



Item 3: Results of Examination and Independent Report from the Service Auditor

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Finance & Audit Committee Meeting
ERCOT Public
December 9, 2019

Discussion Topics

1. ERCOT Examination Overview
2. Audit Approach
3. Auditor Independence



SOC 1 Examination Overview

Overview

- SOC 1 Examinations, under the Statement on Standards for Attestation Engagements (SSAE) No. 18, are utilized to report on controls at service organizations that are relevant to user entities' internal control over financial reporting.
- The 2019 SOC 1 examination examined ERCOT Settlement Operations and the supporting IT applications and systems for the period October 1, 2018, to September 30, 2019.
- 19 Control Objectives were within the scope of the 2019 examination.
- Testing was conducted in two phases: (Q2) April-May 2019 and (Q3) September 2019



SOC 1 Examination Overview

Results

- The 2019 SOC 1 Examination Report for Settlement Operations is ready for issuance pending Board approval.
- The report will be issued with an unmodified (“clean”) opinion.
- One testing exception was identified during the 2019 examination.



2019 Testing Exception and Management Response

#	Control Activity Specified by the Service Organization	Test Applied by the Service Auditor	Test Results
17.2.2	Subsequent to implementation of emergency changes, approval managers of all impacted areas approve changes.	Inspected the change request forms for a sample of emergency changes implemented during the review period to determine that managers of impacted areas approved each emergency change sampled.	The test of the control activity disclosed that approval from managers of all impacted areas was not documented for four of six emergency changes sampled.
ERCOT Management's Response:	On December 17, 2018, ERCOT implemented the IT Change Management (ITCM Phase 2) project. During the project, the approvals for emergency changes was erroneously removed from the automated workflow. Upon discovery of the issue, a request was made to correct this and reinstate the approvals. This change was implemented on June 3, 2019. All emergency changes since June 3, 2019 have had approvals documented in the system. All emergency changes created between December 17, 2018 and June 3, 2019 have been reviewed and approvals have been documented within the change records.		



Audit Approach

Audit Team

- The audit team for the ERCOT SOC 1 Engagement consists of a primary and secondary principal, and audit manager and experienced senior auditors.
- The audit report is subjected to a quality assurance process, and is reviewed by the senior auditor, audit manager, and two principals prior to release to ERCOT for review and approval. Two additional reviews are performed by operations personnel during final report preparation procedures.

Sampling

- Testing is performed in two phases (Q2 and Q3) and the sampling methodology covers the full 12-month review period
- Our sampling approach is based on the AICPA's AU-C Section 530



Auditor Independence

- Professional standards require that CPA firms maintain independence in fact and appearance from their clients.
- To meet this requirement, we have implemented the following policies and procedures:
 - Implementation of Quality Control Procedures
 - Education on Independence
 - Elimination of all consulting services
 - Prohibition of any direct or materially indirect financial interest in clients by employees or their close relatives
 - Annual independence verification

