



CHELAN COUNTY

AUDIT COMMITTEE

2009 Annual Report
January 25, 2010

Introduction

The Audit Committee charter calls for annual reporting to the Board of Commissioners and General Manager about activities, issues and related recommendations. The Audit Committee was created by Resolution No. 04-12597 as a governance best practice and to provide functional reporting independence for Internal Audit. The Committee consists of the President and Vice President of the Board of Commissioners with the Secretary serving as alternate, as well as the District's General Counsel, Executive Managers of Operations and District Services and the CFO/CRO.

Meetings Summary

May 2009-First Quarter Meeting

PricewaterhouseCoopers presented the results of the 2008 financial statement audit. An unqualified (clean) opinion for the audit has been issued. No material weaknesses or significant deficiencies were noted in internal controls.

The District's controller discussed the District's independent auditor contract and requested approval from the Audit Committee to negotiate a new three-year contract with PwC. If a contract can be negotiated, it will be presented to the Board for action. The committee authorized the controller to negotiate with PwC for an extension of the contract.

The CFO/CRO discussed hedging strategies with regard to wholesale revenues in order to manage risk. Given recent public discussions about the surcharge methodology, a more robust hedging program should be discussed. More discussion is needed on this topic and John will be discussing the same with the management team and Board.

Internal Audit discussed the results of a review of the real time contract with Shell Energy. The audit objectives included:

- Determine if adequate internal controls exist for the District's real time trading process;
- Determine if the District is in compliance with its own established policies and procedures and the agreement;

Internal Audit performed the review with assistance from DSA Consulting. Control enhancement and process improvement observations made during the audit were shared with management.

July 2009-Second Quarter Meeting

The Internal Auditor reported on the status of the SAO Performance Audit. District staff has recorded 1,700 hours supporting the audit since August 2008. SAO reported that a draft report could be available in 4Q09.

The District's controller negotiated with external auditor PricewaterhouseCoopers to extend the contract for an additional three years and they have agreed to keep the current hourly rates.

Accounting treatment for the Double Yes program was discussed with the Committee.

The Director of Enterprise Risk Management (ERM) gave an update on the ERM program. The group is working through issues related to knowledgeable risk taking and mitigation with operating

groups. Next steps include working with Directors to calibrate risk inventory responses; publishing the ERM policy; assessing and evaluating risks; working to develop mitigation plans where necessary; and doing periodic reviews with the Executive Team and the Audit Committee.

Internal audit reported on the process to review expense reports under \$300. Internal Audit will utilize a risk-based approach for reviewing expense reports under \$300 instead of approving each and every one. The accounts payable supervisor has taken over the task of reviewing expense reports over \$300.

The CFO/CRO reported on the IRS Post Issuance Bond Compliance and the documentation the IRS wants on tax exempt debt. Staff is looking at our program to see if we have everything in place in the event of an IRS audit.

Internal audit has extended an offer of employment to fill a vacancy created when an employee left the District in September 2008.

September 2009 Special Meeting

The State Auditor's reviewed the results of their 2008 audit. The areas audited included accountability for public resources and compliance with state laws and regulations, financial statements and federal compliance. The auditor's reported no findings or management letters (a "clean" audit). A risk based approach to the audit was used to determine those transactions, activities or areas that pose the highest risk to the District.

October 2009-Third Quarter Meeting

The audit committee chair reported on the status of the State Auditor's Office (SAO) Performance Audit. The District was notified of the Performance Audit on March 4, 2008 with the audit beginning on September 9, 2008. To date, the draft report has not been received. The SAO has told the District that they will provide one week's notice prior to the issuance of the report. The District has two weeks to respond to the report once it is received. District staff has recorded approximately 2,000 hours supporting the Performance Audit since April 2008.

The District's controller discussed the many accounting and reporting requirements, impacting the District's financial statements. External requirements include Generally Accepted Accounting Principles (GAAP). The Financial Accounting Standards Board (FASB), Governmental Accounting Standards (GASB) and the Federal Energy Regulatory Commission (FERC) are the primary sources of GAAP for the District. The District is also required to comply with guidance from other agencies such as the Energy Information Administration, the National Association of Regulatory Utility Commissioners, the SAO, and others.

The Director of Enterprise Risk Management (ERM) gave an update on the ERM program. Staff is currently drafting an ERM policy which will define terms and determine processes.

Internal audit reported on the warehouse process follow-up to the 2008 internal audit. Opportunities for improvement in the area of inventory adjustments were not addressed. Internal audit will work with management and follow-up next year.

Internal audit reported on training that staff recently attended regarding fraud in government. Internal audit's approach for considering fraud risk applicable to each audit and best practices were shared with the committee.

Proposed revisions to the Audit Committee Charter were discussed with the committee. The revisions reflect best practices and the addition of a risk management aspect. The updated charter was approved by the Committee.

Internal Audit updated the Committee on the 2009 Internal Audit Work Plan. Internal Audit reported its plan to conduct a Treasury audit and estimated that it would be completed in approximately two months.

January 2010-Fourth Quarter Meeting

PricewaterhouseCoopers presented their 2009 financial statement audit approach and areas of audit emphasis to the committee. The key areas of audit emphasis are: (1) Rocky Reach FERC License; (2) accounting for 2009 bond refunding; (3) potential contingencies; (4) capital expenditures and conservation; (5) wholesale power sales and new long-term power contracts; and (6) the new fixed asset system. PwC's year-end field work will begin in February, with a tentative opinion date of March 26, 2010.

The committee chair provided an update on the State performance audit.

Enterprise risk management department shared a report that has been developed to monitor hedge limits. The report is updated weekly.

Internal audit provided the committee with a summary of Internal Audit reports from September 2004 through December 2009. The summary will be presented annually to the committee. Status of where Internal Audit ended the year with their 2009 work plan was reviewed. The 2010 Internal Audit work plan was reviewed and approved by the committee.

Internal Audit noted that the Audit Committee self-assessment questionnaires will be sent out in mid-February. This is a requirement of the charter and results are reported to the Audit Committee at its next regular meeting.