Audit Highlights

Highlights of Legislative Auditor report on the Colorado River Commission of Nevada, issued on May 16, 2006. Report # LA06-18.

Background

The Colorado River Commission of Nevada (CRC) was created by the Nevada Legislature in 1935. The Colorado River Commission is comprised of seven commissioners. Three members are appointed by and are members of the Board of Directors of the Southern Nevada Water Authority. Primary areas of responsibility include:

Water – The CRC holds and protects the rights of the State to its share of Colorado River water under federal law and contracts.

Power – Nevada's allocation of hydropower from Hoover Dam and certain other projects is purchased from the Federal Government and sold to several entities in southern Nevada. The CRC also provides electric power acquired from other sources to meet the needs of the entities it serves.

Environment – The CRC is a leading participant in the Lower Colorado River Multi-Species Conservation Program.

Land – The CRC is authorized to develop and dispose of certain lands in the Fort Mohave Valley near Laughlin, Nevada.

The Colorado River Commission has been heavily involved in litigation since the western energy crisis in 2000-2001. This legal activity included the buyout of certain long-term power contracts, complaints regarding trading practices, and various disputes between CRC and Nevada Power Company. In February 2005, a Cooperative Accord was reached to settle all outstanding claims between the parties.

Purpose of Audit

The purpose of this audit was to determine whether the CRC has implemented Risk Management Procedures for its electric energy trading activities. Our audit included a review of trades made by CRC's Energy Services Group from September 2004 through January 2005.

Audit Recommendations

This audit report contains six recommendations. One recommendation relates to ensuring procedures are in place to cover all trading activities, and four recommendations relate to modifying or clarifying Risk Management Procedures. In addition, we made one recommendation to improve the reporting of customer payables and receivables.

The Commission accepted all six audit recommendations.

Status of Recommendations

The Commission's 60-day plan for corrective action is due on August 10, 2006. In addition, the six-month report on the status of audit recommendations is due February 12, 2007.

Colorado River Commission of Nevada

Results in Brief

The Colorado River Commission has implemented Risk Management Procedures designed to reduce the risks associated with electric energy trading activities. These procedures were jointly developed by CRC and its major customer, the Southern Nevada Water Authority (SNWA), in response to difficulties encountered during the 2000-2001 western energy crisis. The SNWA adopted these procedures in 2004, and the CRC has agreed to supply power in accordance with these procedures. This cooperative effort has resulted in improved oversight of trading activities. Although procedures are now in place to help minimize risks, we identified certain areas where improvements can be made. These improvements include adopting procedures to cover trades with other entities, ensuring adequate documentation is maintained for all trade review activities performed by staff, and modifying procedures related to conducting credit reviews of entities trading with CRC. In addition, CRC needs to improve the reporting of customer payable and receivable amounts in its financial statements.

Principal Findings

Although Risk Management Procedures have been established for supplying power to SNWA, the CRC has not adopted procedures covering trades with other entities. During our audit, written policies and procedures were not in place for conducting trades related to contracts assumed by CRC. Ten of 40 trades we tested, totaling approximately $12 million in purchases and sales, were for contracts assumed by CRC as part of a settlement agreement. Because these trades are not covered by policies and procedures, staff followed the SNWA's Risk Management Procedures for executing and recording these transactions. In addition, procedures will need to be developed to cover future trades with member agencies of the SNWA. CRC staff indicated they plan to provide power to at least one member agency in 2006.

The Risk Management Procedures provide controls over the purchase and sale of electric energy. Key controls established by these procedures include: (1) a Risk Control Committee to provide management oversight, (2) a Front-Middle-Back Office organization structure to provide separation of duties for trade execution, trade review, and risk analysis, and (3) reporting requirements to provide management information.

Our review of 40 trades, totaling approximately $88 million in purchases and sales, found the CRC to be in substantial compliance with the requirements of the Risk Management Procedures. However, we identified certain areas where improvements can be made. These improvements include ensuring adequate documentation is maintained for all trade review activities performed by staff, and modifying procedures related to conducting credit reviews of counterparties.

The CRC needs to improve its reporting of amounts payable to customers and amounts receivable from customers. For fiscal year 2004, the amount reported as payable to customers on CRC's audited financial statements was understated by at least $2.6 million. This understatement occurred, in part, because staff did not track a large cash reserve for one customer in a separate account or in an account with other customer reserves and deposits. Instead, the liability to this customer, totaling $3.8 million as of June 30, 2004, was tracked within CRC's cash account. In addition, little information was disclosed in the notes to the financial statements regarding payables and receivables. Therefore, users of the financial statements may not have sufficient information regarding amounts owed and amounts due from customers.

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