected to interview in the last week of January.

Ms. Desimone stated that the audit started with a risk assessment process. She related that they would look for where the significant risks lay with the organization that could impact the financial statements. She said they would primarily be looking at investments and how they were collateralized, focusing on power trading in particular. Regarding power trading, from a preliminary look she said it appeared that there had been a lot of good moves and everything they had tested thus far had been in line with the EWEB risk assessment policy. She added that they did not look at trading limits; they looked at the trading entities’ ability to pay and whether the controls were such that the risk assessment policy was being followed.

Ms. Desimone explained that they would be issuing the audit opinion in the first part of February.

Mr. Johnson discussed how the audit reviewed the revenue structure, which ranged from a customer cash payment from the point at which it was invoiced to where it was credited to the customer’s account to how different modes of payment were used and how well they worked. He said they looked at the controls throughout the cycle. He related that they also looked at testing the rate increases to verify that bills were being calculated correctly. He also discussed how the audit reviewed work orders. He underscored that everything had been going well thus far.

President Simpson asked what testing and controls meant. Mr. Johnson replied that in looking

at the cash receipt controls they would start with the document provided by the third party, such as a secured lockbox receipt, and then would trace it through the process. He said they would make sure the appropriate people were looking at it and that the duties of employees involved were clearly delineated so that the people handling the cash were not the same people posting it to the records, as an example.

Ms. Desimone stated that the auditors looked at the entire Information Technology (IT) environment as it related to financial reporting. She acknowledged the study that had been performed earlier in the year, noting that management had provided them a copy of it. She said Moss Adams IT staff would be reviewing the study and would indicate how it related to financial reporting. She noted that he was also reviewing what had happened one year earlier when they had come on site and conducted an in-depth review. She said he would assess whether they needed to conduct another on site review.

Mr. Berggren reminded the Board that the study she was speaking of was a best practices evaluation. He said staff had received the report and the Executive Management Team (EMT) was going through the set of recommendations included it.

Mr. Johnson stated that the Government Accounting Standards Board (GASB) had issued a number of pronouncements and outlined them:

- GASB No. 49 – a statement on Pollution Remediation.
- GASB No. 50 – a statement regarding Pension Disclosures.
- GASB No. 51 – a statement related to Intangible Assets, which would not have a large effect on EWEB and would not be implemented until 2010.
- GASB No. 52 – a statement related to Derivative Instruments, which would bring GASB standards in line with Financial Accounting Standards Board (FASB) standards.

Ms. Desimone said EWEB had quite a few derivative instruments. She explained that derivative instruments were items such as power trading. She said the derivative implementation guidance would not be issued by GASB until January or February. She related that Moss-Adams had been trying to find training specific to the GASB standards. She anticipated that they would have more information as they moved toward 2010.

Vice President Farmer asked if the derivatives were not handled currently in a market-to-market fashion. Ms. Desimone replied that if there were physical delivery of a product, then the utility would book it as it occurred.

President Simpson asked if the auditors would make any editorial commentary on the risk policies themselves. Ms. Desimone responded that if they saw any policies that were abnormally risky in the industry, such as credit policies that were not consistent with other utilities, they would bring it forward for discussion with management and would consider bringing it to the Board if they felt management was not adequately responsive to concerns. She said they had been through this

before with EWEB and considered the utility's risk management policies to be "very tight." She noted that when the markets began to fall EWEB's risk management team pulled back on whom they would trade with and what types of trades they would engage in.

President Simpson asked if they ever audited timesheets. Ms. Desimone affirmed that they did. She said it was included in the control testing for the payroll system.

Commissioner Brown said he assumed that if someone closed their EWEB account without paying their bill they also did not pay the stormwater charge from the city. He noted that it could be possible that EWEB would carry another fee for the city in the future and asked what process there was in this regard. Mr. Desimone explained that when they looked at the billing system they looked at how the bills were developed. She said the stormwater charge was never considered part of EWEB's revenue. She related that they would look at the receivable balance at the end of the year and would ensure that it was being paid in a timely manner and looked appropriate.

In response to a question from Commissioner Brown, Ms. Desimone replied that they did not look into areas of potential litigation specifically, but they did look to see if insurance requirements were in place.

Commissioner Brown said EWEB had just used a reserve account for funding on a project. He asked if this was part of the risk assessment. Ms. Desimone responded that from an audit perspective they would look at whether the reserves were used in accordance with the Board's discretion and whether they were used in an appropriate manner.

Commissioner Brown also asked if the unfunded liability that the asbestos in the steam lines presented when the steam utility was phased out was being considered. Ms. Desimone replied that they would definitely discuss this.

Ms. Desimone stated that they looked at the Low Income Energy Assistance Program (LIEAP) two different ways. She said they reviewed the process to make sure the funds were being transferred accordingly and they looked at the end of the year financials for the program.

President Simpson asked if the audit would review the bond files to ensure EWEB was meeting all of its covenants. Ms. Desimone confirmed that the audit evaluated both the financial and non-financial covenants in a thorough review of the bond files.

In response to a question from Commissioner Cassidy, Ms. Desimone stated that Moss-Adams did not delve into performance auditing of contracts. She explained that they primarily would look at a contract to see if they were being billed for and paid out correctly.

Commissioner Brown asked if Moss-Adams had experience with a utility that was being phased out. He had some concern about what would happen if EWEB got to the point where there was only two or three steam customers left that could not convert. Ms. Desimone said they had

experience in looking at projections and the estimates of risk, but the phasing out of the steam utility would not be included in the current audit.

Vice President Farmer noted that each year the auditors provided EWEB with information regarding the areas they thought could use improvement. He asked what the “number one thing” would be that they would be checking on that had been identified in the previous year. Ms. Desimone responded that work orders were one of the significant areas they had focused on, and improvements had been happening. She said they would be looking “pretty heavily” into the area of work orders to see how they were being monitored and handled. She explained that it was one of the systems that Ms. Bloom and her team were working to make a more cohesive system.

Vice President Farmer said he would be interested in whether there were any specific risks that EWEB should consider that were resulting from the economic downturn. He was also interested in any anticipated accounting changes that could be “coming down the road.” He noted that Congress was under pressure to change the existing accounting rules. He wondered if there would be some “retro movement” as opposed to forward movement. Additionally, he wanted to make sure the auditors were looking closely at the capitalization and the costing of the work at the Roosevelt Boulevard project. He stated that he was also interested in where EWEB stood within the industry.

Commissioner Menegat expressed appreciation for the audit process, especially the cooperation between staff and the auditors. He averred that EWEB staff was “doing things right.”

President Simpson concurred. He said he looked forward to the audits because they were “great.” He also enjoyed the cooperation that Moss-Adams and the EWEB staff shared.

President Simpson adjourned the meeting at 6:57 p.m.

Assistant Secretary

President