



CHELAN COUNTY

# Audit Committee

## **2021 Annual Report**

February 22, 2022





# 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, Senior Manager for Customer Utilities, Generation & Transmission, District Services and the Chief Financial/Risk Officer.



Thanks to Commissioner Smith and Commissioner McKenna for their service on the Audit Committee in 2021.



Welcome Commissioner Congdon in 2022.





# Meeting Highlights

1st Quarter  
March 2021



## External Auditors

PricewaterhouseCoopers (PwC) provided an unqualified opinion on the combined financial statements for fiscal year 2020. Procedures were performed to address identified risks.

PwC concluded there were no material uncertainties related to events and conditions, specifically going concern issues. Management disclosed all significant risks. No instances of fraud or illegal acts were found during the audit.



## Internal Audit

Pcard and expense report reviews for 2020, as presented to the Committee, showed significant decreases in activity because of COVID-19 related travel restrictions. The District processed approximately 1,200 fewer expense reports and approximately 2,300 fewer Pcard transactions. Noncompliance trended downward as expected given lower volumes of activity with COVID-19 travel restrictions. The main noncompliance theme was lack of supporting documentation. 2020 proposed Pcard improvement plans are continuing on schedule and resulted in providing protective sleeves to minimize inadvertent use, consolidating cards and creating accessible easy-to-use guidance and improved reporting.

Internal Audit updated the Committee on a consulting review working with management on the Environmental Program which included oil spill response and hazardous materials management. Audits in progress include Reliability Compliance Internal Controls and 04-01B-Rock Island Powerhouse 1 B5-B10 Unit Rehabilitation Contract Reconciliation.



## Enterprise Risk Management

Enterprise Risk Management (ERM) provided the Committee with an update on District risks including the COVID-19 pandemic and fire/storm damage to transmission and distribution.



# Meeting Highlights Cont.

## 2 2nd Quarter June 2021



### External Auditors

The State Auditor's reported on the compliance examination of the Energy Independence Act ("Act"). The District complied with its renewable energy target in accordance with the Act's requirements for the period January 1, 2020 through December 31, 2020. The target of 254,828 MWh was fairly stated and developed in accordance with the Act. This is the ninth consecutive period of District complied with the Act's requirements.



### Internal Audit

The 04-01B Rock Island Powerhouse 1 Contract Reconciliation Consulting report was shared with the Committee. This engagement covered payments made on the contract for the 4th, 5th, and 6th units from the date work was ordered on the 4th unit (2016) to current. Procurement and Contract Services management requested Internal Audit assist staff with reconciling the department's accounting of invoice payments under the contract.

The results of the periodic Internal Audit Self-Assessment, conducted as part of the Internal Audit Quality Assurance Improvement Plan, was provided. Based on the results, Internal Audit complies with The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and the IIA Code of Ethics. The next external assessment of the Internal Audit department will occur in mid-2023.

An update of the 2021 Internal Audit workplan indicated the consulting review of Business Cases and Expected Benefits is in progress.



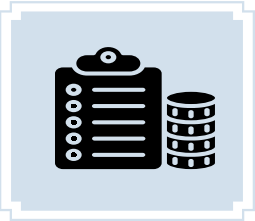
### Enterprise Risk Management

Enterprise Risk Management provided the Committee with an update on District risks including the continued COVID-19 pandemic.



# Meeting Highlights Cont.

3 3rd Quarter  
Sept. 2021



## External Auditors

PricewaterhouseCoopers discussed their audit plan for the 2021 financial statement audit. Areas of consideration include:

- District Strategy
  - o Power hedging strategy;
  - o Keep future rates stable and affordable;
  - o New long-term slice agreements; and
  - o New service center.
- Industry
  - o Volatile wholesale power prices;
  - o Safety and security focus; and
  - o Environmental impacts of generation.
- Regulatory
  - o Regulation by FERC; and
  - o Dam license terms.
- Macro
  - o COVID-19 impacts;
  - o Impacts of extreme weather events; and
  - o Economic conditions within the service territory.

The timeline includes year-end fieldwork through March and a final opinion by April 12, 2022.



## Internal Audit

Internal Audit shared the Reliability Compliance Consulting Report. The objective of this engagement was to evaluate the Reliability Compliance Internal Control Program for effectiveness in achieving program goals from 2020 to current. The analysis included:

- Identifying best practices for an internal control program;
- Documenting the current process used to identify risks and related internal controls; and
- Comparing the current process to identify best practices and document any gaps and identify and potential risks.



# Meeting Highlights Cont.

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3rd Quarter  
Sept. 2021 cont.

## Internal Audit Cont.

An update on the Employee Hotline was provided. The Hotline was established in 2013 to help promote the District's strong values and to provide employees a secure and confidential method of reporting any belief a violation of law or policy has occurred. When an employee submits a report, it is entered directly on a third-party secure server to prevent any possible breach in security. A triage team consisting of Human Resources, Legal, and Internal Audit research and respond to reports.

An update was provided on the ongoing Pcard improvements and identified the Training/Education measure is in progress. This includes annual in-person training, periodic training sessions with Administrative Assistants, and an online training tool. Currently, Internal Audit reports noncompliance to the Audit Committee by Pcard. Starting in the third quarter, noncompliance will be tracked by transaction and dollar amount for annual report purposes.

Status of the 2021 Internal Audit workplan indicated that a review of C2M Customer Billing System is in progress.



## Enterprise Risk Management

Enterprise Risk Management provided the Committee with an update on District risks including the risk and mitigation of utility materials shortages.



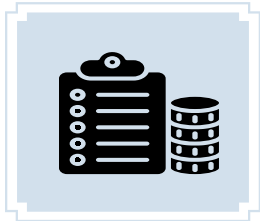
## Compliance

General Counsel completed the Disclosure Questionnaire and results were reviewed and discussed with the Senior Team.



# Meeting Highlights Cont.

4 4th Quarter  
January 2022



## External Auditors

The State Auditor's Office (SAO) shared the results of the 2020 Accountability Audit. The following areas were reviewed:

- Self-Insurance – property, health and welfare, unemployment, and workers compensation
- Senior and Low-Income Discounts
- Helping Hands Program
- Payroll - leave codes related to COVID-19
- Architectural and Engineering Services
- Procurement - public works and contractor payments for the Service Center Project

In those selected areas, the District complied in all material respects with applicable state laws, regulations, and its own policies, as well as provided adequate safeguarding of public resources. State Auditor's commended the District on their exemplary performance resulting in a clean audit with no recommendations for improvement, an exceptional accomplishment in the auditor's opinion.

A Department of Labor & Industries audit reports on Workers Compensation was provided to the Committee. The audit focused on employee communications in accordance with the WACs. All claims reviewed were handled within the appropriate WAC timelines.



## Internal Audit

Internal Audit discussed the 2021 Internal Audit workplan and noted all reviews for the year were completed except for the following:

- Fiber Service Billing and New Portal (carryover to 2022)
- C2M Customer Billing System – (in progress)

# Meeting Highlights Cont.

## 4 4th Quarter Jan. 2022 Cont.

### Internal Audit Cont.

Internal Audit shared the Business Case Process and Expected Benefits Consulting Engagement Report. The objectives of this engagement was to evaluate the business case process District-wide and identify areas of improvement that will provide management opportunities for enhanced effectiveness and efficiency in their processes. Specifically, Internal Audit considered:

- When should a business case be completed?
- If a template is used, does it contain enough information to make informed decisions and measure the expected benefit?
- Is a post-project review completed and if so, is the process effective to evaluate results?

Internal Audit presented the 2021 Annual Report and noted the department successfully met its goals in 2021. Annual productivity was 76% with a goal of 75%. Audit activities include audits, expenditures (i.e., payroll, AP, Pcard), management support, reliability compliance, and quality assurance. The 2021 audit plan completion was 89%. The report showed Internal Audit followed up on 21 recommendations with 11 resolved and 10 outstanding. The report also included statistics on allocation of direct audit hours, departmental budget, and audit customer survey responses including a customer satisfaction rating of 4 out of 4.

Internal Audit also presented the draft 2022 Audit Plan. After interviews with District personnel on suggested areas for review, a planning matrix was compiled. The matrix shows all risks considered for review by Internal Audit, those risks better suited for management to address, or excluded from the plan and audit considerations for 2023. After discussion, the 2022 Audit Plan was approved.



### Enterprise Risk Management

Enterprise Risk Management provided the Committee with an update on District key risks including a continued focus on the risk and mitigation of utility materials shortages.

# Meeting Highlights Cont.

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## 4 4th Quarter Jan. 2022 cont.



### Financial Reporting

The External Financial Reporting Manager provided an update on Regulatory Accounting for Pensions. It was explained that each year the District adjusts its share of the actuarially determined PERS pension amounts to reflect the Department of Retirement System's (DRS) valuation. The 2021 valuation shows that PERS Plans 2 and 3 are overfunded. This will require a net pension asset rather than a liability in 2021. Due to the volatility of the valuations, Finance plans to request the Board approve the use of regulatory accounting which would allow the District to depart from the GASB 68 requirement to record the actuarially calculated pension expense, and instead record the actual cash contribution to the plans. The use of regulatory accounting would align the District's accounting treatment with pension expense calculations used for rate-making purposes.



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## OUR MISSION

To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.