



Seattle Public Utilities 2018 Audit Plan

Civil Rights, Utilities, Economic
Development & Arts Committee

November 27, 2018



SCOPE OF AUDITS

- Role of auditor and SPU management
- Concept of materiality
- Reports to be issued:
 - Report on the audit of the financial statements of:
 - Water
 - Drainage & Wastewater
 - Solid Waste
 - Report on Internal Controls, if significant deficiencies or material weaknesses are noted
 - Letter of recommendations and observations on internal controls and related matters



TIMING & PHASES OF AUDIT

➤ Audit Planning (October 2018)

- Developed initial audit plan based on information obtained from management

➤ Audit Fieldwork

➤ Internal control testing (October and November 2018)

- Revenue/Cash Receipts, Expenses/Disbursements, Payroll, Work Order System
- General Computer Controls

➤ Final fieldwork (March-April 2019)

- Substantive analytical review & tests of details
- Review of Management Discussion & Analysis and Notes to Financial Statements

➤ Report Preparation & Issuance

- Delivery of audit reports on or before April 30, 2019



RISK ASSESSMENT

- Primary risk areas
 - Revenue recognition
 - Regulatory charges and accounts
 - Plant/work order classification and accounts
 - Management estimate accounts
 - Implementation of the new PeopleSoft GL system and related changes to internal controls

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



AREAS OF AUDIT EFFORT

- Utility plant and related accounts:
 - Capitalization policies
 - Impairment assessment
 - Work order system – sample of transactions

- Bond-related accounts:
 - Set up of new issuances; amortization of existing accounts
 - Compliance with covenants
 - Debt refunding and defeasance

- Cash and investments
- Accounts and other receivables



AREAS OF AUDIT EFFORT - continued

- Liabilities & Contingencies
 - Environmental/pollution remediation liability
 - Litigation and claims

- Regulatory accounts

- Operations
 - Retail and wholesale sales
 - Operating expenses
 - Capital and operating contributions and grants

- Net position classification (equity accounts)

- Management Discussion & Analysis and note disclosures



NEW ACCOUNTING PRONOUNCEMENTS

- **GASB 75** – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – (effective for 2018)*; Addresses accounting and financial reporting issues related to other postemployment benefit plans.
- **GASB 82** – *Pension Issues - amendment of GASB Statements No. 67, No. 68, and No. 73 (effective for 2018)*: Addresses accounting and financial reporting clarifications related to issues identified in statements Nos. 67, 68, and 73.
- **GASB 83** – *Certain Asset Retirement Obligations (effective in 2019)*: Addresses accounting and financial reporting for certain asset retirement obligations.
- **GASB 84** – *Fiduciary Activities (effective in 2019)*: Addresses the improvement of guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- **GASB 85** – *Omnibus 2017 (effective for 2018)*: Addresses practice issues that have been identified during implementation and application of certain GASB Statements.
- **GASB 86** – *Certain Debt Extinguishment Issues (effective for 2018)*: This statement provides guidance for transactions in which cash and other monetary assets acquired with only existing resources, that is, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt.



NEW ACCOUNTING PRONOUNCEMENTS- Cont'd

- **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.
- **GASB 88** – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements– (effective in 2019)*: Addresses accounting and financial reporting issues related to other postemployment benefit plans. Among other things, Statement 88:clarifies which liabilities governments should include in their note disclosures related to debt. Statement No. 88 requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. Statement No. 88 also requires governments to disclose additional essential debt-related information for all types of debt.
- **GASB 89** – *Accounting for Interest Cost Incurred before the End of a Construction Period – (effective in 2020)*: This statement establishes accounting requirements for interest cost incurred before the end of a construction period being recognized as an expense in the period in which the cost is incurred.
- **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.



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