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## **Item 4.1: Review Requirements for 2013 A-133 Department of Energy Grant Audit Report**

*Sean Taylor*  
Controller

Finance & Audit Committee Meeting  
ERCOT Public  
June 9, 2014

# Review Requirements for 2013 Grant Audit

## Department of Energy Grant

- In 2010, ERCOT was awarded two grants totaling \$3.5 million to be paid over a three year period. In 2013, ERCOT expended more than \$500,000 under these grants. Therefore, ERCOT was required to undergo an audit as set forth in the Single Audit Act and OMB Circular A-133.
- **ERCOT Protocol Requirement (§ 1.4.2)**
  - “For audits performed by an Appointed Firm, the ERCOT F&A Committee shall directly approve the initiation, scheduling, and reporting of such audits or make recommendations to the ERCOT Board.”

## Filing

- Upon acceptance and issuance of the A-133 audit report, ERCOT staff will work with EY to file the reporting package with the Federal Clearinghouse.

**<VOTE>** following presentation



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# 2013 DOE Audit Results

Deena Clausen, Executive Director, EY

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**Electric Reliability  
Council of Texas, Inc. – U.S.  
Department of Energy Electricity  
Delivery and Energy Reliability,  
Research, Development and  
Analysis Program – Program-  
Specific Audit under OMB A-133**

2013 audit results

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June 9, 2014



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working world

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	▸ Draft audit report

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# 2013 EY services

## Services and deliverables

### Opinions

We were engaged to perform a program-specific audit of the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program (DOE Program) in accordance with Government Auditing Standards and OMB Circular A-133 and to:

- ▶ Express an opinion on the 2013 schedule of expenditures of federal awards of the Electric Reliability Council of Texas, Inc. (ERCOT)
- ▶ Express an opinion on ERCOT's compliance with requirements that could have a direct and material effect on the DOE Program

### Status update

- ▶ Obtain a letter of representations from management
- ▶ Perform fraud inquiries of finance and audit committees
- ▶ Perform final quality review procedures
- ▶ Complete subsequent events to date of report issuance
- ▶ Complete submission of the data collection form and audit report to the Federal Clearinghouse

# 2013 audit results

Key issue/risk area	Results
<b>Program specific – compliance and internal controls</b>	
<p>Schedule of expenditures of federal awards/tests of compliance and internal control in accordance with OMB Circular A-133 and additional reporting requirements due to receipt of American Recovery and Reinvestment Act (ARRA) funds</p>	<ul style="list-style-type: none"> <li>▶ Upon completion of all procedures, we expect to issue an unmodified opinion on the schedule of expenditures of federal awards that it presents fairly, in all material respects, the expenditures of federal awards under the DOE Program for the year ended December 31, 2013, in conformity with generally accepted accounting principles (unmodified opinion).</li> <li>▶ Upon completion of all procedures, we expect to issue an unmodified opinion that ERCOT complied, in all material respects, with the compliance requirements that could have a direct and material effect on its DOE Program for the year ended December 31, 2013 (unmodified opinion).</li> <li>▶ Based on our testing, EY did not identify any findings of noncompliance for the DOE Program.</li> <li>▶ Based on our testing, EY did not identify any deficiencies in internal control over compliance.</li> </ul>

# Required communications

Area	Comments
<p><b>Auditor's responsibilities under generally accepted auditing standards</b></p> <p>The schedule of expenditures of federal awards is the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants, to obtain reasonable, rather than absolute, assurance about whether it is free of material misstatement.</p> <p>An audit of the schedule of expenditures of federal awards includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ERCOT's internal control over financial reporting. Accordingly, we will express no such opinion.</p>	<p>Upon completion of our remaining audit procedures, we currently expect to issue an unmodified opinion on ERCOT's schedule of expenditures of federal awards and on compliance with the DOE Program requirements for the year ended December 31, 2013. See the Appendix.</p> <p>Our responsibilities are included in our audit engagement letter, which was provided to management.</p>
<p><b>Representations we are requesting from management</b></p>	<p>A draft of the letter of representations was provided to management.</p>
<p><b>Government Auditing Standards</b></p> <p>Government Auditing Standards require that we submit to you our most recent external quality control review, which must be performed once every three years.</p>	<p>EY's most recent Peer Review Report was provided to management and covers the year ended June 30, 2013, and indicates that the firm's quality control policies and procedures for its accounting and auditing practice are being complied with in such a manner as to provide the firm with reasonable assurance of conforming with professional standards.</p>





# Appendix

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INDEPENDENT AUDITOR'S REPORT AND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Electric Reliability Council of Texas, Inc.  
Year Ended December 31, 2013  
With Report of Independent Auditors

PRELIMINARY AND TENTATIVE FOR DISCUSSION ONLY

Electric Reliability Council of Texas, Inc.

Independent Auditor’s Report and  
Schedule of Expenditures of Federal Awards

Year Ended December 31, 2013

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## Report of Independent Auditors

Board of Directors and Management  
Electric Reliability Council of Texas, Inc.

We have audited the accompanying schedule of expenditures of federal awards for the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program of the Electric Reliability Council of Texas, Inc. (ERCOT) for the year ended December 31, 2013.

### **Management's Responsibility**

Management is responsible for the preparation and fair presentation of the financial statement of the program in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement of the program based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards under the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program in accordance with accounting principles generally accepted in the United States of America.

June \_\_, 2014

Electric Reliability Council of Texas, Inc.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2013

<b>Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Energy</b> ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	<u>\$ 1,230,491</u>

*See accompanying note.*

## Electric Reliability Council of Texas, Inc.

### Note to Schedule of Expenditures of Federal Awards

December 31, 2013

#### **1. Significant Accounting Policy**

##### **Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ERCOT's Electricity Delivery and Energy Reliability, Research, Development and Analysis Program and is presented consistent with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States.

## Report of Independent Auditors on Compliance for the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program; Report on Internal Control Over Compliance in Accordance With a Program-Specific Audit Option under OMB Circular A-133

Board of Directors and Management  
Electric Reliability Council of Texas, Inc.

### **Report on Compliance for the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program**

We have audited the Electric Reliability Council of Texas, Inc.'s (ERCOT) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program (DOE Program) for the year ended December 31, 2013.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to the DOE Program.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on ERCOT's compliance based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the DOE Program occurred. An audit includes examining, on a test basis, evidence about ERCOT's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for ERCOT's DOE Program. However, our audit does not provide a legal determination of ERCOT's compliance.



### ***Opinion on the DOE Program***

In our opinion, ERCOT complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its DOE Program for the year ended December 31, 2013.

### **Report on Internal Control Over Compliance**

Management of ERCOT is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ERCOT's internal control over compliance with the requirements that could have a direct and material effect on its DOE Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the DOE Program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ERCOT's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

June \_\_, 2014

**PRELIMINARY AND TENTATIVE FOR DISCUSSION ONLY**

Electric Reliability Council of Texas, Inc.

Schedule of Findings and Questioned Costs

December 31, 2013

**Part I – Summary of Auditor’s Results**

**Financial Statements Section**

Type of auditor’s report issued (unmodified, qualified, adverse, or disclaimer):

Unmodified

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Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ **Yes**        X   **No**

Significant deficiency(ies) identified?

\_\_\_\_\_ **Yes**        X   **None reported**

Noncompliance material to financial statements noted?

\_\_\_\_\_ **Yes**        X   **No**

**Federal Awards Section**

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ **Yes**        X   **No**

Significant deficiency(ies) identified?

\_\_\_\_\_ **Yes**        X   **None reported**

Type of auditor’s report issued on compliance for major programs (unmodified, qualified, adverse, or disclaimer):

Unmodified

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Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

\_\_\_\_\_ **Yes**        X   **No**

Electric Reliability Council of Texas, Inc.

Schedule of Findings and Questioned Costs (continued)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

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Auditee qualified as low-risk auditee?   X   Yes        No

**Part II – Financial Statement Findings Section**

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None identified.

**Part III – Federal Award Findings and Questioned Costs Section**

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None identified.

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Electric Reliability Council of Texas, Inc.

Summary Schedule of Prior Audit Findings

December 31, 2013

No prior findings were noted.

### **About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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Our assurance services help our clients meet their reporting requirements by providing an objective and independent examination of the financial statements that are provided to investors and other stakeholders. Throughout the audit process, our teams provide timely and constructive challenge to management on accounting and reporting matters and a robust and clear perspective to audit committees charged with oversight.

The quality of our audit starts with our 60,000 assurance professionals, who have the breadth of experience and on-going professional development that comes from auditing many of the world's leading companies.

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