

Exhibit No. \_\_\_\_\_ (JM-1T)  
Docket No. TO-011472  
Witness: James Mach

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Washington Utilities and	)	DOCKET NO. TO-011472
Transportation Commission,	)	
	)	
Complainant,	)	
	)	
v.	)	
	)	
Olympic Pipe Line Company, Inc.	)	
	)	
Respondent.	)	

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REBUTTAL TESTIMONY OF  
JIM MACH

OLYMPIC PIPE LINE COMPANY

June 11, 2002

**OLYMPIC PIPE LINE COMPANY**

**REBUTTAL TESTIMONY OF JAMES MACH**

**I. Witness Background**

**Q. Please state your name, address and occupation.**

A. My name is James R. Mach. I am a partner with the firm of Ernst & Young LLP, and I work in our Assurance and Advisory Business Services group. My business address is Sears Tower, 233 South Wacker Drive, Chicago Illinois 60606-6301.

**Q. Please state briefly your professional experience and qualifications.**

A. I graduated from Bowling Green State University in Ohio in 1975 with a Bachelor in Business Administration. I am a CPA and a member of the American Institute of Certified Public Accountants as well as the Illinois and Ohio state societies of CPAs. I have been employed by Ernst & Young LLP since 1975. I was promoted to partner in 1988. I have served clients in the Oil and Gas industry and pipeline industry for the past 23 years.

**II. Scope of testimony**

**Q. What issues does your testimony address?**

A. I understand that several witnesses have testified concerning the status of the audit of Olympic Pipe Line Company's financial statements. I have been asked to address two subjects: first, the status of Ernst & Young's engagement to audit

1 the financial statements of Olympic Pipe Line Company; and, second, the  
2 responsibilities of Ernst & Young and Olympic's management in connection with  
3 that engagement.

4 **III. Audit Engagement for Olympic Pipe Line Company**

5 **Q. Do you perform any services for Olympic Pipe Line Company?**

6 A: Yes, I am the partner responsible for Ernst & Young's services to the Olympic  
7 Pipe Line Company.

8 **Q. What services does Ernst & Young provide for Olympic?**

9 A. Ernst & Young has been engaged to audit and report on the financial statements  
10 of Olympic (or, the Company) for the year ended December 31, 2001.

11 **Q. What is the current status of that audit?**

12 A. Audit planning and preparation is completed. Visits to Renton, WA and Houston,  
13 Texas (Accenture office) have been completed by June 7<sup>th</sup>. We are scheduled  
14 for another site visit in Houston during the week of June 10<sup>th</sup>.

15 **Q. Can you project when Ernst & Young will issue a report on Olympic's**  
16 **financial statements for the year ended December 31, 2001?**

17 A. We're currently projecting completion of the audit in late July 2002, barring any  
18 unforeseen circumstances.

1 **IV. MANAGEMENT’S RESPONSIBILITIES AND THE RESPONSIBILITIES**  
2 **OF THE INDEPENDENT AUDITOR**

3 **Q. Would you please describe what the audit would entail?**

4 A. Yes, the engagement letter we have with Olympic describes the audit process  
5 generally, and includes a section entitled “Audit Responsibilities and  
6 Limitations.” In that section, we explain: “The objective of our audit is to  
7 express an opinion on the fairness, in all material respects, of the presentation of  
8 the Olympic Pipe Line financial statements in conformity with accounting  
9 principles generally accepted in the United States.”

10 **Q. As a result of the audit, will Ernst & Young issue Olympic’s financial**  
11 **statements or otherwise take responsibility for them?**

12 A. No, as set forth in our engagement letter: “The financial statements are the  
13 responsibility of the management of BP Pipelines [the operator for Olympic] . . .  
14 .”

15 **Q. Do Olympic and BP Pipelines have other responsibilities in connection with**  
16 **the preparation of the financial statements and the financial management of**  
17 **Olympic?**

18 A. Yes. Once again, our engagement letter describes some of these  
19 responsibilities:

20 “[Management] is also responsible for establishing and maintaining effective  
21 internal control, for properly recording transactions in the accounting records,  
22 for safeguarding assets, and for the overall fair presentation of the Company’s  
23 financial statements. Management . . . also is responsible for identifying and

1 ensuring that the Company complies with the laws and regulations applicable to  
2 its activities.”

3 **Q. In conducting its audit, does Ernst & Young receive representations from the**  
4 **Company concerning the Company’s financial statements?**

5 A. Yes. This subject is directly addressed by our engagement letter, which is a  
6 standard part of any of our audits:

7 As required by auditing standards generally accepted in the United  
8 States, we will make specific inquiries of management about the  
9 representations contained in the financial statements and the  
10 effectiveness of internal control over financial reporting. Auditing  
11 standards generally accepted in the United States also require that,  
12 at the conclusion of the audit, we obtain representation letters  
13 from certain members of management about these matters. The  
14 responses to those inquiries, the written representations, and the  
15 results of our audit tests comprise the evidential matter we will  
16 rely upon in forming an opinion on the financial statements.  
17 Management is responsible for providing us with all financial  
18 records and related information on a timely basis, and its failure to  
19 do so may cause us to delay our report, modify our procedures, or  
20 even terminate our engagement.

21 **Q. You made reference before to audit “limitations.” Does your engagement**  
22 **letter identify such limitations?**

23 A. Yes. For example, the letter states:

24 We will conduct our audit in accordance with auditing standards  
25 generally accepted in the United States. Those standards require  
26 that we obtain reasonable rather than absolute assurance that the  
27 financial statements are free of material misstatement whether  
28 caused by error or fraud. As you are aware, there are inherent  
29 limitations in the audit process, including, for example, selective  
30 testing and the possibility that collusion or forgery may preclude  
31 the detection of material error, fraud, and illegal acts.  
32 Accordingly, a material misstatement may remain undetected.

1 Also, an audit is not designed to detect error or fraud that is  
2 immaterial to the financial statements.

3 As part of our audit, we will consider, solely for the purpose of  
4 planning our audit and determining the nature, timing, and extent of  
5 our audit procedures, the Company's internal control. This  
6 consideration will not be sufficient to enable us to provide  
7 assurance on internal control or to identify all reportable  
8 conditions.

9 **Q. Is it Ernst & Young's responsibility to correct any material misstatements it**  
10 **identifies in the Company's financial statements?**

11 A. No. Again, as described in the engagement letter, this responsibility rests with  
12 the Company:

13 Management is responsible for adjusting the Company's financial  
14 statements to correct material misstatements and for affirming to  
15 us in its representation letter that the effects of any unadjusted  
16 audit differences accumulated by us during the current audit and  
17 pertaining to the latest period presented are immaterial, both  
18 individually and in the aggregate, to the financial statements taken  
19 as a whole.

20 **Q. Does this conclude your testimony?**

21 A. Yes it does.

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