



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: Energy Northwest

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for July 1, 2020 through June 30, 2021 - see draft report.

Audit Highlights

We would like to take a moment to thank Karen Kessler, Johnathan Hicks and Jennifer McMann for working with us and providing the audit team with necessary information.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Work of Other Auditors

A financial statement audit was performed by Baker Tilly for fiscal year 2022. Professional audit standards require us to evaluate relevant work done by other auditors and communicate certain matters to the governing body.

- We performed procedures to ensure we could rely on the work of the external auditors and reference their audit in our audit report. These procedures included consideration of attendance at key meetings, evaluation of the firm's last peer review report, review of the other auditor's work, review of the other auditor's results and communications with the other auditor.
- We did not become aware of any instance in which the work of the other auditors gave rise to concern about the quality of their work.
- There were no limitations that restricted our analysis of the other audit(s). We did not become aware of any instance in which a material misstatement of the financial statements has or may have resulted from fraud or suspected fraud.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/SAOPortal>.

Management Representation Letter

We have included a copy of representations requested of management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$49,000 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in Spring 2023 and will cover the following general areas:

- Accountability for Public Resources
- CPA audit review

The estimated cost for the next audit based on current rates is \$47,000 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

If expenditures of federal awards are \$750,000 or more in any fiscal year, notify our Office so we can schedule your audit to meet federal single audit requirements. Federal awards can include grants, loans, and non-cash assistance such as equipment and supplies.

Working Together to Improve Government

Audit Survey

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation of the Office of the Washington State Auditor is designed to offer services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean, peer-to-peer networking and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to

recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

Tina Watkins, CPA, Assistant Director of Local Audit, (360) 260-6411 Tina.Watkins@sao.wa.gov

Ginny Waltman, Audit Manager, (509)581-3976, waltmang@sao.wa.gov

Debbie O'Leary, CFE, Assistant Audit Manager, (509)581-3973, olearyd@sao.wa.gov

Michelle Kwon, Audit Lead, (509)581-3970, michelle.kwon@sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

Preliminary Draft - Please do not duplicate, distribute, or disclose.

Accountability Audit Report

Energy Northwest

For the period July 1, 2020 through June 30, 2021

Published (Inserted by OS)

Report No. 1030595



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Office of the Washington State Auditor Pat McCarthy

Issue Date – (Inserted by OS)

Board of Directors
Energy Northwest
Richland, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the District's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, District operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of Energy Northwest from July 1, 2020 through June 30, 2021.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the District's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended June 30, 2021, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Payroll – gross wages, overtime, incentive payments and distribution of benefits upon separation
- Accounts payable – general disbursements, credit cards, and electronic funds transfers (EFT)
- Procurement – public works, purchases and professional services
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

A firm of certified public accountants evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Agency's major federal program. That firm's 2021 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Energy Northwest is a joint operating agency, composed of public power utilities that develop energy-generating resources. The Agency is located in Benton County and is governed by an 11-member Executive Board and a 28-member Board of Directors. The Board comprises one representative from each member utility. Member utilities appoint a representative to the board of directors. During fiscal year 2021, the Agency had \$560 million and \$452 million in operating revenues and operating expenses respectively and about 1,042 employees. The Agency has the following seven distinct business units:

- **Columbia Generating Station:** The Columbia Generating Station, located 10 miles north of Richland, is a 1,150 megawatt boiling water nuclear power plant.
- **Packwood Lake Hydroelectric Project** This project consists of a dam at Packwood Lake and powerhouse 1,800 feet below the dam.
- **Nuclear Projects No. 1 and No. 3:** Nuclear Project No. 1, a 1,250 megawatt electric nuclear power plant, and Nuclear Project No. 3, a 1,240 megawatt nuclear power plant, were terminated by the Board of Directors on May 13, 1994. Termination expenses and debt service costs activities related to Project No. 1 are funded through net-billing obligations. The Agency is no longer responsible for any site restoration costs for Project No. 3 as they were transferred with the assets to the Satsop Redevelopment Project. All obligations of the project have been completed and the fund was dissolved by the Executive Board in July 2005. The debt service related activities remain for Project No. 3 and are paid through the net-billing process.
- **Nine Canyon Wind Project:** The Nine Canyon Wind Project consists of 63 wind turbines.
- **Business Development Fund:** The Business Development Fund was created by the Executive Board in April 1997 for the purpose of holding, administering, disbursing and accounting for the Agency's costs and revenue generated from engaging in new business opportunities.
- **Internal Service Fund:** The Internal Service Fund was established in May 1957. It is currently used to account for the central procurement of certain common goods and services for the business units on a cost reimbursement basis.

Contact information related to this report

Address:	Energy Northwest MS PE-60 P.O. Box 968 Richland, WA 99352-0968
Contact:	Karen Kessler, Accounting/Budgets Manager
Telephone:	509-377-8632
Website:	www.energy-northwest.com

Information current as of report publish date.

Audit history

You can find current and past audit reports for Energy Northwest at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

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Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov



Cristina M. Reyff
Vice President, Chief Financial
& Risk Officer
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cmreyff@energy-northwest.com

June 6, 2022

Office of the Washington State Auditor
3200 Capitol Blvd
P.O. Box 40031
Olympia, WA 98504-0031

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of Energy Northwest for the period from July 1, 2020 through June 30, 2021. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.

Office of the Washington State Auditor

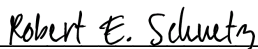
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June 6, 2022

General Representations

- e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.
2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.
3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records.

DocuSigned by:



Robert E. Schuetz

Chief Executive Officer

DocuSigned by:



Cristina M. Reyff

Vice President, Chief Financial/
Chief Risk Officer

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Company Name: Energy Northwest

Robert E. Schuetz

reschuetz@energy-northwest.com

CEO

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Signing Complete	Security Checked	5/24/2022 7:02:35 AM
Completed	Security Checked	5/24/2022 7:02:36 AM

Payment Events	Status	Timestamps
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If you decide to receive notices and disclosures from us electronically, you may at any time change your mind and tell us that thereafter you want to receive required notices and disclosures only in paper format. How you must inform us of your decision to receive future notices and disclosure in paper format and withdraw your consent to receive notices and disclosures electronically is described below.

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If you elect to receive required notices and disclosures only in paper format, it will slow the speed at which we can complete certain steps in transactions with you and delivering services to you because we will need first to send the required notices or disclosures to you in paper format, and then wait until we receive back from you your acknowledgment of your receipt of such paper notices or disclosures. Further, you will no longer be able to use the DocuSign system to receive required notices and consents electronically from us or to sign electronically documents from us.

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To contact us by email send messages to: ECRMSupport@energy-northwest.com

To advise Energy Northwest of your new email address

To let us know of a change in your email address where we should send notices and disclosures electronically to you, you must send an email message to us at ECRMSupport@energy-northwest.com and in the body of such request you must state: your previous email address, your new email address. We do not require any other information from you to change your email address.

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