



Low-Income Rate Assistance Program (LIRAP)

Accounting Practices Audit

Report Date: June 2014

BACKGROUND

As outlined in the Washington State Utilities and Transportation Commission (WUTC) Settlement Stipulation for Dockets UE-100467 and UG-100468, Avista Corporation (the Company) agreed that Internal Audit will perform an annual audit, for fiscal years ended 2010 through 2013, of current accounting practices (including LIRAP programs) relating to compliance with regulatory treatment of utility expenditures, accuracy of jurisdictional allocations, and allocations between utility and non-utility accounts for subsidiary and corporate-wide shared expenses.

This report documents the nature and results of our audit, and any recommendations for improving the accuracy and propriety of LIRAP accounting practices.

Based on professional auditor judgment, the LIRAP program was identified as a separate audit and was subject to different audit procedures than the Accounting Practices Audit. As such, a separate audit report was issued for the Accounting Practices Audit.

NATURE OF AUDIT

We used the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing as guidelines while performing our audit. An audit includes examining, on a test basis, evidence supporting the accuracy of management's assertions; in this case, that LIRAP transactions are being accounted for appropriately. As such, the audit was planned and performed to obtain reasonable assurance that the Company is appropriately accounting for LIRAP transactions.

We believe our audit provides a reasonable basis for our conclusion.

OBJECTIVE

The objective of this audit is to provide reasonable assurance that the Company is in compliance with Washington LIRAP tariff riders and that LIRAP tariff rider revenues, allocation of revenues to Community Action Agency's (CAA's), and expenses are appropriately recorded.



SCOPE

The scope of this audit included all LIRAP tariff rider revenues, allocation of revenues to CAA's, and expense transactions that occurred from 1/1/13-12/31/13. Due to the nature of the audit objective and variations in types of transactions, Internal Audit stratified the population into two specific subsets:

Subset A: This population included all transactions from the monthly LIRAP tariff rider revenue journal. This journal records LIRAP tariff rider revenue through FERC account 908600 and the associated liability to FERC account 242770. Based on professional auditor judgment and commonly accepted standards, three months were randomly selected for review. The LIRAP tariff rider revenue and allocation of revenues to CAA's were recalculated and traced to the LIRAP Accounts Payable Sub ledger. Additionally, the FERC account, jurisdiction, and service were reviewed to ensure appropriate recording. The sample size was derived from the American Institute of Certified Public Accountant's (AICPA) tests of controls sampling guidelines.

Subset B: This population included all LIRAP program expenditure transactions from FERC account 242770. The total number of transactions included in this population is 1,076. Based on professional auditor judgment and commonly accepted standards, a random sample of 93 transactions was determined to be appropriate for this population. The sample size was derived from the AICPA published statistical sample size tables using a confidence interval of 95%, tolerable deviation rate of 5%, and an expected population deviation of 1%.

We determined an attribute sampling plan appropriate as it determines the rate of compliance with established criteria. The FERC account, jurisdiction, and service were reviewed to ensure that the expenditure transaction is an appropriate LIRAP program expense.

Sufficient and competent evidential matter was obtained to gain reasonable assurance that items are appropriately recorded.



GENERAL FINDINGS

No errors were noted during testing of Subset A or Subset B.

CONCLUSION

In Subset A, based on the procedures performed by Internal Audit, we can conclude that LIRAP tariff rider revenues and allocation of revenues to CAA's are appropriately recorded.

In Subset B, we can conclude with 95% certainty that appropriate accounting of LIRAP expenditure transactions are occurring within our tolerable rate.

