Audit Results Presentation

Tacoma Public Utilities
Public Utility Board

Presented by Olga A. Darlington, CPA, Partner
olga.darlington@mossadams.com

Introduced by Leda Voigt, City of Tacoma, Utilities Accounting Division Manager
lvoigt@cityoftacoma.org

June 26, 2019
To the Members of the Public Utility Board – Tacoma Public Utilities

- Tacoma Public Utilities - Power, Water, and Rail Division

Thank you for your engagement of Moss Adams LLP. We are pleased to have the opportunity to meet with you to discuss the results of our audit of the financial statements of the Divisions as of and for the year ended December 31, 2018.

The accompanying presentation, which is intended solely for the use of the Board and Management, and not intended to be and should not be used by anyone other than these specified parties, presents important information regarding the Divisions’ financial statements and our audit that we believe will be of interest to you.

We conducted our audit with the objectivity and independence that you expect. We received the full support and assistance of Divisions’ personnel. We are pleased to serve the utilities as independent public accountants and look forward to our continued relationship.

Sincerely,

Olga A. Darlington
Moss Adams LLP
Auditor’s Report on the Financial Statements

Unmodified Opinions – What you want!

- Financial statements are presented fairly and in accordance with US GAAP – following pronouncements promulgated by the Governmental Accounting Standards Board (GASB)
- Tacoma Public Utilities - Power, Water, and Rail Divisions – reports issued May 28, 2019

Audit and report on internal control and compliance over financial reporting in accordance with Government Auditing Standards

- No material weaknesses in internal control
Area of Audit Emphasis

**Internal Control Environment**
- Cash receipts/revenues, cash disbursements/payables, payroll, power trading, treasury, financial close and reporting;
- Our IT specialists tested the IT applications and IT general computer controls that support the various financial reporting systems;

**Treasury**
- Coordination with State Auditor’s Office testing of cash and investment balances for existence, valuation, restrictions and classification; evaluation of fair value;

**Capital Assets**
- Consideration of capitalization policies, as well as testing of additions, retirements, overhead application, capitalized interest, depreciation;
Area of Audit Emphasis, continued

**Debt Activity**
- Debt repayments, arbitrage liability, capitalized interest, discounts and premiums, compliance with debt covenants; third party confirmations with financial institutions;

**Net Pension and OPEB Liability**
- Recognition of share of the liability for employees’ future pension and OPEB obligations as part of TERS plans;
- Employer liability and related deferred inflows/outflows including employee census and contributions made to TERS;
- Implementation of GASB 75 for OPEB reporting resulted in restatement of 2017 results for all funds, as disclosed in notes;

**Revenues and Expenses**
- Vouching of cash receipts and timing of revenue recognition;
- Third-party confirmations with largest commercial power purchasers;
- Analytical testing of revenue and expenses;
Our Responsibility Under Auditing Standards

1. To express our opinion on whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, and conform to US GAAP. However, our audit does not relieve you or management of your responsibilities.

2. To perform an audit in accordance with generally accepted auditing standards issued by the AICPA and Government Auditing Standards issued by the Comptroller General of the United States and design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.

3. To consider internal control over financial reporting as a basis for designing audit procedures but not for the purpose of expressing an opinion on its effectiveness or to provide assurance concerning such internal control.

4. To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.
Required Audit Communications

**Planned Scope and Timing of Audit**
- The planned scope and timing of the audit was communicated through management’s communication to PUB in January 2019, and was included in the engagement letter dated October 29, 2018;
- Our audit was performed according to the planned scope;

**Significant Accounting Policies**
- See notes to the financial statements - there were no changes to significant accounting policies for the year ended December 31, 2018;
- Implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), resulted in restatement of December 31, 2017 results;

**Accounting Estimates**
- Note 2 discloses the Divisions’ significant accounting policies:
  - Allowance for doubtful accounts
  - Unbilled revenues
  - Depreciable lives and estimated residual value of plant
  - Actuarial valuations for pension and OPEB amounts
Consultation with Other Accountants
• None noted

Disagreements with Management
• No disagreements or difficulties in performing the audit

Potential Effect of Any Significant Risks and Exposures
• The Divisions are subject to potential legal proceedings and claims that arise in the ordinary course of business.
Audit Adjustments and Passed Audit Adjustments

**Audit Adjustments**
- None

**Passed Audit Adjustments**
- Three passed audit adjustments:
  - Power Fund – to accrue approximately $1,996,000 of invoices that should have been accrued at the end of 2018.
  - Water Fund – to account for the likely variance in estimated unbilled revenue resulting from re-invoicing issues that occurred during the first part of January 2019, which decreased the receivable and revenue balances by $479,000.
  - Rail Fund – to increase the unrestricted net position in prior year due to an error from previously produced GASB 10 Incurred But Not Reported (IBNR) adjustment report. The adjustment increased the expense in the current year by $987,967.
New Accounting Standards

GASB 83 – Asset Retirement Obligations
- Addresses accounting and financial reporting for certain asset retirement obligations;
- Effective for 2019 financial statements;

GASB 84 – Fiduciary Activities
- Addresses guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported;
- Effective for 2019 financial statements;

GASB 87 - Leases
- Addresses accounting and financial reporting for leases recognizing that leases are financings of the right to use an underlying asset;
- Effective for 2020 financial statements;
The audit progressed in an orderly fashion; requested schedules were received on a timely basis.

All personnel across all departments were courteous, responsive, and fulfilled all of our requests in a timely manner.

‘Tone at the Top’ and attitude from management was one of helpfulness and openness in response to audit requests and discussion points.

Thank you!
TODAY’S DISCUSSION

Overview of TPU Fleet Services

Utilization Study & Roadmap

Efficiencies & Cost Savings

Environmental Update

What’s Next?
Fleet Overview

OPERATIONS | shop operations 5 days a week and on call 24/7 to support Tacoma Public Utilities

EQUIPMENT | Approximately 1,200 pieces of equipment

BUDGET | $14 million biennial budget

STAFF | 28 FTE’s
Challenges

- Turnover of Fleet Managers in recent years
- Backlog of vehicle replacements
- Inconsistent practices across different divisions
- Dated policies, procedures, and ordinance
- Difficulty in accessing data and information
Fleet Utilization Study

- Review and evaluate existing operations and practices
- Analyze and evaluate the number and type of vehicles supporting TPU operations
- Develop report and identify gaps and areas for improvement
- Recommend industry best practices
Efficiencies & Cost Savings

- Established a Fleet Advisory Committee
- Identified and surplus over 25 pieces of equipment
- Established a review process for additions and replacements
- Implementing fuel management system
- Identified several opportunities to share existing equipment
Collaboration at Work

New Shared Vehicle

Vehicles turned in for surplus
Environmental

• Joined the West Coast Electric Fleets Initiative

• Partner with public and private fleets up and down west coast

• Committed to 3% of our annual fleet vehicle purchases to zero emission vehicles

• Every new vehicle purchased is evaluated to meet operational and environmental goals
Environmental
What’s Next?

• Continue to make progress on roadmap and improve processes with communication across all Divisions

• Revise existing ordinance

• Develop and report on KPIs that reflect operations