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# ERCOT Board of Directors Presentation

## Internal Controls Assessment

Deloitte & Touche, LLP  
February 20, 2007

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# A Brief Overview of Deloitte's History with ERCOT's Internal Controls

Deloitte has worked with ERCOT management on internal control related issues since the later part of 2004.

Specifically, we've performed:

- Agreed Upon Procedures Review of Internal Controls  
**August 2004 to March 2005**

- Assisted with the development of the Internal Control Management Program  
**February to August 2005**

- Internal Controls Assessment  
**April 2006-December 2006**

- Performed benchmarking and testing of controls in key business processes across the organization. Identified significant opportunities to improve the overall control environment and key business processes.
- Assisted management in the establishment of the ERCOT Internal Control Program. We assisted with the development of the ICMP framework, documentation of all key business processes, and identification of further opportunities to tighten controls.
- Assessed management's progress in sustaining the ICMP through evaluation of the ICMP program and testing controls across the business processes for operating effectiveness.

# Status of the Internal Control Assessment

We completed our evaluation of the ICMP program and the design and operating effectiveness of controls.

We are pleased to report the following results of our review:

- The ICMP program is working as designed by management.
- Internal controls were found to be adequately designed and documented.
- Key internal controls were generally found to be operating effectively.

# Summary of Observations

## Control Design Review:

- Risks associated with each financial area have been identified by management and documented through appropriate control objectives.
- Control objectives are appropriately met by management's documentation of control activities.
- Management's assignment of 'key' controls, those controls relied upon to ensure the achievement of the control objectives, are appropriate to ensure a sound control design.



# Summary of Observations Continued

## Control Effectiveness Review:

- Test plans were developed and executed for 145 key controls. Of these, 7 control activities were found to be ineffective.
- Controls tested in the following processes were found to be operating effectively:
  - Treasury (7 control activities tested)
  - Revenue (3 control activities tested)
  - Payroll (17 control activities tested)
  - Human Resources (19 control activities test)
  - Financial Close and Reporting (14 control activities tested)
  - IT (17 control activities tested)
  - Expenditures (including Receiving (2 control activities tested) and Accounts Payable (11 control activities tested))
- There were no exceptions noted in these 8 processes.

# Summary of Observations Continued

## Control Effectiveness Review (cont.):

- We identified exceptions where certain control activities were not operating effectively in the following 4 processes:
  - Fixed Assets (1 out of 6 control activities tested had exceptions noted)
  - Manage Programs (2 out of 10 control activities tested had exceptions noted)
  - Corporate Governance (1 out of 19 control activities tested had exceptions noted)
  - Expenditures (including Procurement) (3 out of 20 control activities tested had exceptions noted)

# Status of the Internal Control Assessment

**We commend management for significant progress made on improving internal controls.**

**We encourage a continued focus and support of the ICMP to ensure the sustainability and operating effectiveness of the newly designed control environment.**

**Our final report was issued on December 11, 2006.**

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