



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners McRae, Barofsky, Schlossberg, Brown, and Carlson
FROM: Deborah Hart, Assistant General Manager/CFO; Aaron Balmer, Acting Financial Services Manager; Rob Freytag, General Accounting & Treasury Supervisor
DATE: August 28, 2024
SUBJECT: 2023 Audit Management Letter Update
OBJECTIVE: Information Only

Attached is the 2023 Audit Management Letter, which includes updates by Management outlining the progress made since the letter was presented to the Board in April. **August 2024 updates are provided on Page 6.**



Communications with Those Charged with Governance

Eugene Water & Electric Board

December 31, 2023



Communications with Those Charged with Governance and Internal Control Related Matters

To the Board of Commissioners
Eugene Water & Electric Board

We have audited the financial statements of Eugene Water & Electric Board (EWEB or the Board) as of and for the year ended December 31, 2023 and have issued our report thereon dated March 19, 2024. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated August 16, 2023, we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. As part of an audit conducted in accordance with U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we considered the Board's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

The supplementary information was subject to certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our planning communication letter dated August 16, 2023.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in Note 1 to the financial statements.

In May 2020, GASB issued statement no. 96, *Subscription Based Information Technology Arrangements*. The Statement defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use, intangible, subscription asset and a corresponding subscription liability, and provides capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. Adoption of this provision required certain restatement to the financial statements as of and for the year ended December 31, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The Statement was effective for fiscal years beginning after June 15, 2022 and the Board adopted the provisions for the year ended December 31, 2023, resulting in no impact to the December 31, 2023 and 2022 financial statements.

No other new accounting policies were adopted and there were no changes in the application of existing policies during 2023. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Unbilled Revenue – Unbilled revenue is a measure of revenue earned through the end of the reporting period that has yet to be billed. This generally represents accounts with billing cycles that start in the reporting year and end in the subsequent year. We have evaluated the key factors and assumptions used to develop unbilled revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

Allowance for Doubtful Accounts – This represents an estimate of the amount of accounts receivable that will not be collected. We have evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Recovery Periods for the Cost of Plant – This represents the depreciation of plant assets. Management's estimate of the recovery periods for the cost of plant is based on regulatory-prescribed depreciation recovery periods. We have evaluated the key factors and assumptions used to develop the recovery periods in determining that they are reasonable in relation to the financial statements taken as a whole.

Other Post-Employment Benefit Obligations – This represents the amount of annual expense recognized for post-employment benefits. The amount is actuarially determined, with management input. We have evaluated the key factors and assumptions used to develop the annual expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Mark-to-Market Adjustment – Certain derivative instruments are marked to market at year end. However, the impact to the statements of revenues, expenses, and changes in net position is deferred in accordance with GAAP. We have evaluated the key factors and assumptions used to develop year-end amounts and have determined that they are reasonable in relation to the financial statements taken as a whole.

Net Pension Liability – This represents the amount of pension liability. The amount is actuarially determined, with OPERS management input. We have evaluated the key factors and assumptions used to develop the annual expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Valuation of Investments – Management’s estimate of investments is based on current market rates and conditions. We evaluated the key factors and assumptions used to develop the valuation of investments and determined that they are reasonable in relation to the financial statements taken as a whole.

Discount Rate for Leases and Subscription-Based IT Arrangements – Management’s estimate of the discount rate utilized to calculate the present value of the future payment streams for leases and subscription-based IT arrangements is based on review of the underlying contract for explicit rates, or in absence of an explicit rate management estimates EWEB’s incremental borrowing rate. We have evaluated key factors and assumptions used to determine the discount rate of leases and SBITA arrangements in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Significant disclosures include Note 2 – Power Risk Management, Note 19 – Commitments and Contingencies, and Note 16 – Retirement Benefits.

Significant Unusual Transactions

We encountered no significant unusual transactions during our audit of the EWEB’s financial statements.

Significant Difficulties Encountered in Performing the Audit

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the Board’s financial statements.

Circumstances that Affect the Form and Content of the Auditor’s Report

There may be circumstances in which we would consider it necessary to include additional information in the auditor’s report in accordance with U.S. GAAS and *Government Auditing Standards*. There were no circumstances that affected the form and content of the auditor’s report.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. No such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has determined certain contracts which meet the definition of lease or SBITA arrangements in accordance with GASB 87 and GASB 96, that fall below a threshold determined by a management policy, and as such will not be recorded in the financial statements. We have evaluated the impact of these passed leases and SBITA arrangements and they are not material individually or in the aggregate. In addition, we noted a work order in commercial operations at year end was not properly closed, and as such proposed proper adjustment.

Uncorrected misstatements identified in the current year are summarized as follows:

- To record leases not capitalized - \$1,143,078 (Electric)
- To record SBITAs not capitalized - \$642,801 (Electric)
- To record leases not capitalized - \$105,391 (Water)
- To record SBITAs not capitalized - \$145,112 (Water)
- To close work orders in commercial operation at year end - \$145,127 (Water)

We noted no corrected misstatements as of and for the year ended December 31, 2023.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 19, 2024.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Audit Findings or Issues

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

This information is intended solely for the use of the Board and members of management and is not intended to be and should not be used by anyone other than these specified parties.

Communication of Internal Control Related Matters

In planning and performing our audit of the financial statements of the Board as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

The following summarizes current year recommendations that we identified in the current year:

Work Order Review: During our testing over open work orders, we noted that one of the work orders selected for testing was in commercial operation at December 31, 2023 and had not been appropriately closed to assets in service. We recommend that all open work orders be reviewed at year end to determine if any are in fact completed and in service at year end so that such assets can be properly classified as assets in service and depreciated.

Management Response: Mike Masters, Water Operations Manager – Management agrees with the recommendation for additional review and will work in collaboration with Finance to perform quarterly analysis to properly classify assets in service.

This communication is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



Portland, Oregon
March 19, 2024

2024 Update: Mike Masters, Water Operations Manager

The Water Division has followed through on the collaboration with finance referenced above. Finance has spearheaded most of the work including:

- Running the last activity date work order report monthly, highlighting all work orders that are aged > 90 days, and those that are aged 31-90 days and distributing to the work order review group monthly to review for their areas of responsibilities.
- Accounting Analyst meets with the work order review group monthly to discuss work order hot topics and work order questions.
- Quarterly review of Work Order Closeout Compliance metrics.
- Quarterly review of high dollar work orders that closed in the current year for audit compliance and follow up with the work order requestors as needed.
- Quarterly review of high dollar open work orders that have not had recent activity and follow up with work order requestors for more information as needed.