



**ITEM ID:** 2024-258-0

**TRANSMITTAL DATE:** December 6, 2024

**MEETING DATE:** December 13, 2024

**TO:** Board of Directors

**FROM:** Elisabeth Lazuardi, Director, Audit

**SUBJECT:** Performance Audit: Fuel Purchase Policy FIN 11.1 Rev. 3

**Issue**

The Internal Audit Department (Internal Audit) completed the Performance Audit: Fuel Purchase Policy FIN 11.1 Rev. 3.

**Recommendation**

Receive and file.

**Strategic Commitment**

This report aligns with the Strategic Business Plan commitment of:

- **Modernizing Business Practices:** We will improve our operational efficiency through transparency, objective metrics and streamlined governance, reducing over-reliance on subsidy while bringing our system into a state of good repair and investing in the development of our employees. Controls related to the fuel purchase program are improved through the annual audit of the program.

**Background**

As required by the Fuel Purchase Policy FIN-11.1, "the Fuel Purchase Program shall be audited annually. In addition, the Board shall establish an Ad Hoc Committee at the time of the annual audit for the limited purpose of reviewing audit results and reporting to the Board of Directors". Internal Audit engaged Crowe LLP to perform the audit.

Crowe LLP is a public accounting, consulting and technology firm which has been in operation since 1942 with offices and resources worldwide. The Crowe team is led by partners and directors that not only have performance audit and derivative experience but also possess the institutional knowledge to help identify the relevant policy considerations for the Authority's fuel hedging program. Crowe has worked with fuel contracts, hedging contracts, and power purchase contracts for entities such as: the City of Long Beach, the Chicago Transit Authority, the Indiana Bond Bank, and the State of Texas.

Crowe combined its significant experience in conducting high quality performance audits for government agencies, in conformance with Generally Accepted Government Auditing Standards (GAGAS), and the demonstrated oil and gas expertise of Willis Graves & Associates, Inc. (WGA) to meet the needs of the Authority with respect to this performance audit. WGA's professionals have extensive industry experience with commodity pricing and in the design and completion of revenue audits in the oil and gas industry.

### **Discussion**

The Board approved Finance Policy FIN-11.1 Fuel Management and Hedging in January 2015 to provide guidance for the Fuel Management and Hedging Program. The Authority engaged Linwood Capital, LLP (Linwood Capital) as the Fuel Hedging Advisor in 2017 to assist the Authority with the Fuel Management and Hedging Program. In June 2024, the Authority engaged Blue Lacy who took over the advisory role from Linwood.

The Board approved the amendment of the FIN -11.1 to improve the fuel hedge program by the development of four fuel hedge strategies and to rename the policy from "Fuel Management and Hedging Policy" to "Fuel Purchase Policy" in December 2020. Further amendments were subsequently made in May 2022 to revise one of the four fuel hedge strategies and in November 2022 to replace the role of the Fuel Hedge Oversight Consultant with SCRRA staff and to add a language related to the effectiveness analysis of the fuel hedge program.

The objective of this audit was to determine compliance to FIN-11.1 Revision 3 for the audit period of January 2023 - December 2023. Based on the audit procedures performed, SCRRA management was determined to be in compliance, in all significant aspects, with the audit objective. The audit result was presented to the Ad Hoc Committee on November 4, 2024. The audit report is attached to the item.

### **Next Steps**

The Fuel Purchase Policy will continue to be audited into the next fiscal year.

Prepared by: David Rogers, Senior Internal Auditor

Approved by: Elisabeth Lazuardi, Director of Internal Audit

**Attachment(s)**

Attachment A - Fuel Hedge Policy Final Audit Report