



CHELAN COUNTY

Audit Committee

2022 Annual Report

February 21, 2023

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 Congdon and Commissioner McKenna for their service on the Audit Committee in 2022.

Welcome Commissioner Smith in 2023.



Meeting Highlights



1st Quarter
March 2022



External Auditors

PricewaterhouseCoopers (PwC) provided an unqualified opinion on the combined financial statements for fiscal year 2021. Procedures were performed to address identified risks.

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

The State Auditors upcoming 2021 audits include Clean Energy Transformation Act, Energy Independence Act - 2022/2023 energy conservation target work, 2020/2021 energy conservation compliance, 2021 renewable energy compliance and 2021 Accountability.



Internal Audit

Pcard and expense report reviews for 2021, as presented to the Committee, showed continued decreases in activity because of COVID-19 related travel restrictions. The District processed 673 expense reports, less than half the five-year annual average and Internal Audit and Accounts Payable covered 29% of the total reports processed. Of the total 8,394, Pcard transactions and \$2,728,306 spent Internal Audit reviewed 1,115 transactions amounting to approximately \$487,000. Noncompliance trended downward as expected given lower volumes of activity with COVID-19 travel restrictions. The main noncompliance themes were missing supporting documentation and incorrect reporting of sales and use tax for PCards only. Pcard improvement plans are continuing on schedule and 2021 resulted in providing additional metrics for Senior Team reporting.

Audits in progress on the 2022 Internal Audit workplan were discussed with the Committee.



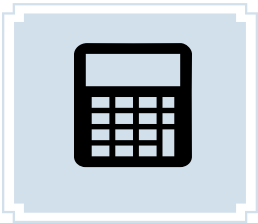
Enterprise Risk Management

Enterprise Risk Management provided the Committee with an update on District risks including the utility materials shortages due to supply chain issues, loss of business continuity due to technology or cybersecurity attacks, fire/storm damage to transmission and distribution and non-power train asset failure.

Meeting Highlights Cont.



2 2nd Quarter
June 2022



Financial Reporting

Accounting discussed the need to negotiate a new contract with the external auditors. The current contract expires in August 2022. Staff is satisfied with the qualifications, performance and independence of the auditors. The Committee approved to negotiate a new contract and extend audit services for an additional three years. A resolution will be presented to the Board of Commissioners for approval in August.



Internal Audit

2022 Internal Audit workplan - Business Systems IT Governance follow-up was reviewed and audits in progress include Procurement & Construction Fraud Risk Assessment and Maintenance Planning Standards.

Internal Audit is working with Communications to create several one page audit tips related to common fraud themes.

The biennial Committee Self-Assessment survey results were discussed.



Enterprise Risk Management

Enterprise Risk Management provided the Committee with an update on District risks including continued networks supply chain challenges and monitoring of potential competition for fiber business.



Compliance

The final WECC audit report with no findings was received on June 28.

Meeting Highlights Cont.

3 3rd Quarter
Sept. 2022



External Auditors

PricewaterhouseCoopers discussed their plan for the 2022 financial statement audit. Areas of risk consideration include:

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

The timeline includes year-end fieldwork through March and a final opinion by April 12, 2023.

The State Auditor's notified the District that the 2021 Accountability audit will not occur this year due to staffing challenges. The audit will resume in 2023 and include years 2021 and 2022.

The Department of Revenue is currently auditing the District for years 2019-2022.

Meeting Highlights Cont.

3 3rd Quarter
Sept. 2022 cont.



Financial Reporting

Accounting reviewed new requirements under GASB 87 Lease Accounting Standards and determined, of the 21 lessee agreements and 112 lessor agreements, three material leases qualify under the new requirements.



Internal Audit

Internal Audit shared the C2M Billing System audit report. As a result of the review, changes are underway that include focusing on improving project management, workload prioritization and resource limitations.

2022 Internal Audit workplan - Audits in progress include wrapping up the Procurement and Construction Fraud Risk Assessment, the Maintenance Planning Standards with an expected year end completion. The Electrical Safety/Arc Flash review has been changed to the Safety Hot Work Program.



Enterprise Risk Management

Enterprise Risk Management provided the Committee with an update on District risks including the concrete growth effects on Rock Island Drop Gate Structure.



Compliance

Internal Audit reviewed a neighboring utility small asset fraud wherein a former employee misappropriated \$13,787 by maintaining possession of assets for personal use.

Meeting Highlights Cont.

4 4th Quarter
January 2022



Internal Audit

Internal Audit discussed the 2022 Internal Audit workplan and noted all reviews for the year were completed except for the following:

- Fiber Service Billing and New Portal (in progress and carryover to 2023)
- Cultural Resources Program (in progress and carryover to 2023)
- Hot Work Program (in progress and carryover to 2023)
- Maintenance Planning Standards (in progress and carryover to 2023)

Internal Audit presented the 2022 Annual Report which covers the group's activities, audit plan completion and expenditures for the year. Annual productivity for the department was 73% (goal of 75%) measured by time spent on audit activities that include audits, consulting reviews, expenditure reviews (i.e., Payroll, Accounts Payable, Pcard, Expense Reports), management support, reliability compliance assistance, and quality assurance. The 2022 audit plan completion was 80% (goal of 80%). The report showed Internal Audit followed up on 10 prior recommendations with 5 resolved and 5 outstanding. The report also included statistics on allocation of direct audit hours, departmental budget, and audit customer survey responses (customer satisfaction rating of 4 - Very Good out of 4).

Internal Audit also presented the draft 2023 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 and other time commitments. After review and discussion, the 2023 Audit Plan was approved.



Enterprise Risk Management

Enterprise Risk Management provided the Committee with an update on District key risks including a discussion on protecting the District from hostile intent including substation incident mitigation.