



**The Finance & Audit (F&A) Committee is
expected to consider
F&A Committee Agenda Item 4:**

***Recommendation Regarding Acceptance of
2019 System and Organization Control
Audit Report***

at its meeting on December 9, 2019.

**The Board of Directors is expected to hear
the F&A Committee's recommendation on
this matter as part of the F&A Committee
Report at the Board meeting on
December 10, 2019.**

**Attached are the Board and Committee
materials in relation to these agenda items.**



MEMORANDUM

To: ERCOT Finance and Audit (F&A) Committee
From: Jonathan Levine, ERCOT Senior Corporate Counsel
Date: December 2, 2019
Re: Item 4 – Recommendation Regarding Acceptance of 2019 System and Organization Control Audit Report

At the December 9, 2019 F&A Committee meeting, the Committee is scheduled to consider the recommendation regarding the acceptance of the 2019 System and Organization Control Audit Report as General Session Item 4.

The Board decision template is included with the Committee's materials for Item 4. However, due to the confidentiality of the 2019 System and Organization Control Audit Report, the draft report is available for the Committee's electronic viewing solely under Committee Executive Session Item ES 3.1.



Item 4: Recommendation Regarding Acceptance of 2019 System and Organization Control Audit Report

Christine Hasha

Manager, CIP & Corporate Compliance

Finance & Audit Committee Meeting

ERCOT Public

December 9, 2019

2019 System and Organization Control (SOC) Audit Report Acceptance

- Statement on Standards for Attestation Engagements No. 18 (SSAE 18), effective May 1, 2017, is the AICPA audit standard for reporting on controls at service organizations.
- These examinations are performed by an independent auditor who assesses the description of the system, and the suitability of the design and operating effectiveness of controls at an organization that provides services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting (ICFR).
- Market Participants rely on ERCOT's market Settlements and billing processes as the results impact their financial statements; therefore, the SOC report provides critical information to user entity financial executives and their financial auditors.
- The result of a SOC examination is a report, which includes an opinion letter from the auditor, on controls placed in operation at the service organization. ERCOT's SOC 1, Type 2 audit covers the controls surrounding the Settlements and billing operations that ERCOT performs for Market Participants, for a period of time from October 1 to September 30 of the following year. Once the report has been accepted by the Board, ERCOT issues a Market Notice that the report is available.



Scope of SOC audit at ERCOT

ERCOT has identified 19 Objectives and 167 controls related to market Settlements and billing. The controls correspond to ERCOT's market functions and are deemed relevant to ICFR for Market Participants, as well as risks to ERCOT.

The 19 objectives cover two specific topic areas:

- Transaction processing controls
 - Registration/Qualification
 - Network Operations Model
 - “Market Operations” (DAM, RTM and CRR)
 - Load Profiling, Data Acquisition and Aggregation
 - Settlement, Billing and Financial Transfer
- General IT controls
 - Access controls (Logical & Physical)
 - Program change management and system development
 - Computer operations

ERCOT employs a third party audit firm to conduct an examination of the Settlements and billing processes. This approach is less disruptive to certain aspects of ERCOT operations and more cost effective.



Request for Recommendation of Acceptance to the Board

- Protocol Sections 1.4.3.1(1) and 8.2(2)(f) require such engagements be part of ERCOT performance monitoring.
- The F&A Committee Charter specifies that “based on its review and discussions with management and the independent auditor, the Committee shall provide a recommendation to the Board whether the [SOC] audit report should be accepted.”
- The draft SOC audit report, for the twelve (12) months ending September 30, 2019 (i.e. the 2019 System and Organization Control Audit Report) is available for the F&A Committee’s consideration for recommendation of acceptance to the Board. The Audit Report is unmodified and there was one testing exception.
- ERCOT staff requests the F&A Committee recommend acceptance of the 2019 System and Organization Controls Audit Report to the Board of Directors.
- The Board meeting materials for this topic are hereby provided for the F&A Committee’s consideration.
- Due to the confidentiality of the 2019 System and Organization Controls Audit Report, the draft report is available solely for the F&A Committee’s electronic viewing under F&A Committee Agenda Item ES 3.1 and the Board’s electronic viewing under Board Agenda Item ES 3.1.1.

<VOTE>





Date: December 10, 2019
To: Board of Directors
From: Christine Hasha, Manager, CIP & Corporate Compliance
Subject: Acceptance of 2019 System and Organization Control Audit Report

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: December 10, 2019

Item No.: 10.1

Issue:

Acceptance of the 2019 System and Organization Control (SOC) Audit Report.

Background/History:

Per Section 1.4.3.1(1) of the ERCOT Protocols (entitled “Audits to be Performed”), “At least annually, an Appointed Firm shall perform a System and Organization Control (SOC) audit of ERCOT regarding ERCOT’s market Settlements operations.” Schellman & Co., LLC (Schellman) was engaged to perform the audit for 2019.

Schellman’s opinion on the SOC audit for the period from October 1, 2018 to September 30, 2019 is unmodified. There was one testing exception in the area of software program change management. The exception has been remediated.

On December 9, 2019, Schellman will meet with the Finance and Audit (F&A) Committee of the Board to review the proposed SOC Audit Report for the twelve-month period ended September 30, 2019 (also known as the “2019 System and Organization Control (SOC) Audit Report”). Given the unmodified opinion, the 2019 SOC Audit Report is expected to be recommended by the Committee to the Board for acceptance.

Due to the confidentiality of the 2019 SOC Report, the draft report is available solely for the Board’s electronic viewing in the Board’s Executive Session meeting materials under Agenda Item ES 3.1.1

Key Factors Influencing Issue:

1. ERCOT Protocol Section 1.4.3.1(1) requires an annual SOC audit be performed;
2. Certain external organizations, including Market Participants, utilize the SOC Audit Report as an assurance of the suitability of ERCOT internal controls in connection with certain Sarbanes-Oxley reporting requirements; and
3. Because most Market Participants’ fiscal years end December 31, acceptance of the SOC Audit Report in a timely manner will allow the Report to be utilized in connection with preparation of their year-end financial statements.



Conclusion/Recommendation:

ERCOT staff recommends, and the F&A Committee is expected to recommend, that the Board accept the 2019 System and Organization Control Audit Report.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, Section 1.4.3.1(1) of the ERCOT Protocols (entitled “Audits to be Performed”) requires that at least annually, an Appointed Firm shall perform a System and Organization Control (SOC) audit of ERCOT regarding ERCOT’s market Settlements operations;

WHEREAS, Schellman & Co., LLC (Schellman) was engaged as the Independent Service Auditor to perform ERCOT’s System and Organization Control audit for 2019;

WHEREAS, Schellman’s opinion on the System and Organization Control audit for the period from October 1, 2018 to September 30, 2019 is unmodified;

WHEREAS, after due consideration of the alternatives, the Finance and Audit (F&A) Committee, at its meeting on December 9, 2019, recommended that the Board of Directors (Board) of ERCOT accept the System and Organization Control audit report for the twelve-month period ended September 30, 2019 (also known as the 2019 System and Organization Control Audit Report), as presented by Schellman; and

WHEREAS, the Board deems it desirable and in the best interest of ERCOT to accept the F&A Committee’s recommendation to accept the 2019 System and Organization Control Audit Report;

THEREFORE, BE IT RESOLVED, that the 2019 System and Organization Control Audit Report is hereby accepted.

CORPORATE SECRETARY’S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its December 10, 2019 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of December, 2019.

Vickie G. Leady
Assistant Corporate Secretary