

Review of Florida Power & Light Company's Internal Audit Function

February 2016

BY AUTHORITY OF
The Florida Public Service Commission
Office of Auditing and Performance Analysis

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1.0 Executive Summary

1.1 Audit Execution

1.1.1 Purpose and Objective

The Office of Auditing and Performance Analysis performed a review of the Florida Power & Light Company (FPL) Internal Auditing program and function. This review is the second in a series of reviews being done over time of the four large investor owned electric utilities in Florida.

The primary objective of this review was to verify the adequacy of the Internal Audit function, controls, documentation, procedures, budget, risk analysis, and audit coverage. Information in this report may be shared with other utilities to improve their internal auditing programs.

1.1.2 Scope

The audit scope included an assessment of company internal audit policies, practices, and procedures for the years 2010 through 2015. Commission staff examined FPL's Internal Auditing (IA) management, staffing, controls, documentation, and results for the period. Commission staff assessed the following areas within the company's audit process:

- ◆ Risk Determination
- ◆ Audit Planning
- ◆ Plan Approval Process
- ◆ Audit Management
- ◆ Audit Organization
- ◆ Budgeting and Schedule controls
- ◆ Outsourcing selection and contractor management
- ◆ Reporting and communication of results
- ◆ Quality assurance and follow-up

Commission audit staff's review places primary importance on internal controls as referenced in the Institute of Internal Auditors *Standards for the Professional Practice of Internal Auditing* and in the *Internal Control - Integrated Framework* developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Work is done in compliance with Institute of Internal Auditors Performance Standards 2000 through 2500. Internal controls assessments focus on the COSO framework's five key elements of internal control: control environment, risk assessment, control activities, information and communication, and monitoring.

1.1.3 Methodology

Planning, research, and data collection for this audit was completed during the period November 2015 through February 2016. Staff conducted on-site interviews with NextEra Energy Incorporated (NextEra) Internal Auditing management, to gain an understanding of the practical approach taken for FPL audits.

Specific information reviewed during this audit included:

- ◆ Policies and procedures
- ◆ Organizational charts
- ◆ Planning timeline data
- ◆ Internal audit reports
- ◆ Quality control reviews
- ◆ Sampling of workpapers and procedural compliance

1.2 Overview and Staff Observations

The internal auditing (IA) function for Florida Power & Light Company (FPL) is administered by NextEra, FPL's parent company. This department conducts audits, consultations, and investigations for all NextEra subsidiaries, including FPL. Overall, IA has an appropriate audit process in place that utilizes industry recognized audit standards.

The IA function is organized in a manner that ensures independence and audit objectivity from the FPL operational business unit level to the NextEra Audit Committee and Board of Directors. IA's accountability to FPL senior management, and the NextEra Energy Board of Directors through the Audit Committee, ensures that key audit findings are presented to the appropriate management level for resolution.

Overall, IA places proper focus on risk-based assessments when developing its annual audit plan. This ensures that audit resources are targeted on the highest risks facing the company each year. The NextEra assessment process also provides the structure and methodology to insure adequate audit coverage throughout FPL operational and functional areas. Additionally, IA can supplement resources by bringing on additional external expertise when necessary.

Commission audit staff notes that no issues were identified during this review which could negatively impact FPL's ability to receive adequate audit coverage. Staff believes that oversight provided by FPL executive management and the NextEra Audit Committee of NextEra's Board of Directors ensures FPL's interests and risks are adequately reviewed and addressed at the appropriate management levels.

2.0 FPL Internal Audit Function

2.1 Organization and Structure

2.1.1 Organization

The NextEra Vice President of Internal Auditing (Vice President) is responsible for implementing internal and outsourced auditing activities and programs for both regulated and non-regulated NextEra subsidiaries, including Florida Power & Light Company. To provide organizational independence, the Vice President reports administratively to the Chief Executive Officer of NextEra Energy, Inc. and functionally to the Audit Committee of the Board of Directors. The Vice President also has unrestricted access to senior management and the Audit Committee.

The Internal Auditing organization includes between 24-26 auditors reporting to one of three Audit Managers. Audit Managers assist with the implementation of the Annual Audit Plan and ensure the effective completion of planned internal audits and audit objectives. This is accomplished by monitoring, tracking, and evaluating performance towards departmental goals and objectives. Audit Managers also ensure audits meet the *International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditing* and the principles of *Risk Based Integrated Auditing (RBIA)*.

Exhibit 1 shows the NextEra Internal Audit organization reporting structure.

NextEra Internal Auditing Organization

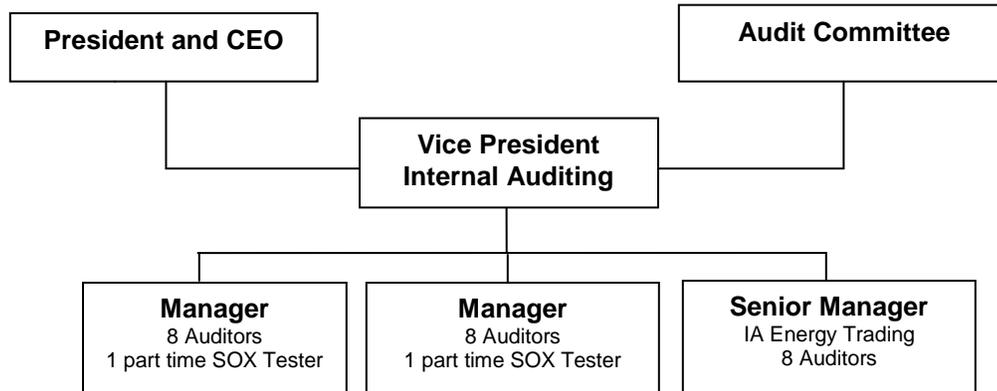


EXHIBIT 1

Source: Document Request 1.4

2.1.2 Responsibilities

NextEra Internal Audit provides strategic oversight and direction through a corporate internal auditing organization.

Following completion of each project, the results and required remediation are communicated to management. As part of determining the value of each audit engagement, business unit

executives provide an assessment of the project engagement and the improvements recommended. These assessments are part of the overall IA team performance measures that track Team Success Objectives (TSOs) measuring components of project timing, budget, cost, and value as rated by the business unit.

The Vice President presents a Quarterly Summary Report to the NextEra Audit Committee of the Board of Directors. This summary describes key audits completed by IA, and the most important findings and recommendations made to management.

NextEra does not normally use external auditors to perform internal audits independent of NextEra IA. However, IA has occasionally used outside auditors to assist with completing specific audits, under IA's direction. In 2014, Ernst & Young performed an independent external assessment of IA's compliance with IIA standards.

2.2 Risk Process and Audit Planning

Annually, NextEra IA develops an audit plan using a risk-driven evaluation process. IA management reviews each business unit and assigns an overall internal control assessment (good, adequate, improvement necessary, inadequate) based on recent audit results and findings. To identify risk areas in which the control environment may require additional attention, IA considers prior audit results noting control weaknesses. Changes such as new system implementations, key management turnover, or modifications to internal control environments are considered. The company-wide risk assessment focuses on the greatest potential risk threats coupled to the perceived potential impacts to the company.

The Vice President and IA team work with senior FPL management, key business unit executives, NextEra Risk Management, and Deloitte to assess issues and the level of risk posed by each. During the process, issues and risks are evaluated and challenged by the IA team prior to final inclusion. Results are incorporated into a risk matrix, becoming the foundation for the Annual Audit Plan. This plan includes the needs of all NextEra subsidiary companies, including FPL.

The risk review process considers the top NextEra subsidiary companies' risks, refining them through input from senior and executive management. This culminates in the NextEra Internal Audit Plan.

Risk assessment is the driver of the IA mission; NextEra IA does not guarantee any single company a specific number of projects or a percentage of the annual auditing budget. Under this process of identifying overall corporate risk, FPL's key risks are included along with other subsidiary companies in the development of the audit plan. During the year, the Vice President provides quarterly reviews and updates of IA results to the CEO and NextEra Audit Committee, to ensure key risks are addressed.

2.3 Outsourcing, Resources, and Budgeting

2.3.1 Internal Audit Budget Process

NextEra IA establishes an annual Internal Auditing budget to fund the auditing process. The budget is developed in mid-summer for the following calendar year.

Exhibit 2 details the IA budgeted and actual spending for FPL during the review period. Generally, the budget increased from 2010 to 2013 and gradually declined since then.

| FPL Internal Auditing Budget 2010-2015 | | | | |
|---|-------------|-------------|-------------|---------|
| Year | Budget | Actual | Variance | Percent |
| 2010 | \$2,530,086 | \$2,336,709 | (\$193,377) | -8 |
| 2011 | \$2,991,363 | \$3,076,864 | \$85,501 | +3 |
| 2012 | \$3,109,382 | \$2,996,058 | (\$113,324) | -4 |
| 2013 | \$3,288,796 | \$2,857,310 | (\$431,486) | -13 |
| 2014 | \$3,151,456 | \$3,023,732 | (\$127,724) | -4 |
| 2015 | \$3,077,651 | \$2,861,863 | (\$215,788) | -7 |

EXHIBIT 2

Source: Document Request 1.12

Actual spending followed a slightly different track, increasing substantially (31.7 percent) from 2010 to 2011, gradually declining year to year in 2012 and 2013 (2.6 percent and 4.6 percent respectively), before rising again (5.8 percent) in 2014, and falling (5.4 percent) in 2015.

2.3.2 Internal Audit Resources

During the planning process, audit resources are considered as input to the Audit Plan. The Plan requires review by FPL senior management, and approval of the NextEra Audit Committee and Board of Directors. During the period 2010 - 2015, NextEra IA performed a total of 378 audits, consultations and investigations.

Exhibit 3 shows audit projects by COSO category for the review period 2010-2015. From a COSO perspective of IA projects, Operations projects, including audits and reviews of the effective and efficient use of company resources, were the most frequent (46 percent). The next largest category was Compliance (28 percent), focusing on whether applicable laws and regulations are followed. Reporting projects, focusing on the reliability of company reporting, composed the third largest category of projects (25 percent). Strategic projects, addressing high-level goals and supporting the company mission, contained the smallest number of IA projects during the period (1 percent). Staff notes that IA effort devoted to Operations trended upward overall during the review period but remained generally constant since 2012. Compliance (Sarbanes-Oxley included), though a large segment of the whole, is only slightly larger than Reporting.

| FPL Completed Annual Projects by COSO Category 2010-2015 | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| COSO Category | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
| Compliance | 25 | 21 | 20 | 15 | 15 | 11 | 107 |
| Operations | 22 | 23 | 35 | 30 | 34 | 34 | 178 |
| Reporting | 21 | 17 | 21 | 19 | 10 | 11 | 99 |
| Strategic | 0 | 0 | 1 | 3 | 1 | 0 | 5 |
| Total | 68 | 61 | 77 | 67 | 60 | 56 | 389 |

EXHIBIT 3

Source: Document Request 1.28 and 1.29

For its purposes, NextEra IA categorizes its projects as audits, consultations, and investigations. Audits validate whether control concerns are at issue and are generally based on perceived risk, potential for fraud, and regulatory compliance. Consultations are business unit requests to review new or changing unit processes, systems, controls, and practices. Investigations primarily assess specific concerns and can also validate control, evaluating whether they can be improved, operated more efficiently and effectively, or deliver added value to the requesting business unit.

Exhibit 4 shows the 389 FPL-specific projects, by category, NextEra IA completed.

| Completed Annual Projects by FPL Category 2010-2015 | | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| Category | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
| Audits | 57 | 43 | 57 | 49 | 44 | 39 | 289 |
| Consultations | 3 | 7 | 10 | 5 | 10 | 11 | 46 |
| Investigations | 8 | 11 | 10 | 13 | 6 | 6 | 54 |
| Total | 68 | 61 | 77 | 67 | 60 | 56 | 389 |

EXHIBIT 4

Source: Document Request 1.28 and 1.29

The trend in the number of FPL-specific projects completed by IA from 2010 through 2014 was generally stable, reflecting some response to increased focus on FPL nuclear uprates and the introduction of automated metering. The number of projects completed during 2015 fell in part reflecting the completion of those programs. IA asserted that there were not fewer projects completed during the downward trending years, just fewer FPL-specific ones.

2.3.3 Outsourcing

IA infrequently outsources work to external auditors, except when specialization is required. Mostly, external auditing would be used in areas such as, Nuclear Project Management and Sarbanes-Oxley compliance.

NextEra IA oversees and monitors the work performed by outsourced auditors under IA's direction, with outside auditors required to comply with all NextEra IA and FPL practices and procedures. The Vice President, FPL management, and Deloitte teams work together and meet regularly to ensure all work is being performed as planned. The Vice President also reports to the NextEra Audit Committee of the Board of Directors regarding the progress of all internal and outsourced under IA's direction.

2.4 Procedures, Documentation, and Sampling

2.4.1 Auditing Policies, Practices, and Procedures

NextEra Internal Audit conducts internal audits following the Institute of Internal Auditing (IIA) Standards set forth in the *International Standards for the Professional Practice of Internal Auditing*. These standards were last revised in 2012.

Key NextEra documents providing governance, guidelines, procedures, and standards for internal auditing are included within the *NextEra Energy Audit Committee Charter*, the *NextEra Internal Auditing Department Charter*, and the *NextEra Internal Auditing Department Guidelines*. These charters are reviewed annually and updated, as necessary, with the approval of the NextEra Audit Committee of the Board of Directors.

The *NextEra Internal Audit Department Guidelines* establish the purpose, authority, and responsibilities for all internal auditing activities. Among others things, the guidelines establish auditors' access to records, response timelines for audit activity, management approval requirements, and retention periods for audit workpapers. Guidelines are reviewed annually to insure they reflect current IA policy and procedure. Current guidelines were last revised in 2013.

2.4.2 Documenting Audit Work and Findings

Internal Auditing notification letters, work notes, summaries, findings, recommendations, and other audit documentation currently reside in two different systems used to create, report, and retain records. Prior to 2012, audit workpapers and information were contained in the Risk Based Integrated Auditing (RBIA) system. In 2012, a commercially available computer workpaper system, called Pentana Automated Workpaper System (PAWS) was configured specifically for Next Era and implemented. PAWS provides additional functionality, including action item follow-up, to ensure audit findings and recommendations are completed as agreed upon by management. The company asserts that PAWS meets all current IA needs and is fully adaptable for future requirements.

In PAWS, project workpapers can be updated by auditors until the project is completed and closed. Users of the system are provided only the level of authority within the program to accomplish their assigned tasks. Report approval authority and information release authority are controlled by the Vice President.

The company believes that PAWS is universally understood by auditors and easy to use. PAWS is the company historical repository for all audit records since implementation in 2012. All documentation is retained for the balance of the year completed plus seven additional years.

RBIA functionality is being retained for maintenance of pre-2012 workpapers, until the 7-year retention requirement expires in 2019. Thereafter, PAWS will be the only audit workpaper system.

2.4.3 Commission Audit Staff Sampling

Commission audit staff sampled 46 new and follow-up audit reports completed during the period 2010-2015. The audits were reviewed for workpaper documentation, procedural accuracy, assignment of remedial action responsibility, and proper close-out procedure.

Commission staff verified that each project selected complied with NextEra and FPL IA procedures. Staff also tested whether follow-up actions for recommendations were completed on schedule and appropriately documented. In each audit that included findings and observations, the NextEra internal audit team worked with FPL management to develop a remediation plan. Where required, the NextEra IA team performed follow-up verifications that each finding was resolved appropriately. These results were communicated to senior management, and follow-up documentation was included in the workpaper system.

Staff notes that minor difficulties in correlating pre- and post-2012 documentation exist between RBIA and PAWS, the two audit workpaper systems used by FPL. However, Commission staff found no exceptions to established FPL internal audit guidelines and procedures.