

INDEPENDENT AUDITORS' REPORT

To the Energy and Environment Committee
The City of Seattle – City Light Department
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of The City of Seattle – City Light Department (the “Department”), an enterprise fund of The City of Seattle, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Department’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Energy Committee
The City of Seattle – City Light Department

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not present fairly the financial position of The City of Seattle, Washington, as of December 31, 2016 and 2015 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other information as listed in the table of contents, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 28, 2017

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Energy and Environment Committee
The City of Seattle - City Light Department
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Seattle, City Light Department (the "Department") as of and for the year ended December 31, 2016, and have issued our report thereon dated April 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. The significant deficiency is item 1.

To the Energy and Environment Committee
The City of Seattle - City Light Department

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Department are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Gilly Vichow Krause, LLP

Madison, Wisconsin
April 28, 2017

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2016

Finding 1 –

Criteria

Maintain adequate processes and controls within the CCB billing system to ensure proper security roles are maintained and it provides reliable reporting.

Condition

Baker Tilly noted the financial internal control documentation associated with the CCB implementation was incomplete as of the financial statement date. In addition, the Department's internal audit personnel was involved in the design and rollout of the IT security controls in the system. It was also noted that reliable billing system reports were not available in the new system and the processes and controls surrounding the billing/revenue adjustments was not consistently maintained during 2016.

Cause/Effect

The Department did not update previously provided internal control documentation during the pre- and post-implementation phases of the CCB implementation within the finance division. Internal audit personnel was also involved in several IT implementation roles of the system which decreases the reliance that can be placed on the future work of the internal audit department related to security over the CCB system. In addition, reliable reporting tools were created with limited verification of accuracy during the implementation and billing system adjustments were not reviewed during the year.

Recommendation

Recommendations related to these issues are not limited to but include the following:

- > Document financial, physical and IT processes and controls associated with CCB
- > Assign a new Security Administrator for CCB outside of the internal audit department
- > Limit reliance on future internal audit work related to security over the CCB system
- > Identify key roles and functions of IT personnel associated with the CCB system
- > Create and verify accurate billing system reports surrounding revenues, accounts receivable, billing consumption and billing adjustments
- > Implement and monitor a process for the review and approval of customer billing and accounts receivable adjustments.

Department Response

We appreciate Baker Tilly's observations and recommendations in regards to the recently implemented CCB billing system and agree that improvements can be made to enhance the areas noted above. Overall, we believe the implementation of the CCB billing system was successful and Department staff are determined to improve daily operations during 2017. Following is some of the work in progress:

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2016

1. Document financial, physical and IT processes and controls associated with CCB
Response: Work on internal control documentation is in progress and the goal is to complete by the end of 2nd quarter 2017. The Department's Business Technology Solutions team is the lead.
2. Assign a new Security Administrator for CCB outside of the internal audit department
Response: Effective in late April 2017, the Department's Business Technology Solutions has been assigned this responsibility.
3. Limit reliance on internal audit work surrounding the CCB system
Response: The Department's Business Technology Solutions team has been assigned responsibility for these areas.
4. Identify key roles and functions of IT personnel associated with the CCB system
Response: The Department's Business Technology Solutions team has been assigned the lead to administer CCB billing system related items including identification of key roles and IT functions.
5. Create and verify accurate billing system reports surrounding revenues, accounts receivable, billing consumption and billing adjustments
Response: Work has been in progress since the start of 2017 to improve reporting from the CCB billing system and including for specific items identified. Work is being led by the Department's Business Technology Solutions team and includes end-users from the Department and Seattle Public Utilities.
6. Implement and monitor a process for the review and approval of customer billing and accounts receivable adjustments.
Response: The Customer Care Division is in the process of re-evaluating review and approval for customer billing and accounts receivable adjustments. Revised procedures, related documentation, and implementation of these procedures is expected to be completed by June 2017.