

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 EAST 4TH AVENUE
APRIL 5, 2011

Commissioners Present: John Brown, President; Bob Cassidy, Joann Ernst, Rich Cunningham.

Commissioners Absent: John Simpson, Vice President

Others Present: General Manager Roger Gray, Debra Smith, Patty Boyle, Susan Eicher, Tom Buckhouse, TiaMarie Harwood, Leslie Kidd, Sheila Crawford, Mark Freeman, Kathleen Engstrom, Wendi Schultz-Kerns, Clay Norris, Richard Jeffryes, Mariya Nikiforova, Lance Robertson, Lisa Bean, Lisa McLaughlin, Mike McCann, Gary Lentsch, Michelle Martin, Adam Rue, Harvey Hall, Taryn Johnson of the EWEB Staff; Wade Hicks, minutes recorder.

President Brown called the work session meeting of the EWEB Board of Directors to order at 6:12 p.m.

2010 Year-End Audit Report and Management Letter

Customer & Shared Services Division (CSSD) Director Debra Smith provided a brief overview of the audit report and further described how both her and Financial Services Manager Cathy Bloom's positions were currently structured within EWEB. She noted that those two positions had been part of a consolidation of the Employee, Customer & Community Services position into the CSSD. She noted that as part of the restructuring she was essentially serving as chief financial officer while Ms. Bloom served as treasurer.

Ms. Bloom, responding to a question from President Brown, noted that an email from board member John Simpson regarding his critique of EWEB current information technology matters had been distributed. He hoped that the content of Vice President Simpson's email might be discussed later in the meeting.

Ms. Bloom described the audit process for the benefit of the Board members as well as the supporting documentation that had been provided to them.

Ms. Bloom noted that the financial statements and management letter that had been provided to the Board described three levels of improvement opportunities for EWEB: material weakness, significant deficiencies, and other matters. She noted that information regarding the information technology issues referenced in Vice President Simpson's previous comments had been referenced as part of that document.

Moss Adams LLP representative Julie Desimone presented information regarding her firm's audit of EWEB and the subsequent recommendations. She noted that some of the financial statements from the audit had been prepared for distribution to the public and outside

organizations while others were intended for internal use by the Board only.

Ms. Desimone reported from the audit that with respect to the material weaknesses and significant deficiencies areas no notable exceptions or items of noncompliance had been found.

President Brown asked if any discrepancies had been identified regarding any EWEB areas related to utilities construction or similar building contracts. Ms. Desimone responded to President Brown's question and noted that her firm's review of EWEB's contracting policies had applied only to those projects with an estimated cost of more than \$150,000 and which under State regulations required a Board review of at least three formal bids. She further noted that a more detailed examination of the bids that had been submitted was outside the scope of the Moss Adams financial audit.

Moss Adams LLP representative Keith Simovic reviewed the management letter that had been submitted to the Board members and further clarified the responsibilities of the auditors under conventional standards.

Mr. Simovic reviewed the planned scope and timing of the audit. He noted that no significant policy changes had been identified during the audit period. Mr. Simovic further noted that the accounting estimates provided for EWEB were typical according to industry standards.

Commissioner Cunningham asked how a lay person reading the audit materials would know if the audit contained false or misleading information. Ms. Desimone responded to Commissioner Cunningham and described how EWEB's internal controls were reviewed during the audit process and noted that significant adjustments to the amount of financial data provided for review might be considered an indication that problems were present.

Ms. Desimone, responding to a comment from Commissioner Cassidy, noted that there were qualitative materiality areas reviewed by Moss Adams that provided information in addition to the quantitative areas contained in the audit process.

Ms. Desimone noted that with respect to EWEB's electric utilities areas, no significant adjustments had been made during Moss Adams' audit process. She further noted how adjustments to EWEB's water utility areas had been reviewed during the audit process.

Ms. Desimone opined that the financial statements that had been provided by EWEB throughout the audit period had appeared to be very solid. She noted that any areas of passed adjustments where accounting or process discrepancies had been identified had not substantially affected the ultimate findings that had been incorporated into the audit results.

Ms. Desimone commented that EWEB had displayed a remarkable level of preparedness with respect to the audit process which had allowed Moss Adams to submit their findings much faster than with other clients.

Ms. Desimone reported that no material weaknesses had been identified by auditors with respect to EWEB's internal control structures or financial reporting practices.

Ms. Desimone noted from the audit that significant control deficiencies had been identified with respect to job setup and closing of jobs during the audit period.

The EWEB Board members and staff, responding to a comment from Commissioner Cunningham, briefly discussed how a potential EWEB rate increase might affect the long term financial security of the utility.

Ms. Desimone reported on the other matters that had been identified over the course of the audit process including the internal control process involved in meter read adjustments, EWEB's power trading procedures, and information technology matters. She noted that while no significant problems had been identified in the control structures the auditors had made a series of recommendations intended to improve those structures.

President Brown referred to the information technology areas that had been previously discussed and asked why certain IT problems that had been identified in a previous audit process five years ago persisted into the current audit period. Ms. Bloom responded to President Brown's question and noted that EWEB staff, with input from its new IT manager Kathleen Engstrom, planned to develop a plan to address long-standing IT technology problems within the utility. She noted that a written plan to address IT problems would be submitted to the Board although she expected that such a plan would take some time to develop.

Ms. Desimone, responding to President Brown's previous comments regarding EWEB's IT areas, noted that no critical events had transpired during the audit period that would require EWEB or the auditors to address such problems at a higher level. President Brown believed that recent incidents with EWEB's information technology areas had risen to a level of severity where much greater attention and oversight was required.

Commissioner Cunningham asked if any timeline had been developed by EWEB staff to address information technology issues. General Manager Gray responded that he would address potential timelines in that regard later in the meeting.

General Manager Gray agreed that EWEB's information technology issues had been a long-standing operational problem for the utility but further agreed with the auditors that such issues had not risen to a level of material deficiency. He hoped that staff would be able to present a plan to address information technology issues later in 2011.

Commissioner Cunningham reiterated the importance of having the Board members completely understand the utility's budgeting process. Ms. Desimone responded to Commissioner Cunningham's comment and noted that the Moss Adams auditors had spent a considerable amount of time reviewing EWEB's financial statement systems and had concluded that all accounting transactions had been properly accounted for. She further commented on other financial areas of the audit process that were intended to clarify the EWEB budgeting process for the Board.

Ms. Desimone confirmed as part of the audit that financial reserves had been set aside with restrictions that had been imposed in accordance with a previous Board motion.

General Manager Gray confirmed that Moss Adams auditors had performed elements of

the management audit separately from financial audit to ensure that both areas had been properly addressed.

2011 Strategic Plan First Draft

General Manager Gray described how the draft of the strategic plan had been created and noted that he and Ms. Crawford were seeking the Board's general feedback regarding the current draft. He further noted that several modules of the plan had been developed out of the Board's April 15 meeting.

Commissioner Cassidy suggested that language be added to the People Strategy section of the draft strategic plan that reflected EWEB's desire to be sensitive to the responsibilities of the community. He further suggested that language be added to the Partnerships Strategy section that reflected EWEB's intention to provide effective leadership with respect to various energy challenges. General Manager Gray responded that Commissioner Cassidy's suggestions might be better suited to inclusion in the Overarching Strategy sections of the draft strategic plan.

President Brown offered suggestions on how EWEB's plans for water from the Willamette and McKenzie rivers would be implemented and developed in the future. He hoped that the strategic plan would incorporate elements whereby community members would be encouraged to take an active role in how such water plans were developed and executed.

Ms. Crawford responded to President Brown's comments and noted that certain elements of his suggestion had been included in the implementation description portion of the Second Source Water Supply Strategy section of the draft strategic plan. General Manager Gray added that additional language responsive to President Brown's suggestions might be included in other areas of the strategic plan.

Commissioner Cassidy asked if President Brown's suggestions might require revisions to EWEB's master plan documents. General Manager Gray responded that the second source water supply options appeared to be independent of any redevelopment efforts included in the master plan.

The EWEB Board members and staff briefly discussed how various elements of the second source water supply strategy, particularly those elements related to water treatment practices along the Willamette and McKenzie rivers, might be incorporated into the strategic plan.

Commissioner Cunningham commented that the draft strategic plan had been well written but cautioned that the strategy elements contained therein might need to be made more general in order to allow for greater flexibility.

Commissioner Ernst stated she had not yet been able to review the draft strategic plan in great detail. She believed from her cursory review that the draft had indeed incorporated elements of the Board's previous strategic planning discussions.

Commissioner Cassidy asked if a specific course of action for addressing the Community Care Program referenced in the Customer Service Strategy section of the draft strategic plan

could be determined by September of 2011.

General Manager Gray responded to Commissioner Cassidy's previous comment and discussed the most recent developments regarding the Community Care Program. He further described how the program would continue to be assessed in relation to EWEB's 2012 budget process. General Manager Gray suggested that the monthly customer service statistics provided to the Board members by Mark Freeman might be an effective source of information regarding the development and continued viability of the program.

General Manager Gray, responding to a question from Commissioner Ernst, suggested that a revised draft of the strategic plan which incorporated the Board's most recent feedback could be presented for the Board's approval and endorsement during one of their two meetings in May.

President Brown adjourned the work session meeting of the EWEB Board of Commissioners at 7:22 p.m.

Assistant Secretary

President