

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Summary of Unaudited Results Third Quarter 2018

Andy Sharp, Controller
Finance and Audit Committee Meeting
November 6, 2018

RELIABILITY | ACCOUNTABILITY



- Total funding is on budget
 - Interest income is over budget, offset by lower testing fee revenue
- Total expenditures were \$3.5M (6.3%) under budget
 - Primarily due to the expected timing of expenditures versus budget
- Net impact was \$3.6M increase in operating reserves

- NERC projecting to be on budget for funding
 - Interest income and workshop fees projected to be above budget, while testing fee income and CRISP revenues expected to be below budget
- NERC projecting to be slightly over budget for total expenditures (\$400k or 0.7%)
 - Primarily costs associated with SPP RE dissolution activity
- Projected operating reserve usage of \$500k, which is \$300k over budget
- Net impact of financing activity (new borrowings and loan payments) is a \$483k favorable variance to projected reserves

- Total projected reserves balance is \$9.4M
 - Operating Contingency Reserve (OCR) – \$3.8M
 - Assessment Stabilization Reserve (ASR) – \$2.1M
 - Future Obligation Reserve – \$2.5M
 - System Operator Reserve – \$541k
 - CRISP Reserve – \$500k



Questions and Answers

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Combined ERO Enterprise Summary of Unaudited Results Third Quarter 2018

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RELIABILITY | ACCOUNTABILITY



- Combined ERO Enterprise was under budget \$8.3M (5.7%)
 - Personnel expenses were slightly under budget (-2.5%) predominately due to staff vacancies
 - Meeting and travel expenses were under budget (-14.6%) mainly due to timing of expenditures and lower-than-expected travel activity
 - Operating expenses were slightly under budget (-1.1%) primarily because of timing of expenditures
 - Fixed assets were under budget (-64.7%) largely due to timing of expenditures and lower spending

- NERC and seven Regional Entities are under budget
 - NERC (-6.3%) – lower operating and fixed asset expenses
 - FRCC (-1.7%) – lower travel, operating, and fixed asset expenses
 - NPCC (-4.9%) – lower personnel and operating expenses
 - RF (-6.3%) – lower personnel, travel, and fixed asset expenses
 - SERC (-5.3%) – lower personnel, travel, and operating expenses
 - SPP RE (-34.6%) – lower expenses overall due to dissolution of operations
 - Texas RE (-7.2%) – lower personnel, meetings, travel, and operating expenses
- One Regional Entity over budget
 - MRO (11.9%) – higher personnel, meeting, and operating expenses

- Combined ERO Enterprise expects to be under budget \$3.5M (1.8%) at year-end
 - FRCC projects to be \$521k under budget due to lower personnel and meeting expenses
 - SPP RE projects \$5.4M under budget due to transition
 - MRO expects to be \$2.4M over budget due to transition
 - SERC projects \$314k over budget due to transition

- \$33.0M – Total reserves as of January 1, 2018
 - Started \$5.5M over combined budgets
- \$47.2M – Total reserves as of September 30, 2018
 - \$12.4M more than expected through Q3
- \$34.6M – Year-end projection for 2018
 - Ending \$4.5M more than budgeted



Questions and Answers

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Accounting and Financial Internal Controls

Andy Sharp, Controller
Finance and Audit Committee
November 6, 2018

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- Update the Finance and Audit Committee (FAC) on internal control environment, documentation, and compliance oversight
- Provide information to assist the FAC in fulfilling their mandate to review the adequacy and integrity of the corporation's internal accounting and financial controls

- Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative among several private sector organizations
- COSO provides internal control guidance historically used as the benchmark for companies complying with Sarbanes-Oxley
- NERC, external audit firms (like Grant Thornton), and internal audit departments use COSO guidance to promote best practices, even outside of Sarbanes-Oxley compliance
- NERC also receives informal guidance from various sources to work toward best practices (internal and external auditors, regional entities and other companies, and through continuing education)

- Overall control environment
- Risk assessment process
- Policies, procedures, and systems
- Timely communications
- Monitoring, reporting, and tracking

- Tone at the top
- Compliance oversight
- Corporate policies
- Accounting process documentation
- Segregation of duties
- Accounting systems
 - NERC systems overview
 - Control features
- Reporting and management oversight

- Board of Trustees
 - Finance and Audit Committee
 - Oversee internal accounting and financial controls
 - Approve internal or external review of controls
 - Review internal audit staffing and resources for control reviews
 - Enterprise-wide Risk Committee
 - Overall risk management and controls
- Management engagement and support of controls
- Employee guidance on ethics and conflicts of interest
- Accounting department oversight
- Ability to report concerns (anonymously) through hotline or various internal paths

- External auditors
 - Perform annual review of NERC policies and process documents
 - Audit procedures to test compliance with documented processes
 - Focus on impact to NERC financial statement reporting
- Internal audit & risk management
 - Risk-based evaluation of control environment
 - Scheduled review of various accounting and financial areas
 - More detailed in scope than external audit procedures
 - Recent internal audits completed
 - Payroll processing
 - Travel and expense reports

- Corporate policies
 - Conflict of interest and business ethics
 - Safeguarding NERC assets and accuracy of books and records
 - NERC employee code of conduct

- Internal policies
 - Travel and expense reimbursement
 - Contract authorization and execution
 - Purchasing and procurement
 - Investments

- Employee access to handbook on InfoHub

The screenshot shows the NERC InfoHub website interface. At the top left is the NERC logo. To its right is the 'InfoHub' label with an information icon. A search bar on the right contains the text 'Search this site'. Below the logo is a navigation menu with 'Your Job' selected, and 'Employee Hub' also visible. A sidebar on the left lists 'Home', 'Your Job', 'Your Benefits', and 'Your Wellness'. The main content area features a welcome message for employees, a contact email for Sandra Pinneke, and a 'Resource Library' section with categories like 'NERC Organizational Chart', 'Policies and Procedures', 'Time Reporting Guidance', 'Training', 'Travel Resources', and 'Withholding Forms'. An image of the 'Employee Handbook' cover is shown, featuring the NERC logo and the text 'RELIABILITY | ACCOUNTABILITY'.

The **Employee Handbook** is your guide to the protocols, benefits, and policies of NERC. It gives simple answers about working here, and will usually serve as your "go-to" guide when you have a question. If you want more details, you can find them in the Resource Library - the documents there include the approved policies, memos, and guidelines that have been established for the smooth operation of the company.

- Accounting process document examples
 - Billing, revenue recognition and cash receipts
 - Cash disbursements
 - Payroll processing
 - Fixed assets

- Stored and organized on InfoHub

The screenshot shows the NERC InfoHub interface. At the top left is the NERC logo. To its right is the 'InfoHub' logo. Further right is a search bar labeled 'Search this site'. Below the header is a green navigation bar with 'MyHubSites' and 'Department and Team Hub'. On the left side, there is a sidebar with 'My Department and Team Hub Sites' and 'All Department and Team Hub Sites'. The main content area is titled 'My Department and Team Hub Sites' and lists several categories: Benefits and Compensation, Benefits Committee Team Site, Budget, Business Continuity Planning Steering Committee, Contract Management, E-ISAC NERC Corporate Collaboration, Finance and Accounting, Investment Committee Team Site, Lobbying Filings, Payroll, and UltiPro HR & Payroll System. A blue arrow points to the 'Finance and Accounting' link.

- InfoHub – Accounting process and guideline documents



Corporate Insurance Documents	› Finance and Accounting Processes and Guidelines Category : Accounting Manual (9)
Financial Planning Documents	› Finance and Accounting Processes and Guidelines Category : Billing, Cash Receipts, and Revenue Recognition (6)
Finance and Accounting Processes and Guidelines Documents	› Finance and Accounting Processes and Guidelines Category : Chart of Accounts (1)
Financial Reporting, Auditing, and Tax Documents	› Finance and Accounting Processes and Guidelines Category : Contract Authorization and Execution Process (1)
Information Access	› Finance and Accounting Processes and Guidelines Category : Corporate Policies (24)
Information	› Finance and Accounting Processes and Guidelines Category : Finance and Accounting Policies (4)
Payroll	› Finance and Accounting Processes and Guidelines Category : Fixed Assets (6)
Benefits and Compensation	› Finance and Accounting Processes and Guidelines Category : Internal Controls and Corporate Policies (1)
	› Finance and Accounting Processes and Guidelines Category : Lobbying (4)
	› Finance and Accounting Processes and Guidelines Category : MIP (1)
	› Finance and Accounting Processes and Guidelines Category : Payroll (4)
	› Finance and Accounting Processes and Guidelines Category : Personnel Policies (1)
	› Finance and Accounting Processes and Guidelines Category : Relocation (8)
	› Finance and Accounting Processes and Guidelines Category : Time Codes (3)
	› Finance and Accounting Processes and Guidelines Category : Travel and Expense Reimbursement (8)
	› Finance and Accounting Processes and Guidelines Category : Treatment of Penalties (5)

Key Filters

Apply Clear

Finance and Accounting Processes and Guidelines Category

Created By

Modified By

- Accounting department – segregation of duties
 - Processes and system access designed to limit the ability for fraud to occur
 - Example – Accounts payable administrator has no system access to add or edit a vendor account
 - Personnel duties defined in accounting process documentation

- **Concur**
 - **Travel reservations**
 - Provides employees lowest airfare and hotel options
 - Ensures compliance with NERC travel policies
 - **Employee expense reports**
 - Electronic workflow of expense reports
 - Corporate travel cards link spending transactions to expense report
 - Ensures compliance with travel policies (e.g. daily meal limit)
 - Expense reports approved by managers and audited by accounting
 - **Accounts payable invoice routing**
 - Electronic workflow and audit trail of invoice approvals
 - Routing rules designed to ensure appropriate approval levels
 - Mobile access

- Sage Intacct
 - General ledger and accounting system
 - Preferred accounting software of the American Institute of CPAs
 - Strong audit trail functions and documentation storage
 - Other system benefits
 - Bi-directional data connection between Concur and Intacct
 - Visibility of Concur invoices from general ledger transaction
 - Efficient ACH vendor payment solution and electronic customer billing
 - Purchase order system and workflow
 - Dashboards and improved management reporting

- Host Analytics
 - Annual budget preparation
 - Projections and forecasting
 - Personnel projections
 - Year-end financial projections

- UltiPro
 - Payroll and human resource information system
 - Implementation - January 2019
 - Cloud solution with strong customer base and user group
 - Available suite of integrated supporting modules
 - Improved user interface and mobile access

- Current monthly management reports
 - Monthly variance report and year-end projections
 - Individual department statement of activity reports
 - Contracts and consultants report
 - Travel expenses by employee
- New Intacct system reporting benefits
 - System generated reports versus Excel
 - More granularity of data to answer questions
 - Dashboards with real-time information

- Update accounting process documents with implementation of new systems
- Continue to leverage system capabilities to enhance control environment
- Consider future policy and process modifications to balance business process efficiency while maintaining adequate controls
- Review of new system and process environments by internal audit



Questions and Answers