

# BPA Policy 230-4

## Internal Controls Protocols and Actions

### Compliance and Governance

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## 1. Purpose & Background

The purpose of this policy is to provide requirements for protocols, procedures, and policies applicable to the Bonneville Power Administration in the development of internal controls over business processes, operations, and over financial reporting.

Office of Management and Budget (OMB) Circular A-123 requires that:

*“Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective internal control for results-oriented management; (ii) assess the adequacy of internal control in Federal programs and operations; (iii) separately assess and document internal control over financial reporting consistent with the process defined in Appendix A; (iv) identify needed improvements; (v) take corresponding corrective action; and (vi) report annually on internal control through management assurance statements.”<sup>1</sup>*

## 2. Policy Owner

The Executive Vice President for Compliance, Audit and Risk has overall responsibility for interpreting, monitoring, reporting, deploying, evaluating, and proposing revisions to this policy.

## 3. Applicability

Any Manager, Process Owner or Subject Matter Expert who is responsible for Internal Controls.

## 4. Terms & Definitions

- A. **Office of Management & Budget (OMB) Circular A-123, Appendix A Implementation Team (AAIT):** This team is chartered by and reports to the ICOT. The team includes representatives from business lines (referred to as Business Unit Coordinators), Internal Audit, and Compliance and Internal Controls.
- B. **BPA Executive Governance Body.** Includes the following:
1. **The Administrator:** See Functional Statement for the Office of the Administrator and Chief Executive Officer, Policy 130-1.
  2. **Enterprise Board (EB):** Comprised of thirteen Tier I executives.
  3. **Audit, Compliance, & Governance Committee (ACGC):** Chaired by the Executive Vice President of Compliance, Audit & Risk Management (CAR). Chartered by the Enterprise Board, is comprised of six Tier I executives (voting members) and eight Tier I and Tier II executives and managers who advise. This committee meets monthly.

<sup>1</sup> OMB Circular A-123 – Management’s Responsibility for Internal Control issued 12/21/2004, page 3.

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4. **Executive Team (ET):** Comprised of 32 Tier I and Tier II executives and managers who meet monthly. This team also meets monthly with the EB.
- C. **Chief Compliance Officer:** Manages the Compliance organization, including regulatory compliance.
- D. **Executive Vice President of Compliance, Audit & Risk Management:** Manages the Compliance, Audit and Risk Management organizations in BPA. Chairs the ACGC.
- E. **Federal Managers Financial Integrity Act of 1982 (FMFIA):** Amends the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes. Sets the framework for OMB Circular A-123 and the Green Book.
- F. **Green Book (GAO-14-704G):** Issued by the Comptroller General of the United States, sets the Standards for Internal Control in the Federal Government.
- G. **Governance Model:** The BPA Governance Model provides a framework for reviewing processes, which includes: identification of ownership, risk assessment, treatment of risk, evaluation for effectiveness of controls, remediation of gaps and, finally, testing to assure successful mitigation and treatment. This is a periodic process, performed on a re-occurring basis (e.g. annually).
- H. **Internal Controls:** Internal Controls are policies, procedures or activities designed to mitigate risk. Internal Controls can be at the Entity Level or Activity Level.
  1. **Entity Level Controls:** Set the tone that permeates throughout the organization regarding the importance of internal controls including expected standards of conduct for all employees.
  2. **Activity Level Controls:** Relate to a particular class of transactions or data quality. There are four attributes in an Activity Level Control:
    - a. A business activity is reviewed
    - b. A decision is made
    - c. An action is taken
    - d. The entire control process is documented
  3. **Barrier:** Prevents something from happening, preventative in nature, and can be found in either Entity or Activity Level Controls.
- I. **Internal Controls Oversight Team (ICOT):** Chaired by the Internal Control Compliance Supervisor. Comprised of thirteen Tier I, II or III managers as voting members, two non-voting members and may be attended by other invitees. This committee meets every other week, but at least once a month.
- J. **Office of Management and Budget (OMB) Circular A-123:** Provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and

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operations by establishing, assessing, correcting, and reporting on internal control in alignment with the FMFIA. OMB Circular A-123, Appendix A specifically addresses internal control over financial reporting and defines a program to evaluate internal control on an annual basis.

## 5. Policy

- A. BPA managers are responsible for implementing Internal Control in their processes. When BPA’s system of internal controls is determined to be effective, senior management (Administrator, EB, ACGC) has reasonable assurance that:
  - 1. The entity’s objectives will be achieved where the nature and timing of external events can be reasonably predicted and their impacts can be mitigated to an acceptable level.
  - 2. Internal and external reports are prepared in conformity with applicable rules, regulations, and standards.
  - 3. BPA complies with applicable laws, rules, regulations and external standards.
- B. BPA is to abide by the FMFIA, OMB Circular A-123 and the Green Book – Standards for Internal Control in the Federal Government.

The FMFIA sets the requirement for evaluating Internal Control. OMB Circular A-123 gives guidance on implementing FMFIA with Appendix A, which gives programmatic guidance on evaluating internal controls over financial reporting.

The Green Book gives additional guidance on implementing OMB Circular A-123 and sets the standards for an effective internal control system for federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system. These standards are defined through components and principles and are integral to an entity’s internal control system. BPA uses the Green Book to help achieve its objectives related to operations, reporting, and compliance, as referenced in OMB Circular A-123.

- C. It is BPA’s policy to have Internal Controls over internal and external financial reporting, operational and business processes, and compliance oversight over laws and regulations that apply to BPA.
  - 1. Internal Controls covered in this policy are based on requirements for adherence to statutes, regulations, orders, directives, and other external and internal policies.
  - 2. Internal Controls are integral to the achievement of objectives in one or more categories – operations, reporting, and compliance.
  - 3. Internal Control activities are the actions established through policies and procedures that help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out. There are four activity level controls in Internal Control activities:

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- a. A business activity is reviewed
  - b. A decision is made
  - c. An action is taken
  - d. The entire control process is documented
4. Internal Controls may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations, reviews and approvals, verifications, reconciliations, and business performance reviews. Internal controls should be embedded within BPA’s business processes and operations.
5. The BPA Governance Model shall be used for monitoring and evaluating Internal Control, and includes the following steps:
- a. Identify policy, process owners;
  - b. Understand State, Federal and Local requirements;
  - c. Identify the risks to that policy or process;
  - d. Establish controls that mitigate the risks;
  - e. Monitor the performance of those controls;
  - f. Periodically assess the effectiveness of the controls;
  - g. Address gaps and findings; and
  - h. Repeat the process.

**6. Policy Exceptions**

None.

**7. Responsibilities**

- A. **Administrator:** The Administrator of BPA has ultimate responsibility for Internal Control.
- B. **Executive Vice President of Compliance, Audit and Risk Management:** Owns the Internal Control Policy.
- C. **Audit, Compliance & Governance Committee (ACGC):** Oversees the BPA audit program, including designated agency audit, compliance, and governance activities. Has general oversight over the agency’s *OMB Circular A-123: “Management’s Responsibility for Internal Control”* program.
- D. **Chief Compliance Officer:** Establishes and maintains a comprehensive regulatory compliance and ethics program, which is aligned with and fully supports BPA’s mission and objectives in the areas of (1) Governance and Internal Controls, (2) Federal Electric Regulatory Commission (FERC) Compliance, and (3) Purchasing/Property Governance.

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- E. **Agency Compliance and Governance:** Develops strategies and tactics to help ensure BPA’s internal policies and procedures are in compliance with laws and regulations with the goal that governance and Internal Controls are robust, reasonably balanced, and adhered to across the agency as Internal Controls protocols found in BPA policy.
- F. **Internal Controls Oversight Team (ICOT):** Oversees BPA’s implementation of OMB Circular A-123, Appendix A, and other compliance initiatives and obtains assurance that BPA meets the objectives of operating effectively and efficiently, complies with applicable laws and regulation, and provides reliable financial reports.
- G. **A-123, Appendix A Implementation Team (AAIT):** Manages the details of BPA’s implementation of OMB Circular A-123, Appendix A. The AAIT and ICOT determine the scope of the assessment as well as the assessment design and methodology.
- H. **Chief Audit Executive and Internal Audit:** Engages with BPA organizations by providing opinions and consultations through auditing, analyzing, and giving assessments that help BPA achieve effective and efficient operations, compliance with applicable laws and regulations, and financial reporting. Specifically for OMB Circular A-123, Appendix A, Internal Audit tests key financial controls on a rolling three-year cycle.
- I. **Management:** Identifies and establishes internal controls within the processes that they own to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.
- J. **Contracting Officers:** Ensure that Service Level Agreements and contracts with outside vendors include responsibilities for Internal Control and address all relevant aspects of Internal Control.

## 8. Standards & Procedures

### 8.1. Standards

- A. This policy adheres to the Green Book: Standards for Internal Control in the Federal Government, GAO-14-704G.
- B. This policy adheres to the framework of Federal laws and regulations that support and promote effective internal control:
  1. Government Performance and Results Act (GPRA)
  2. Federal Managers Financial Integrity Act of 1982 (FMFIA)
  3. Chief Financial Officers Act, as amended (CFO Act)
  4. Federal Financial Management Improvement Act of 1996 (FFMIA)
  5. Federal Information Security Management Act of 2002 (FISMA)

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- 6. Improper Payment Act of 2002 (IPIA)
- 7. Clinger-Cohen Act of 1996
- 8. OMB Circular A-123

## 8.2. Procedures

Agency-wide procedures for evaluating Internal Controls to meet the objectives of operating effectively and efficiently, complying with applicable laws and regulations, and providing reliable financial reports are established by the GAO Green Book, Standards for Internal Control in the Federal Government, GAO-14-704G, and are developed and maintained within the individual programs. This includes any specific charters for the program.

## 9. Performance & Monitoring

- A. BPA measures the success of the Internal Control and manages gaps/remediation through the following metrics:
  - 1. Annual A-123 Attestation (Federal Managers Financial Integrity Act – FMFIA);
  - 2. Surveys from the Compliance Initiative;
  - 3. Self assessments;
  - 4. Internal and external audit work; and
  - 5. Bonneville Audit Review and Tracking (BART).

## 10. Authorities & References

- A. OMB Circular A-123
- B. Green Book (GAO-14-704G)
- C. Information on how BPA implements the SOC can be found at <http://www.bpa.gov/corporate/business/soc/index.cfm>.
- D. Reference charter website below that houses charters for ACGC, ICOT, RCC, PWG IGOT and DAWG.  
<http://portal.bpa.gov/sites/FrontOffice/EnterpriseBoard/ACGC/SitePages/Home.aspx>

## 11. Review

This policy will be reviewed every five years starting in 2020.

## 12. Revision History

Version	Issue Date	Description of Change
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2	11/1/2015	Updated and put in new format.

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