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M E M O R A N D U M

July 12, 1996

Declass 6/2/98

- TO: DIVISION OF APPEALS
- xx DIVISION OF AUDITING AND FINANCIAL ANALYSIS
- DIVISION OF COMMUNICATIONS
- DIVISION OF ELECTRIC AND GAS
- DIVISION OF RESEARCH
- DIVISION OF WATER AND WASTEWATER
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FROM: DIVISION OF RECORDS AND REPORTING (WILLIAMS)

RE: CONFIDENTIALITY OF CERTAIN INFORMATION

DOCUMENT NO: 07338-96

DESCRIPTION: Certain material obtained by staff during audit.

SOURCE: FLORIDA POWER & LIGHT COMPANY

DOCKET NO.: 960007-EI

The above material was received with a request for confidentiality (attached). Please prepare a recommendation for the attorney assigned to the case by completing the section below and forwarding a copy of this memorandum, together with a brief memorandum supporting your recommendation, to the attorney. Copies of your recommendation should also be provided to the Division of Records and Reporting and to the Division of Appeals.

Please read each of the following and check if applicable.

 The document(s) is (are), in fact, what the utility asserts it (them) to be.

 The utility has provided enough details to perform a

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ATTACHMENT A

(See envelope marked "Confidential")

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

F P L

Review of Internal Audits

TYE 3/96

11/11/96

YL
6/8/96

ENVIRONMENTAL Auditing Process 1993 - 3/95

SUBJECT: ENVIRONMENTAL AUDITING PROGRAM

The Environmental Assurance Program (EAP) was established in 6/93 as part of the Environmental Affairs Department.

The EAP is responsible for:

1) evaluating whether operations of the Company comply with legal & internal environmental objectives

2) determine whether related environmental control systems are adequate to ensure continued compliance.

The EAP Description ^{see app} explains the objectives & essential elements of the EAP, is authorized by both the Manager of Environmental Assurance (MEA) & the Director of Environmental Affairs, & reviewed by the General Counsel.

Environmental audits of nuclear are performed by the Nuclear Quality Assurance Dept.

The EAP is staffed with one manager, & utilizes environmental specialists from various business units to assist in the performance of the environmental audit.

SCOPE AND OBJECTIVES

scope - review of environmental auditing activities to ensure compliance w/ EAP internal policies & procedures, & with guidance from regulatory agencies.

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Objectives:

- 1) determine the reporting structure, + controls in place ensure adequate EAP independence
- 2) determine controls in place ensure procedure proficiency of environmental specialists who assist on audits.
- 3) determine the scope + performance of audit work included adequate planning, documentation, reporting + follow-up;
- 4) determine that the audit population, risk assessment, + audit schedule are prepared accurately via a reasonable process + address the environmental concerns of the company.

In Regulatory

Federal: No federal reg. agencies require environmental auditing. Guidance concerning effective environmental auditing programs has been issued by the EPA, Dept. of Justice (DOJ), and in draft form, by the U.S. Sentencing Commission (USC).

State:

To determine State requirements + guidance with respect to a company's environmental auditing program, the auditors reviewed the Bureau of National Affairs database, used by the Environmental Affairs Dept (SEAD) to keep current of changes in Fed. + State environmental regulation.

The state of Fla. has not enacted any laws mandating environmental auditing, or issued any guidance regarding elements of an effective environmental auditing program.

II INDEPENDENCE

A. Organizational Status

The auditors found that the EAP is organizationally independent of environmental activities that are under control of operating management. However, the EAP is not independent of those activities that are the responsibility of JEU, such as the negotiating & disseminating of air & water permits. The NEA stated that various alternatives for the EAP were reviewed & the current reporting structure is considered optimum by senior management.

The auditors also noted that an annual Env. audit report was not distributed to the CEO & Board of Directors as is the policy on the EAP description. The NEA said that it is JEU management's intention to provide the CEO & Board this information via the President & not separately distribute this information to them.

B. Auditor Objectivity

The current structure of the EAP may cause situations where individuals assisting on the audits have had support responsibilities for the facilities being audited, this creating a potential conflict of interest. A process exists whereby employees are instructed to disclose to EAP Management any such conflicts. If use of another assistant is not possible due to expertise/availability effective mitigation will ensure the integrity of the audit.

III. Professional Proficiency

A. Technical Proficiency.

the results were good

B. Auditing Proficiency

The NEA indicated that not all assistants have achieved the auditing proficiency necessary to audit independent of the NEA's close supervision.

On the job training focuses on enhancing proficiency in interpersonal skills, audit risk identification, and workpaper write-up & documentation, but the process is slow due to frequent changes in assistants.

To compensate, the NEA supervises the interviews, plant tours, & document reviews that each assistant performs, thus protecting audit integrity.

IV. Scope & Performance of Audit Work

Regulatory guidance & EAP internal policies & procedures state that audit work should include planning, examining & evaluating information, communicating results, & follow up.

A. Workpaper Review - The results indicated improvements could be made in documenting procedures, sources of information, sampling techniques, & cited regulations supporting findings. The NEA indicated that this is due to the auditors' inexperience in audit techniques. The NEA is comfortable with the adequacy of procedures performed, sources of information, sampling, since the NEA closely supervises audit testing.

IV Management of the EAP

Recommendation: The auditors recommend that management develop a plan which sets forth milestones towards the goal of expanding the scope of environmental auditing to satisfy broader environmental objectives.

When developing such plan, consideration should be given to the fact that the minimum regulatory standard for effective auditing programs is compliance auditing.

ECRC clause Audit March 1995

① Issue:

Charges to ECRC appear to be proper based upon a sample of 114 charges.

Noted that one charge was at a rate greater than the authorized purchase order rate.

Management Action:

The rate increase was deemed reasonable by management, but the contractor was contacted to ensure future rate increases are approved by FPL prior to their implementation.

② Issue:

The primary level where ECRC recoverable projects are identified is at Property Accounting, rather than the affected locations.

Management Action

Environmental Affairs management is taking steps to ensure that the affected locations are aware of ECRC for identification of recoverable projects.

③ Issue:

ECRC project coordinators only review charges pertaining to their locations; no individual reviews ~~of~~ the account as a whole.

Management Action

The auditors identified compensating controls to mitigate the risk of inappropriate charges.

④ Issue:

~~Project Accounting~~ Property Accounting inadvertently omitted six ECRC work orders from the "ECRC Capital Cost Analysis".

Management Action:

Property Accounting will review the established ECRC work orders in PETS to ensure completeness of the ECRC Cap Cost Analysis.

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ECRC cost rec. factors applied to cost. are being calculated properly.

Controls are adequate to ensure that all ECRC recoverable costs are properly identified & charged to the claim.

The process of reporting projected ECRC costs for approval by the PSC is adequate to ensure accurate reporting.