

Seattle Public Utilities 2019 Audit Plan

Civil Rights, Utilities, Economic
Development & Arts Committee

December 10, 2019

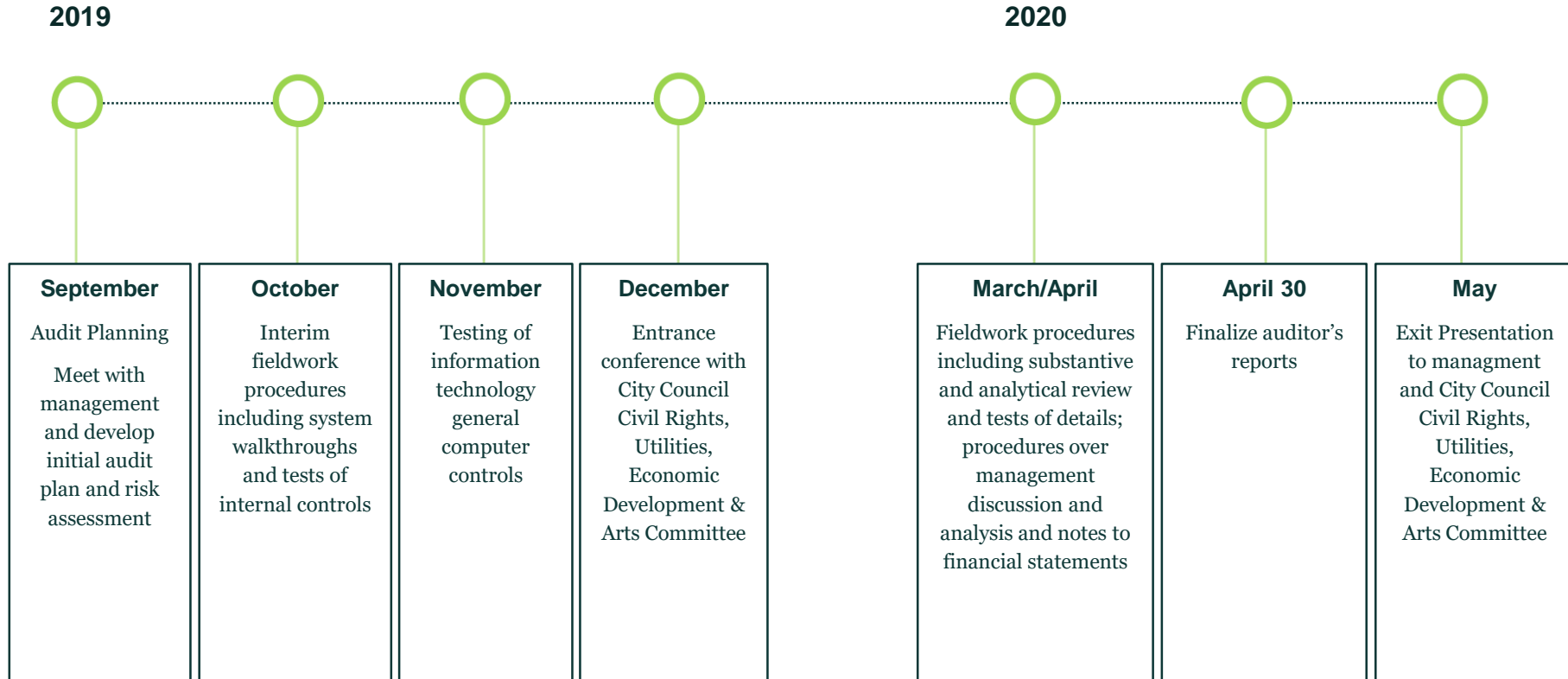


SCOPE OF AUDITS

- Role of auditor and SPU management
- Audits will be conducted in accordance with US Generally Accepted Auditing Standards and *Government Audit Standards*
- Reports to be issued:
 - Report on the audit of the financial statements of:
 - Water
 - Drainage & Wastewater
 - Solid Waste
 - Report on Internal Controls under *Government Auditing Standards*
 - Letter of recommendations and observations on internal controls and related matters



Audit Timing and Phases of Audit





What is Materiality?

It's the amount of a misstatement that could influence the economic decisions of users, taken on the basis of the financial statements.



It's calculated using certain **quantitative** (total assets or revenues) and **qualitative** factors (covenants, expectations of ratepayers and other stakeholders, or industry factors)

It identifies:

- 1 Significant risk areas
- 2 Nature, timing, extent, and scope of test work
- 3 Findings or misstatements



Risk Assessment

- Primary risk areas
 - Revenue recognition
 - Regulatory charges and accounts
 - Utility Plant/work order classification and accounts
 - Management estimate accounts

- Final audit plan to be developed based upon results of our testing of transactions and internal controls



Consideration of Fraud

To identify fraud-related risks of material misstatement, we:

- Brainstorm with audit team
- Conduct personnel interviews
- Document understanding of internal controls
- Consider unusual or unexpected relationships identified in planning and in performing the audit



Auditors must consider fraud to “improve the likelihood that auditors will detect material misstatements due to fraud in a financial statement audit.”

Procedures we perform:

- Examine general journal entries for nonstandard transactions
- Evaluate policies and accounting for revenue recognition
- Test and analyze significant accounting estimates for biases
- Evaluate rationale for significant or unusual transactions



Significant Audit Areas

| | | | |
|---|---|---|---|
| <p>Internal Control Cycles</p> <ul style="list-style-type: none"> • Cash receipts • Cash disbursements • IT general controls • Payroll | <p>Management Estimates</p> | <p>Utility Plant</p> <ul style="list-style-type: none"> • Capitalization policies • Impairment assessment • Work order system | <p>Cash and Investments</p> <ul style="list-style-type: none"> • Reliance on SAO work |
| <p>Accounts and other Receivables</p> | <p>Bond-related Accounts</p> <ul style="list-style-type: none"> • New issuances • Covenant compliance • Debt refundings | <p>Net Position Classification</p> | <p>Regulatory Accounts</p> <ul style="list-style-type: none"> • Deferral of charges • Capitalized interest |
| <p>Environmental Remediation Liability</p> | <p>Revenue Recognition</p> <ul style="list-style-type: none"> • Retail/Wholesale Sales | <p>Liability and Expense Accounts</p> | <p>Note Disclosures</p> |



New Accounting Pronouncements

- **GASB 83** – *Certain Asset Retirement Obligations (effective in 2019)*: Addresses accounting and financial reporting for certain asset retirement obligations. We are working with management to assist in implementation of this standard.
- **GASB 84** – *Fiduciary Activities (effective in 2019)*: Provides guidance on the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Management does not believe that this statement is applicable to SPU.
- **GASB 87** – *Leases - (effective in 2020)*: Addresses the accounting change for the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the underlying contract. We are working with management to assist in implementation of this standard in 2020.
- **GASB 88** – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements– (effective in 2019)*: Clarifies which liabilities governments should include in their note disclosures related to debt. It requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt and also requires governments to disclose additional debt-related information for all types of debt. This standard will impact the footnote disclosures in the 2019 financial statements.



New Accounting Pronouncements – Continued

- **GASB 89** – *Accounting for Interest Cost Incurred before the End of a Construction Period* – (effective in 2020): This statement establishes a requirement for interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. Management has already implemented this statement by invoking regulatory accounting, which allows them to continue capitalizing interest on their bonds to certain capital projects.
- **GASB 90** – *Majority Equity Interests* – an amendment of GASB Statements No. 14 and No. 61 (effective in 2019): This statement improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Management does not believe that this statement is applicable to SPU.
- **GASB 91** - *Conduit Debt Obligations* – (effective in 2021): This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice. Management does not believe that this statement is applicable to SPU.



Audit Team Leadership

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