



CHELAN COUNTY

AUDIT COMMITTEE

2020 Annual Report
February 16, 2021

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.

Meetings Summary

March 2020-First Quarter Meeting

PricewaterhouseCoopers (PwC) provided an unqualified opinion on the combined financial statements in accordance with Generally Accepted Government Auditing Standards for fiscal year 2019. Based on the results of the audit, PwC has concluded that there are no material uncertainties related to events and conditions, specifically going concern issues. PwC received full cooperation of management and employees and had no disagreements with management. Management disclosed all significant risks. No instances of fraud or illegal acts were found during the course of the audit.

Areas of focus included (1) management override of controls; (2) fraud in revenue recognition related to wholesale sales; (3) asset retirement obligations; (4) capital vs. expense classification; (5) accounting for power contracts and other derivatives; (6) regulatory assets; (7) accruals and long-term debt; (8) fiduciary activities; (9) Alcoa and (10) Microsoft contract.

Internal Audit updated the Committee on the 2020 audit plan status and results of the Enterprise Risk Management – Mitigation Plans review.

Pcard and expense report reviews for 2019 are complete and results were presented to the Committee. Due to process changes in 2018, the number of expenses reviewed decreased, although Accounts Payable and Internal Audit still reviewed a quarter of the reports processed in 2019. Noncompliance averaged 33% for the past five years and themes are primarily policy-related, not unallowable expenses requiring reimbursement or losses of public funds.

Internal Audit reported that the District averages approximately 250 active PCard users annually. Noncompliance has been on an upward trend since 2017 and themes are primarily policy related. However, in 2019, staff inadvertently used the PCard for personal purchases more often than in past years. In most of these cases, staff reimbursed the District during the monthly PCard reconciliation process, prior to Internal Audit's review and additional protective measures were implemented to reduce this risk.

Enterprise Risk Management (ERM) provided the Committee with an update on District risks including updates on risk mitigation actions on key risks.

June 2020-Second Quarter Meeting

Internal Audit provided a brief update on the Internal Audit Work Plan and highlighted audit results for Maximo Approval Authority, Business Systems IT Governance Follow-Up, and Accounts Payable 1099 & 1042 Reporting Processes.

Internal Audit discussed vendor modification phishing scams with examples of recent scams in other companies located near the District. Accounts Payable and Treasury discussed the District's internal controls that help keep this from happening at the District.

ERM provided the Committee with an update on District risks including updates on risk mitigation actions on key risks.

The Compliance Manager discussed that at the end of each State legislative session, Bills monitored by External Affairs during the session, that become law are reviewed and assessed by staff for any actions required by the District.

On May 1, 2020, an Executive Order Securing the United States Bulk-Power System was issued. The Order declared a national emergency with respect to the bulk-power system. The bulk-power system includes transmission lines rated 69kV or more but does not include facilities used in the local distribution of electric energy.

On May 21, 2020, the Department of Energy held a Stakeholder call. DOE mentioned that Russia and China have campaign plans focused on the critical infrastructure in the United States. They consider this to be urgent and of paramount national security importance. The Bulk-Power System is critical to that security mission. Since 87% of the critical infrastructure in the United States is owned and operated by the commercial sector (non-federal agency), DOE will be collaborating with the FERC, NERC, and other Federal agencies.

A Draft NERC Alert, Supply Chain Risk III, was received June 4, 2020 with two recommendations; (1) Maintain awareness of country of origin for major equipment (69kV and higher) and (2) Ensure acquisition and asset management policies address country of origin. The Official NERC Alert is expected July 8, 2020.

The General Counsels Office completed the Disclosure Questionnaire on time and shared the issues with the Senior Team for follow-up. These items have been completed or resolved.

Internal Audit discussed the Committee's self-assessment feedback, which was completed by four members. The results were extremely positive. There was one negative outlier response, and it was concluded the responder had intended to strongly agree instead of strongly disagree. Internal Audit will continue on the same track they have been on.

September 2020-Third Quarter Meeting

Moss Adams reported the results of the Premera Claims Audit on the administering of the District's medical benefit plan and the processing of claims. Financial, Payment, and Processing Accuracy within the sample audit were all 100%, which exceeds the industry standard and performance guarantee. Two minor findings were reported due to an incorrect calculation of out-of-pocket maximum and emergency room benefit that resulted in a combined \$87 underpayment to the provider.

PricewaterhouseCoopers discussed their audit plan on the 2020 financial audit. Highlights included independence, risk assessment, materiality, and scoping. The engagement timeline included year-end fieldwork in March and completion of the audit in April.

Internal Audit provided status of the 2020 audit plan noting that The Tool Room Follow-Up and Environmental Program reviews are in progress. The Generation Energy Isolation Program Follow-Up Executive Summary was also discussed. Opportunities for improvement were communicated to the process owners and the recommendation has been resolved. No further follow-up required by Internal Audit.

Internal Audit also provided a PCard improvement update including preventative measures related to increasing efficiency and effectiveness of PCard usage.

ERM provided the Committee with an update on District risks including updates on risk mitigation actions on key risks.

Internal Audit and Compliance reported that the State's 2019 Accountability Audit started and will continue as a virtual audit. Other audits in progress by the State include the 1937, 2019 Renewable Energy Audit and the 2018-2019 Conservation Audit.

January 2021-Fourth Quarter Meeting

The State Auditor's Office (SAO) was in attendance to share the results of the 2019 Accountability Audit. The following areas were reviewed:

- Accounts Payable – general disbursements, electronic funds transfers, travel expenditures and employee reimbursements
- Accounts Receivable – utility collections
- Payroll – leave usage, accruals and cash outs
- Contract Compliance – cash receipting and deposit timeliness
- Treasury Activities – investment activity and authorized investments

In those selected areas, the District complied in all material respects with applicable state laws, regulations, and its own policies and provided adequate safeguarding of public resources.

The SAO 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. The target compliance period was January 1, 2019 through December 31, 2019. The District's renewable energy target of 153,191 MWh was fairly stated and represents nine percent (9%) of its 1,701,677 MWh average retail load sold during the previous two years in accordance with the Act. The SAO also reported on energy conservation compliance. The District complied with its 21,199 MWh energy conservation target and acquired conservation savings sufficient to meet its target in accordance with the Act's requirements. The target compliance period was January 1, 2018 through December 31, 2019. The SAO provided a recommendation to improve internal controls that will ensure all methodologies of the Act are applied in estimating the biennial target.

The External Financial Reporting Program Manager reported on the PwC 2020 financial statement audit. PwC will perform the audit remotely from their offices in Seattle and Portland. The majority

of their work will be completed during the month of March. District staff is currently working on preparing the 2020 financial statements, footnote disclosures and 144 requested audit schedules.

Next an update was provided to the Committee on significant year-end accounting items as follows:

- Annual Adjustment of Pension Amounts

Internal Audit discussed the 2020 Internal Audit Activity Annual Report. The goal for time spent on direct audit hours was set at 75%. Actual productivity for 2020 was 80% as compared to 77% in 2019. The completion goal is 80% of high priority audits with 73% of Internal Audit's high priority audits completed due to a lack of resources for a portion of 2020. The report also includes a status on improvement opportunities implemented, allocation of direct audit hours, department budget and audit customer survey responses.

Internal Audit provided the draft 2021 Audit Plan. After interviews with District personnel on suggested areas for inclusion in the Audit Plan, a planning matrix was compiled, that demonstrates the potential impact of resource limitations by showing all risk areas considered for review by Internal Audit, management or excluded from the plan. After discussion, the 2021 plan was approved.

ERM provided the Committee with an update on District risks including updates on risk mitigation actions on key risks.