



To: Finance & Audit (F&A) Committee
From: Jonathan Levine, ERCOT Corporate Counsel
Date: November 30, 2015
Re: Item 7 – Annual Committee Self-Evaluation Survey Results

At the October 12, 2015 F&A Committee meeting, Committee members were encouraged to complete and submit the Annual Committee Self-Evaluation Survey.

Attached are the Annual Self-Evaluation Survey results for the Committee's consideration.



ERCOT Finance & Audit Committee Annual Self-Evaluation (2015)		Yes	No	Not Sure	Comments
1.	Does the committee have the appropriate number of members? The committee should not be so large that: <ul style="list-style-type: none"> its ability to operate efficiently and effectively is reduced members' ability to raise issues is hampered it is difficult to get a quorum when a time-sensitive issue arises 	8			Somewhat large – but consistent with all board members serving on one of 2 committees. The size of the committee seems appropriate to both facilitate open, candid and thorough discussion and decision making.
2.	Committee members demonstrate their objectivity during meetings through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.	8			Not all members have the same level of financial expertise, which causes participation and probing to be uneven. As I am new to the board, my view is based solely on the two meeting I have attended, in August and October.
3.	Differences of opinion on issues are resolved to the satisfaction of the committee.	8			
4.	Committee members challenge the Chair as appropriate.	8			
5.	The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda.	8			All charter requirements are met annually. The committee reviews the charter annually and conducts its business in a manner that ensures it covers the required issues. To the extent new issues arise, the committee is also free to address those issues and, if necessary, adjust the charter to reflect the changed circumstances.
6.	Committee members are financially literate, and the committee has determined that it has adequate financial expertise in accordance with its charter.	8			The committee has several financial experts, with other members having other experience in the industry. There is a good breath of experience within the committee which allows for robust discussions of issues.



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7.	Committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory and ethics areas.	6		2	<p>Scheduled education sessions are a good way to do committee training.</p> <p>We should work with new auditor to make sure they continue to keep us current on any accounting or audit changes.</p> <p>The committee's ongoing education efforts are very informative and ensure that board/committee members have the opportunity to hear about current topics related to F&A. Beyond those sessions, individual board members also appear to be staying on top of current issues outside of the ERCOT board processes through engagement with other companies and publication review.</p>
8.	The committee understands how the organization's performance compares with its budgetary targets and its peers, and how management plans to address any unfavorable variances.	8			<p>Good tracking of performance to budget. Could do a better job of forecasting and planning for long term needs and multi-year projects. Peers are a diverse group and comparisons are not always useful.</p> <p>There is clarity with regard to performance relative to budgetary targets. However, the peer comparisons, while generally informative, do not always offer the same amount of clarity given the differences in market structures and duties performed by other grid operators.</p>
9.	The committee discusses the initial selection of or changes in significant accounting policies used in developing the financial statements, the reason for and impact of any changes in policy, and reasons alternative treatments were not adopted.	8			
10.	The committee discusses significant, complex, or unusual transactions with management and the external auditors.	8			



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11.	The committee understands which areas represent high risk for material misstatement of the financial statements, and discusses assumptions and approaches used with management and the external auditors.	8			.
12.	The committee forms its own view of the risk of material misstatement due to fraud, discusses with management and the external auditors their views on the risk of material misstatement due to fraud, and is comfortable that any differences in views can be reconciled.	8			
13.	The committee fully understands significant changes in financial statements from prior years and from budget, and is provided with sufficient, reliable evidence to support variances.	8			
14.	The committee commits sufficient time to review, discuss, and consider the financial statements.	8			
15.	The committee makes optimum use of the meeting time allotted.	8		1	
16.	The committee meets with financial management to discuss results reported before finalization.	8		1	
17.	Committee members have a clear understanding of ERCOT's debt structure and cash management practices.	8		1	<p>Although there is some disagreement with what the debt structure should be, I believe the committee clearly understands what it is at the present time.</p> <p>Management is developing a long term strategy for ERCOT's debt structure.</p>
18.	Committee members receive sufficient details regarding long-term financial planning.	8			<p>Could improve on projecting long term budget needs and requirements for multi-year projects, particularly given the 2 year budget cycle and mindfulness to changes in the admin fee. This year's budget work was an improvement.</p>



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19.	The committee makes appropriate use of workgroups or task forces to investigate issues defined by the committee.	8			Although I believe we would make use of workgroups, I can only recall a couple of instances where we have done this and then it was more of an informal process than a formal workgroup. I see this primarily in the area of cybersecurity although I don't believe the committee would hesitate to establish subcommittees for other topics.
20.	The committee engages outside experts as appropriate.	8			
21.	The organization's financial reporting processes are stronger as a result of management's interactions with the committee.	8			
22.	The committee understands and agrees with the board on which categories of internal control it oversees. Categories include: <ul style="list-style-type: none"> ▪ Integrity of financial reporting ▪ Compliance with laws and regulations ▪ Operational efficiency and effectiveness 	8			
23.	The committee and the board concur with any changes to the committee's internal control oversight mandate.	8			
24.	The committee understands the current high-risk areas - including information technology and computer systems - in the categories of controls it oversees, as well as how management addresses those areas.	8			While the committee cannot understand these issues in detail, reviewing the work of management in identifying and mitigating enterprise risks gives the committee the oversight it needs.
25.	The committee is cognizant of the line between oversight and management, and endeavors to respect that line.	8			
26.	The committee conducts executive sessions in a manner that offers a "safe haven" to the individual, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution.	8			
27.	The committee does its part to ensure the objectivity of the internal audit team.	8			



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28.	The committee provides constructive feedback to the chief audit executive at least annually.	8			This relationship is working quite well. The chief auditor has developed excellent team and an open relationship with both management and the F&A committee.
29.	The committee receives sufficient detail regarding material issues and complaints brought forward which relate to the company's fraud, ethics or accounting practices.	8			
30.	The committee has developed the scope of work to be done by the independent auditor and by the internal audit department based upon a reasoned review of the risks or exposures to the company.	8			
31.	The committee communicates at an appropriate level of detail when informing the Board of its actions.	8			
32.	Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings.	8		1	
33.	Committee members have adequate opportunities to discuss issues and ask questions.	8			
34.	The frequency of committee meetings is appropriate for the responsibilities assigned to the committee.	8			
35.	Meeting facilities and presentation materials are effective for the conduct of committee activities.	8			
36.	The committee is efficient and value adding.	8			



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37.	Please add additional comments, questions and suggestions here.	5	1	3	<p>The questionnaire focuses on financial misstatement risks. That is appropriate, but ERCOT's financial profile is not complex. Perhaps consider adding some questions on cybersecurity and data integrity or other high-risk issues that this committee oversees.</p> <p>The current by-monthly meeting schedule seems to be working; however, it might be nice if once or twice a year the committee meetings were not concurrent. This would allow F&A committee members to observe how the HR&G conducts its business and vice-versa.</p> <p>In my two meetings thus far, I have been very impressed with the work of the committee and the support provided by ERCOT staff. I do not have further comments at this point.</p> <p>The committee is working efficiently and diligently.</p> <p>Jorge is doing an excellent job as Chair. I have served on this committee for over 15 years and this committee has never functioned better.</p>