



Accounting Practices Audit

Report Date: May 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, including a list of incorrect treatment of costs, and recommendations for improving the accuracy and propriety of accounting practices.

Based on professional auditor judgment, the LIRAP program was identified as a separate audit and was subject to different audit procedures. As such, a separate audit report was issued for the LIRAP program's accounting practices.

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 utility expenditures are being accounted for appropriately. As such, the audit was planned and performed to obtain reasonable assurance that the Company is appropriately accounting for expenditures.

We determined an attribute sampling plan appropriate as it determines the rate of compliance with established criteria. The FERC account, service, and jurisdiction were the attributes reviewed. Attribute sampling plans do not take materiality and/or dollar values into consideration. We designed our attribute sampling plan by using professional auditor judgment and commonly accepted confidence intervals (95%) and tolerable deviation rates (5%).

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



OBJECTIVE

The objective of this audit was to provide reasonable assurance that the Company is in compliance with the regulatory treatment of utility expenditures and that the allocations between utility and non-utility accounts, service, and jurisdictions are appropriate.

SCOPE

The scope of this audit included all expenditure transactions in FERC accounts 400-935 that occurred from 1/1/13-12/31/13, with the sampling unit defined as a single expenditure transaction item. Due to the errors noted during the 2010, 2011, and 2012 Accounting Practices Audit and auditor assessed risk, Internal Audit focused the 2013 audit on purchase (voucher, credit card, and iExpense) transactions and identified two specific subsets:

Subset A: This population includes all voucher transactions in FERC accounts 400-935. The total number of transactions included in this population is 48,777 with a debit balance of \$73,566,110. Based on professional auditor judgment and commonly accepted standards, a random sample of 286 transactions was determined to be appropriate for Subset A. The sample size was derived from the American Institute of Certified Public Accountant's (AICPA) published statistical sample size tables using a confidence interval of 95%, tolerable deviation rate of 5%, and an expected population deviation of 2.75%.

Subset B: This population includes all credit card and iExpense transactions in FERC accounts 400-935. The total number of transactions included in this population is 28,325 with a debit balance of \$2,985,564. Based on professional auditor judgment and commonly accepted standards, a random sample of 361 transactions was determined to be appropriate for Subset B. 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 3%.

In order to ensure the completeness of all expenditure items, some revenue accounts and transactions were included in these populations. As revenue transactions were outside the scope of this audit, they were replaced with the next random sample if selected. Additionally, limited procedures were performed over the remaining population not included in Subset A or Subset B (non-purchase transactions in FERC accounts 400-935).

Sufficient and competent evidential matter was obtained for each selected expenditure transaction to gain reasonable assurance that items were appropriately allocated to the proper FERC account, service, and jurisdiction.



GENERAL FINDINGS

In Subset A, out of our random sample of 286 expenditure transactions, 7 were identified as an error with at least one attribute (FERC account, service, and jurisdiction) being inappropriately allocated. Please refer to Exhibit A for the Summary of Findings in Subset A.

In Subset B, out of our random sample of 361 expenditure transactions, 9 were identified as an error with at least one attribute (FERC account, service, and jurisdiction) being inappropriately allocated. Please refer to Exhibit B for the Summary of Findings in Subset B.



OBSERVATIONS AND RECOMMENDATIONS

Based on the recommendations from the previous Accounting Practices Audits, the Company made improvements in the following areas:

- A project/task validation tool was created and made available to employees; which also allows for a review of the distribution (service and jurisdiction) of a project.
- A memo from the Vice President of State and Federal Regulation is distributed to every employee, on a semi-annual basis, to remind and emphasize the Regulatory Accounting Policies and Guidelines.
- Detective controls, including the review of specific accounts and expenditure types, were implemented in 2011. It was noted that several transactions were corrected prior to the 2013 audit. Per discussion with the Accounting Analyst responsible for the review, the number of transactions requiring adjustment has decreased since the implementation of the review.
- Errors from the 2012 Accounting Practices Audit were communicated to the employee submitting the expense and their supervisor to increase awareness about errors. Additional training was provided if needed.
- Formal training was provided to the Company's employees and accounting guidelines were developed, communicated, and made available to all employees. An online training is available to all employees and communicated to new employees.
- Experts within the Company were identified as a resource for employees to provide departments with guidance and support to ensure compliance with the Company's accounting guidelines.
- The Oracle iExpense module was modified to reject all expenses charged to FERC account 920 (Labor).

The following recommendations have been identified by Internal Audit as a result of the 2013 Accounting Practices Audit:

- We recommend the Company communicate the results and observations of the Accounting Practices Audit to department leaders, with an emphasis on the type and nature of the errors.



- We recommend the Company continue to provide formal training on the Company's accounting guidelines on an annual basis, which includes regulatory accounting and expense allocation guidelines, with a focus on iExpense and credit card transactions.
- We recommend the Company communicate the importance of appropriate and sufficient expense descriptions on vouchers, iExpense, and credit card transactions.
- We recommend the Company communicate all identified errors from the 2013 Accounting Practices Audit to the employee submitting the expense and their supervisor to increase awareness about errors. Additional training should be provided if needed.

CONCLUSION

In Subset A, based on the procedures performed by Internal Audit, we can conclude with 95% certainty that appropriate accounting and allocation of utility expenditures is occurring within our tolerable rate.

In Subset B, we can conclude with 95% certainty that appropriate accounting and allocation of utility expenditures is occurring within our tolerable rate.

As we performed an attribute sampling plan to determine the frequency of errors, materiality and dollar values were not taken into consideration. Further, as the allocations between service and jurisdiction vary, the dollar value of the errors in the population may also offset each other. Therefore, dollar value extrapolation of errors across the population is not feasible and each error must be assessed individually.



Exhibit A Summary of Findings in Subset A

Error #	Error Type			Summary		Dollar Value ¹
	FERC Account	Service	Jurisdiction	Current Incorrect Accounting*	Correct Accounting*	
Non-Utility						
1	X	X	X	935000.CD.AA	Non-Utility	\$ 195.46
FERC Account Only						
2	X			921000.CD.AA	923000.CD.AA	\$ 830.42 ✓
Jurisdiction Only						
3			X	880000.GD.AA	880000.GD.OR	\$ 349.00
4			X	588000.ED.WA	588000.ED.AN	\$ 495.00
5			X	931000.ED.WA	931000.ED.AN	\$ 350.00
6			X	880000.GD.OR	880000.GD.AA	\$ 112.00
Multiple Attributes						
7		X	X	935000.GD.WA	935000.CD.AN	\$ 91.61

¹ This represents the dollar value of the transaction selected and is included for informational purposes. It may not represent the dollar impact of the error to ratemaking services and jurisdictions.

✓ This error does not affect overall costs allocated to customers because both FERC accounts use the Four Factor percentages to allocate costs between ratemaking services and jurisdictions.

Legend

***Accounting Format:** FERC Account.Service.Jurisdiction
X: Error Identified
Service: ED: Electric
 GD: Gas
 CD: Both Electric and Gas
Jurisdiction: WA: Washington
 ID: Idaho
 OR: Oregon
 AA: Allocate All (WA, ID, and OR)
 AN: Allocate North (WA and ID)



Exhibit B Summary of Findings in Subset B

Error #	Error Type			Summary		Dollar Value ¹
	FERC Account	Service	Jurisdiction	Current Incorrect Accounting*	Correct Accounting*	

Non-Utility

1	X	X	X	Non-Utility	921000.CD.AA	\$ 48.97
2	X	X	X	921000.CD.AA	Non-Utility	\$ 101.46
3	X	X	X	930200.CD.AA	Non-Utility	\$ 19.62
4	X	X	X	921000.CD.AA	Non-Utility	\$ 71.00

FERC Account Only

5	X			930200.ED.AN	921000.ED.AN	\$ 116.00
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Jurisdiction Only

6			X	880000.GD.ID	880000.GD.OR	\$ 341.52
7			X	909000.CD.AN	909000.CD.AA	\$ 59.85
8			X	586000.ED.WA	586000.ED.AN	\$ 6.37

Multiple Attributes

9		X	X	870000.GD.WA	870000.CD.AN	\$ 101.70
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Legend

***Accounting Format:** FERC Account.Service.Jurisdiction

X: Error Identified

Service: ED: Electric

GD: Gas

CD: Both Electric and Gas

Jurisdiction: WA: Washington

ID: Idaho

OR: Oregon

AA: Allocate All (WA, ID, and OR)

AN: Allocate North (WA and ID)

