

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. FA12-14-000
May 9, 2013

Dan Skaar, President
Midwest Reliability Organization
380 St. Peter Street, Suite 800
Saint Paul, MN 55102

Dear Mr. Skaar:

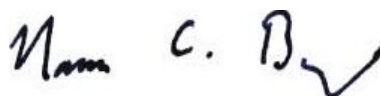
1. The Division of Audits (DA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed the audit of Midwest Reliability Organization (MRO), for the period from August 23, 2006 through February 19, 2013. The enclosed audit report explains our audit conclusions and recommendations.
2. The audit evaluated MRO's budget formulation, administration, and execution. Also, DA focused on the costs and resources used to achieve program objectives in fulfilling the duties delegated to MRO by the North American Electric Reliability Corporation as the Electric Reliability Organization under section 215 of the Federal Power Act.¹
3. In its April 18, 2013 response, MRO stated it accepts the audit report and has already taken actions to address the recommendations. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.
4. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311 (2012). This letter order constitutes final agency action. MRO may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2012).
5. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that

¹ 16 U.S.C. § 824o (2012).

may come to its attention. In addition, any instance of noncompliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

6. I appreciate the courtesies extended to our auditors. If you have any questions, please contact Mr. Bryan K. Craig, Director and Chief Accountant, Division of Audits at (202) 502-8741.

Sincerely,

A handwritten signature in black ink that reads "Norman C. Bay" with a stylized flourish at the end of the name.

Norman C. Bay
Director
Office of Enforcement

Enclosure



Federal Energy Regulatory Commission

Audit of the Midwest
Reliability Organization for
Budget Formulation,
Administration,
and Execution

Docket No. FA12-14-000
May 9, 2013

Office of Enforcement
Division of Audits

TABLE OF CONTENTS

I. Executive Summary	1
A. Overview	1
B. Midwest Reliability Organization	1
C. Summary of Conclusions	2
D. Summary of Recommendations	2
E. Compliance and Implementation of Recommendations	3
II. Background	4
A. Overview	4
B. Statutory Activities.....	4
C. Budget, Accounting, and Recordkeeping.....	5
D. Organizational Structure and Staffing.....	7
E. Financial Controls and Expense Approval.....	8
F. Compensation Process.....	9
G. Other Personnel Costs and Policies.....	10
III. Introduction.....	11
A. Objective	11
B. Scope and Methodology	11
IV. Conclusions and Recommendations.....	14
1. Travel Expense Controls	14
V. Other Matter	16
2. Violation Processing Metric.....	16
Appendix	18

I. Executive Summary

A. Overview

On April 10, 2012, the Division of Audits (DA) commenced an audit of the Midwest Reliability Organization (MRO). The audit evaluated MRO's budget formulation, administration, and execution. This economy and efficiency audit focused on the costs and resources used to achieve program objectives. The audit covered the period from August 23, 2006 to February 19, 2013.

B. Midwest Reliability Organization

Originally established in 2002, MRO is a nonprofit organization that began operations in 2005. MRO assumed the North American Electric Reliability Corporation's (NERC's) mandatory reliability functions in the regions of the Mid-Continent Area Power Pool (MAPP) and Mid-America Interconnected Network (MAIN), both formally voluntary Regional Reliability Councils of NERC.

The Commission approved the NERC's Delegation Agreements with the eight Regional Entities (REs) on April 19, 2007.² MRO is one of the eight REs operating under these NERC delegation agreements; the delegation agreements and NERC's certification as the Electric Reliability Organization (ERO) are approved by the Commission and Canadian provincial authorities.³ In their respective regions, each RE must: (1) develop and implement reliability standards; (2) enforce compliance with those standards; (3) provide seasonal and long-term assessments of the reliability and adequacy of the Bulk-Power System (BPS); and (4) provide an appeal and dispute resolution process.

As of September 2012, MRO oversees 154 registered entities in north central North America, including municipal utilities, cooperatives, investor-owned utilities, transmission system operators, independent power producers, and cooperatives. MRO's footprint covers approximately one million square miles in eight states: Minnesota, North Dakota, South Dakota, Nebraska, Iowa, Montana, Michigan, and Wisconsin, as

² *Order Accepting ERO Compliance Filing, Accepting ERO/Regional Entity Delegation Agreements, and Accepting Regional Entity 2007 Business Plans*, 119 FERC ¶ 61,060 (2007). Subsequently, the Commission has approved amendments to the NERC-MRO delegation agreement.

³ NERC has been recognized as the ERO by Manitoba and has entered into agreements or memoranda of understanding with the appropriate provincial authorities in Saskatchewan.

well as two Canadian provinces, Saskatchewan and Manitoba. The region provides power to over 20 million people.

MRO is governed by a hybrid Board of Directors. On June 22, 2012, MRO received approval to move to a hybrid Board, composed of two independent members and 17 stakeholder members, and has subsequently appointed two independent directors to its Board.

C. Summary of Conclusions

Audit staff conclusions are summarized below. Audit staff identified one area where MRO could enhance its performance:

- *Travel Expense Controls* – MRO should strengthen its travel expense controls over rental cars to ensure that employees adhere to the rental car provisions in MRO’s expense statement guidelines.

Audit staff also addressed the following other matter:

- *Violation Processing Metric* – MRO should expand the use of its Days in Violation Processing (DIVP) metric to track separately processing of Critical Infrastructure Protection (CIP) reliability standard violations and Operations and Planning reliability standard violations. Additionally, MRO should track violation processing time by each phase in the process.

D. Summary of Recommendations

This section summarizes audit staff’s recommendations. Detailed recommendations are in section IV. Audit staff recommends that MRO:

1. Strengthen internal controls over rental car procurement, so that the need for a rental car is documented and justified by a traveling employee, and
2. Expand MRO’s DIVP metric to separately track CIP standard violations and Operations and Planning standard violations. Also, track violation processing by each phase in the process.

E. Compliance and Implementation of Recommendations

Audit staff further recommends that MRO:

- Submit to audit staff for review the Company's plans for implementing audit staff's recommendations. MRO should provide these plans to audit staff within 30 days after the final audit report is issued.
- Submit copies of any written policies and procedures developed in response to recommendations in the final audit report.

II. Background

A. Overview

Under section 215(e)(4) of the Federal Power Act (FPA), the Commission approved NERC's delegation of certain statutory functions, i.e., functions performed pursuant to FPA section 215, to the REs. NERC executed a Delegation Agreement with MRO on May 2, 2007 for the purpose of delegating to MRO certain responsibilities and authorities of an RE as defined by FPA section 215.⁴ MRO's delegated functions under the agreement are: Development and Proposal of Reliability Standards, Compliance and Organization Registration and Certification, Risk Assessment and Mitigation, Enforcement, Reliability Assessment and Performance Analysis, Event Analysis, Training and Education, Situational Awareness, and Infrastructure Security.

B. Statutory Activities

Development and Proposal of Reliability Standards

MRO participates in the NERC reliability standards development process. MRO also has a regional approval process for the possible development of regional reliability standards. MRO's Standards Committee administers a regional standards program, educates stakeholders regarding the applicability of reliability standards, and provides input to the NERC standards development process.

Compliance and Organization Registration and Certification

MRO determines compliance with NERC reliability standards through monitoring activities, mainly audits and spot checks, of registered entities within the MRO region. MRO also certifies entities serving as Reliability Coordinators and Transmission System Operators of the BPS. MRO maintains a registry of all owners, operators, and users of the BPS in the MRO region. Additionally, MRO staff conducts and assists NERC staff with certifications for NERC functions.

Risk Assessment and Mitigation

Upon discovery of a possible reliability standard violation, MRO evaluates the risk posed by the violation to the BPS, and reviews and assesses the mitigation plan developed by the registered entity to ensure that the plan will mitigate and prevent reoccurrence of the violation.

⁴ 16 U.S.C. § 824o (2012).

Enforcement

MRO evaluates facts and circumstances surrounding possible reliability standard violations and determines appropriate enforcement actions to assess. Enforcement staff reports to NERC regarding the status of all Possible Violations (PVs). MRO Enforcement staff may negotiate penalty settlements with registered entities, and coordinates review of settlement agreements by MRO's Board. Enforcement determinations are submitted by MRO staff to NERC for approval.

Reliability Assessment and Performance Analysis

MRO's Reliability Assessment and Performance Analysis (RAPA) staff performs seasonal and long-term reliability assessments of the MRO region. RAPA staff also assembles modeling data and prepares models of the region.

Within its 2013 Business Plan and Budget, MRO stated that it did not support any nonstatutory functions that would be ineligible for funding pursuant to FPA section 215.⁵

C. Budget, Accounting, and Recordkeeping*Budgeting*

MRO prepares an annual Business Plan and Budget each calendar year. The development of the Business Plan and Budget begins with an annual MRO Board strategic planning session, at which long-term goals are set for MRO. The Business Plan and Budget is then developed by MRO staff between March and June of the year preceding the budget year with input from MRO's stakeholders (namely, the stakeholder Board members). The Business Plan and Budget is developed in conjunction with those of other REs and NERC to ensure consistency in the budgets of entities charged with section 215 responsibilities. MRO staff also participates in NERC's ERO Executive Management Group to review strategic goals and objectives for the REs, and to review common assumptions included in their business plans and budgets.

MRO's approach to budget development is an aggregation of a "top-down" and a "bottom-up" approach. The top-down approach is initiated by MRO's CEO, who determines budget figures on a big picture scale using his own estimates for MRO's needs for the budget year. The bottom-up approach is coordinated among MRO's

⁵ 2013 Business Plan and Budget
(www.midwestreliability.org/01_about_mro/Business%20Plan%20&%20Budget/2013%20MRO%20Business%20Plan%20and%20Budget_08202012.pdf).

managers and vice presidents, who calculate budget amounts for their respective departments using a detailed, line-by-line approach. The bottom-up figures from all departments are then aggregated and reconciled with the CEO's top-down budget figures. Actual costs from the previous year are obtained from MRO's general ledger to determine bottom-up budget figures for the coming year.

MRO maintains a cash reserve at all times, capable of funding MRO's operations for a 45-day period. This cash reserve is in addition to the funding necessary for MRO's normal operations. MRO's annual business plan and budget includes a request for funding necessary to maintain or restore MRO's cash reserve to the 45-day level.

Upon completion, the Business Plan and Budget is reviewed by the Finance and Audit Committee (FAC) of MRO's Board and distributed for stakeholder comment. The Business Plan and Budget is then sent to the Board for approval. Once approved by the Board, the plan is submitted to NERC and then to FERC. After approval, the budget is circulated to MRO stakeholders for comment. The plan is typically finalized by October of the year preceding the budget year.

Accounting and Recordkeeping

MRO's accounting is performed by the Vice President of Finance and the MRO accounting staff. MRO bases its current Chart of Accounts upon NERC's System of Accounts, as required in the Delegation Agreement, and uses Generally Accepted Accounting Principles (GAAP) for the classification of its expenses. Additionally, MRO maintains an accounting manual to provide instructions to its accounting staff on accounting transactions and functions. MRO maintains its books on an accrual basis, recognizing revenues when earned and expenses when incurred.

MRO's accounting system and capabilities have evolved over the audit period. Prior to 2008, MRO used a chart of accounts developed by its predecessor entity, MAPP. This Chart of Accounts enabled MRO to account for and track expenses by program area.⁶ In October 2008, MRO moved to an improved Chart of Accounts, incorporating NERC's classification system. Still used by MRO today, this system permits accounting by program area and by subaccounts within program areas.

The majority of MRO expenses are direct labor costs. These costs are recorded in the accounting system by NERC account. Indirect costs are allocated to each MRO program area based on the number of full-time employees (FTEs) in each program area.

⁶ Program areas, or functional areas, are defined in the delegation agreement between NERC and MRO, which outlines the activities delegated to MRO by NERC.

D. Organizational Structure and Staffing

MRO is organized into departments, all of which are dedicated to a statutory function or program area. Additionally, some functions, such as training and education, and committee and member functions, are the responsibility of multiple departments. MRO departments are organized around the NERC System of Accounts. The NERC System of Accounts assigns an account number to each statutory function outlined in the delegation agreements between NERC and the REs. MRO's accounting system is similarly organized by NERC account, meaning that while MRO tracks costs by department, MRO simultaneously tracks costs by NERC account.

All MRO employees have a "home" program area to which they are assigned. However, most MRO employees work in multiple program areas. For instance, employees whose home program area is compliance may also assist in reliability standard development. MRO employees track their time working in each program area, and their budgeted labor costs are allocated to the various program areas in which they are anticipated to work.

MRO's budgeted number of FTEs has grown from 26.5 in 2009 to 37.75 in 2013, reflecting a steady increase in MRO's workload as the number of monitored reliability standards has increased. MRO's budgeted total expenses have risen from \$6,405,724 in 2009 to \$9,199,353 in 2012.

The Compliance, Mitigation, and Standards department encompasses MRO's reliability audit, reliability standard development, and risk assessment and mitigation functions. The department is headed by a Vice President, assisted by an administrative professional and three managers. In total, the department is staffed with 18 FTEs, and staff is assigned to and performs one of the three functions: audits, risk assessment and mitigation, and standards development.

Enforcement and Regulatory Affairs is responsible for enforcement of reliability standard violations within the MRO region based upon the evaluations provided by the risk assessment staff. This department has three FTEs.

MRO's Operations department houses its reliability assessment, performance analysis, event analysis, situational awareness, infrastructure security, and IT functions. This department is headed by a Vice President, who oversees three managers. In total, there are 11 FTEs in the Operations department.

MRO's General Counsel/External Affairs department provides legal advice to MRO on an as-needed basis. This department also handles certain communications with NERC, other regions, and other external parties. This department is staffed with one FTE.

MRO's Finance and Administration department performs human resources, accounting, finance, budget, and treasury functions. This department is staffed with three FTEs.

MRO's Organizational Restructuring

MRO undertook an organizational restructuring of its Compliance Monitoring and Enforcement (CME) function during the audit period. MRO has split the CME function into three distinct steps: Compliance Monitoring, Risk Assessment and Mitigation, and Enforcement, each performed by its own personnel within MRO. Compliance Monitoring staff conducts audits and spot checks of compliance with reliability standards by registered entities. Risk Assessment and Mitigation undertakes an independent review of the facts and circumstances surrounding each violation discovered by Compliance Monitoring, and determines whether sufficient evidence supports each PV. Risk Assessment and Mitigation works with the registered entity to develop an effective mitigation plan in the event that a violation is confirmed. Confirmed violations move to the Enforcement department staff, who review recommendations made by Risk Assessment and Mitigation staff, verify all relevant facts, and evaluate appropriate enforcement actions

The factual review conducted by Risk Assessment and Mitigation and Enforcement staff is intended to ensure a consistent, accurate application of the NERC reliability standards. The three-step process also provides for segregation of duties, establishing independence among those making the findings, those assessing risk, and those determining and negotiating penalties and sanctions.

E. Financial Controls and Expense Approval

MRO maintains formal policies governing travel expense reimbursement, corporate credit card usage, contractor use, and procurement. MRO's Employee Handbook also addresses financial controls and expense approval.

MRO employees travel to conduct audits, perform reliability assessments, and attend industry meetings and training. MRO's Expense Statement Guidelines (Guidelines) provide guidance to MRO employees on reimbursable travel expenses. The Guidelines state: "It is intended that the employee should be reimbursed for all reasonable business travel expenses." Although MRO's Guidelines do not explicitly define "reasonable," they suggest that employees use the General Service Administration's per diem rates as a guide on what is a reasonable cost for meals. Expenses are reviewed for proper documentation and reasonableness by department managers and MRO's Vice President of Finance. The Guidelines address various types

of travel expenses, such as meals, baggage fees, mileage, parking, and car rentals, as well as the documentation required for reimbursement of these expenses.

An independent auditing firm annually audits MRO's financial statements. MRO staff consults the FAC of the Board in reviewing the selection of the external auditor and the scope of the audit work. Once hired, the independent auditor communicates directly to the FAC Chair regarding audit matters. The FAC and MRO staff perform an annual review of the auditing firm's performance.

MRO's *Contract Management Procedures* (Procedures) govern MRO's procurement of goods and services in excess of \$500.⁷ The Procedures dictate that an employee must have a Master Purchase Order approved by MRO's VP of Finance and his or her department VP for all purchases in excess of \$500. Additionally, purchases in excess of \$10,000 must also be approved by the MRO President.

MRO utilizes a robust time-tracking and reporting system for its employees. The software allows employees to track their labor hours by program area, project, NERC account, and registered entity. New employees are trained on MRO's time-tracking policies and systems upon hiring. Nonlabor employee costs are also coded by program area, project, NERC account, and registered entity.

Employees must input their work hours on a semi-monthly basis. Actual hours worked are recorded by MRO employees when completing timesheets. Timesheets are subsequently reviewed by each department manager and again by MRO's Human Resources department. The department manager reviews the timesheet for completeness and accuracy, and will consult with an employee when the manager feels there is a discrepancy on the timesheet.

F. Compensation Process

Since becoming an RE, MRO's employment compensation procedures have evolved as management identified efficiencies and better practices. Originally, MRO based its compensation procedures on those of its predecessor organization, MAPP, and made some changes to suit the organization's needs.

By 2008-2009, MRO management stated that the organization had established itself as an RE and management began focusing on its compensation process and procedures. At this time, MRO management created the first version of *Your Pay at*

⁷ The Procedures do not apply to travel expenses, which are governed by MRO's Expense Statement Guidelines. Also, for meeting and event purchases in excess of \$200, a meeting and event purchase order must be completed and approved.

MRO: A Guide to Understanding How You are Paid as a Midwest Reliability Organization Employee, dated November 14, 2008, which considered a tiered-approach to employee compensation as well as external compensation studies. The first version of *Your Pay at MRO* incorporated eight pay principles to describe MRO's compensation structure.

In 2011, MRO management updated *Your Pay at MRO*, establishing the current job tier and scale structure. MRO bases employee compensation on eight pay principles developed in-house by management. These pay principles, written in plain English, provided staff with an overview of their entire compensation packages as well as the methodology used to determine them.

The current pay structure uses a five-tiered professional structure, encompassing tiers, scales, and base compensation ranges. MRO divided each tier into four scales which reflect an employee's years of experience and degree of knowledge, skills, and abilities. The structure remains intact from year to year with an annual adjustment made to reflect outside market conditions for human skills and talents.

Since establishment, MRO's annual incentive program has been tied to annual goals set by the President and CEO, and department goals set by their respective executives. Though the incentive compensation formula has changed over the years, employee incentive compensation is based on a formula combining corporate, departmental, and team/individual performance.

G. Other Personnel Costs and Policies

MRO provides financial benefits to its employees pursuing professional development through its tuition refund program. The program intends to facilitate employee training opportunities and improve the effectiveness and efficiency of MRO operations. Through the program, FTEs may receive reimbursement for 80 percent of the tuition costs of an approved course. One hundred percent of tuition costs may be reimbursed if the course work relates to an employee's job at MRO. MRO in some cases has imposed conditions on tuition reimbursement, such as requiring an employee to remain employed at MRO for a certain time period.

MRO employees are required to sign a Standards of Conduct form, attesting that they will always act in the best interests of MRO, and that they will avoid conduct and commitments that may compromise their responsibilities to MRO. MRO employees are forbidden from owning a financial interest in any entity subject to reliability standards within the MRO region.

III. Introduction

A. Objective

The objective of this audit was to evaluate MRO's budget formulation, administration, and execution. This audit focused on the costs and resources used to achieve program objectives.⁸ The audit covered the period from August 23, 2006 to December 31, 2012.

B. Scope and Methodology

The procedures audit staff performed to evaluate MRO and its budget formulation, administration, and execution required audit staff to review Commission-related orders and criteria, NERC and MRO Business Plans and Budgets, NERC and MRO's Delegation Agreement, MRO's Bylaws, and MRO's internal policies and procedures. Audit staff gathered and reviewed information through data requests, interviews, teleconferences, and two site visits. To address audit objectives, audit staff performed the following audit procedures and audit steps:

- Reviewed Public Information – To familiarize itself with MRO's operations, audit staff reviewed FERC's eLibrary for company filings, Commission orders, and formal complaints; the Enforcement Hotline for complaints made against the organization; and local newspapers, trade press and academic press to identify significant developments and occurrences that arose during the audit period.
- Conducted Site Visits – Audit staff conducted site visits to MRO in June and September 2012. During the site visits, audit staff obtained a thorough understanding of MRO's processes, procedures, and controls. Audit staff conducted multiple interviews with MRO management and staff to understand their job functions and learn about MRO operations and performance of its delegated functional responsibilities. Onsite discussions included MRO's management team and other personnel, including the President and CEO, Vice President of Finance, and other program managers.
- Issued Data Requests – Audit staff gathered information through approximately 100 formal and supplemental data requests. Information obtained included copies of MRO's organizational charts and functional

⁸ Order No. 672, 114 FERC ¶ 61,104 at P 227.

structure, internal policies and controls, budget development procedures, accounting policies, and other key documents.

To facilitate audit staff's evaluation of MRO as an RE and its financial performance of its delegated responsibilities, audit staff conducted extensive reviews and testing relating to MRO's processes, policies, procedures, and controls. Specifically, audit staff conducted the following activities relating to the major subject areas of the audit:

Delegated Responsibilities and Functional Organization

- Reviewed MRO's organization goals, business objectives, and key deliverables to facilitate discussions on how MRO determines resources needed to achieve objectives;
- Examined how program managers responsible for delegated responsibilities assess and align resources to achieve program goals;
- Assessed coordination between MRO, NERC, and the MRO Board to achieve goals and objectives of the ERO; and
- Interviewed the President and CEO, with other senior management, to understand MRO's processes for setting organizational and individual goals, tracking progress toward goal achievement, and compensating for goal achievement.

Budget Development, Administration, and Execution

- Examined processes and procedures used by MRO to develop its annual budget and how it identified resources to adequately achieve program goals and objectives;
- Ensured sufficient detail existed within MRO's Business Plan and Budget as presented to ensure the Commission is able to conclude delegated responsibilities are adequately funded;
- Examined how MRO used its budget throughout the budget year to support day-to-day operations and contingencies, as well as meet organizational and program goals;
- Examined and tested controls used to help ensure adherence to MRO's Business Plan and Budget;

- Reviewed MRO's procedures for monitoring its budget and conducting budget variance analysis throughout the budget year; and
- Sampled and tested representations made within MRO's Business Plans and Budgets to determine whether MRO adhered to the key deliverables presented within its budget and achieved program goals and objectives.

Accounting and Recordkeeping

- Reviewed policies and procedures for MRO's accounting for income and expenses;
- Examined processes for employee time-tracking and accounting for labor associated with functional categories;
- Sampled and tested expenditures to determine proper accounting of expenses for each functional category within NERC's Rules of Procedures;
- Tested MRO's processes of allocating general and administrative and other support activities among program areas; and
- Tested expenditures and supporting documentation to assess the effectiveness of MRO's internal controls over accounting and reporting.

Staffing and Organizational Responsibilities

- Reviewed MRO's Bylaws and held discussions with MRO management to determine the process for evaluating and assessing employee performance, compensation, benefits, and incentives;
- Reviewed job descriptions and compensation studies, and conducted interviews to evaluate MRO's processes for employee placement within program areas; and
- Reviewed the employee performance evaluation process and examined how it tied to the bonus allocation process.

IV. Conclusions and Recommendations

1. Travel Expense Controls

MRO should strengthen its travel expense controls over rental cars to ensure that employees adhere to the rental car provisions in MRO's Expense Statement Guidelines (Guidelines).

Pertinent Guidance

FPA section 215(c)(2) states the Commission may certify an entity as an ERO if, among other things, the Commission determines that the ERO "has established rules that allocate equitably reasonable dues, fees, and other charges among end users for all activities under this section." Section 215(e)(4) empowers the Commission to authorize the ERO to enter into an agreement to delegate authority to a regional entity if, among other things, the regional entity satisfies the provisions of section 215(c)(2).

Background

MRO employees are frequently required to travel in the ordinary course of business. MRO's Guidelines contain guidelines and controls to ensure that only reasonable employee travel expenses are reimbursed.

The Guidelines discuss several types of expenses, including baggage fees, meals, cell phone use, gratuities, transportation, parking fees, rental cars, and taxis. The Guidelines state that MRO employees, when procuring a rental car, should "Document the need on the Travel Request Form for pre-approval."⁹

Audit staff selected a sample of approximately 75 MRO employee travel expense statements to determine the reasonableness of expenses reimbursed by MRO as well as the extent to which MRO's Guidelines were followed. Audit staff found that rental cars were procured in approximately 20 of the expense statements sampled. The need for a rental car was not documented on any of the expense statements.

⁹ The travel request form is used by MRO employees prior to business travel. Employees must estimate the costs to be incurred and furnish all important details regarding the trip on the travel request form.

Midwest Reliability Organization

Docket No. FA12-14-000

Recommendation

Audit staff recommends that MRO:

1. Strengthen internal controls over rental car procurement, so that the need for a rental car is documented and justified by a traveling employee.

V. Other Matter

2. Violation Processing Metric

MRO's Days in Violation Processing (DIVP) metric could become more effective by separately tracking violation processing times for CIP standard violations and Operations and Planning standard violations. Further, MRO could expand the metric to track processing time in each violation processing phase.

Pertinent Guidance

The Delegation Agreement between MRO and NERC, effective February 17, 2011, section 6(b) states: "Midwest Reliability Organization shall report promptly to NERC any Possible Violation, Alleged Violation, or Confirmed Violation of a Reliability Standards, and its eventual disposition by Midwest Reliability Organization."

Background

MRO's Enforcement staff utilizes its DIVP metric to track processing of alleged violations by registered entities. MRO began using the number of DIVP for its active caseload in July 2011. In its 2013 Business Plan and Budget, MRO identified DIVP and "violation aging" as key indicators for process efficiency and effectiveness. MRO's creation and implementation of the DIVP has allowed MRO to track the amount of time and resources needed to process a generic violation of a reliability standard.

MRO does not differentiate between Operations and Planning violations and CIP violations when calculating the average number of days taken to process a violation, even though CIP violations have historically taken longer for MRO to process. The DIVP metric could be made more useful by calculating two separate DIVP values: one for Operations and Planning violations and one for CIP violations. In this way the DIVP metric for Operations and Planning violations could not be skewed by a lengthy processing time for a complex CIP violation, allowing MRO to more accurately determine the resources used to process a given type of violation.

Furthermore, the metric could be refined further by tracking the number of days taken to process a violation within each phase of the process. This refinement is made possible by the unique structure of MRO's Compliance Monitoring and Enforcement Program, which MRO has functionally separated into a three-step process: compliance monitoring, risk assessment and mitigation, and enforcement. For instance, MRO could track the number of days taken in the compliance monitoring, risk assessment and mitigation, and enforcement phases of processing Operations and Planning and CIP violations, respectively. MRO could then more accurately track the resources spent in

Midwest Reliability Organization

Docket No. FA12-14-000

each phase of violation processing, facilitating efficient planning of resources and the avoidance of bottlenecks in violation processing.

Recommendation:

Audit staff recommends that MRO:

2. Expand MRO's DIVP metric to separately track CIP standard violations and Operations and Planning standard violations. Also, track violation processing by each phase in the process.

Midwest Reliability Organization

Docket No. FA12-14-000

Appendix



380 St. Peter Street, Ste. 800, Saint Paul, MN 55102 MidwestReliability.org P.651.855.1760 F.651.855.1712

April 18, 2013

Mr. Bryan K. Craig
Director and Chief Accountant
Division of Audits
Federal Energy Regulatory Commission
888 First Street, NE, Room 51-37
Washington, DC 20426

Subject: Audit of Midwest Reliability Organization for Budget Formulation, Administration and Execution (Docket FA12-14-000).

Dear Mr. Craig:

Thank you for the opportunity to review and comment on the draft audit report covering the period August 23, 2006 to December 31, 2012, issued to Midwest Reliability Organization ("MRO") in the above referenced docket.

MRO accepts the audit report. MRO has addressed the two matters from the audit report. The recommendation regarding improving documentation for travel expenses related to rental cars has been completed. The other matter recommending improvements to MRO's enforcement processing metric called "Days in Violation Process (DIVP)" has been completed.

MRO appreciates the professionalism of the Federal Energy Regulatory Commission staff assigned to this audit.

Please feel free to contact me with any questions.

Sincerely,

Sue Clarke

Sue Clarke

Vice President Finance and Administration

Cc: Stephen Flanagan, FERC

CLARITY ■ ASSURANCE ■ RESULTS

Document Content(s)

FA12-14-000_MRO Final Audit Report w Cover Letter.DOCX.....1-24