September 16, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
26th Floor, Box 2319
Toronto, ON   M4P 1E4

Dear Ms. Walli

Re: PowerStream Inc.   2016 -2020 Electricity Distribution Rate Adjustment Application EB-2015-0003 – Response to IR, I-SEC-4, Internal Audit

In its August 21, 2015 response to interrogatory I-SEC-4, PowerStream provided information on its internal audit process. The response also contained an offer to discuss the internal audit function further with SEC to ensure that SEC received the needed information.

This dialogue occurred following the September 9, 2015 Technical Conference and resulted in the following documents being provided to SEC:

- The status of internal audit recommendations;
- A KPMG recommendation to create a risk register for the CIS project; and
- The risk register for the CIS project that was created during a workshop

These documents are attached to this letter and are being shared with OEB staff and the Parties. The information will be filed on RESS.

Yours truly,

Original signed by Colin Macdonald

Colin Macdonald
SVP, Regulatory Affairs & Customer Service

Internal Audit Undertaking – High Level Summary of Internal Audit Engagements from 2013, 2014, 2015

The following information represents the high level summary of the Internal Audit engagements completed over the period of 2013, 2014, 2015:

Annual Executive Expense Review (2013, 2014, 2015)

- Internal Audit reviews all executive expenses annually to ensure that:
  - There is appropriate backup;
  - Approvals have been received; and
  - The charges represent legitimate business expenses.
- There were no Internal Audit recommendations issued.

CIS Project Implementation (2013, 2014, 2015)

- KPMG was engaged to work with Internal Audit throughout the CIS project.
- The engagement scope covered 9 milestones over the 3 year period, including project management, system testing, defect management, conversion review and post go-live support.
- Internal Audit noted that there was very thorough testing of the system prior to go-live and the Project Team demonstrated a consistent focus on minimizing the customer impact resulting from the change to Oracle CC&B.
- 5 audit reports have been issued, and the key results from the Internal Audit recommendations include:
  - Early and ongoing communication to the affected Business Units, including clearly identifying the task owners and dependencies on the project plan, to ensure the Business Units were aware of the system development cycle and when their involvement was required [*Status – implemented*];
  - Incorporation of a formalized project risk register to proactively manage risks associated with the project (i.e. budget, timeline, scope) [*Status – implemented*];
  - Formal documentation of internal control points in the system processes [*Status – process flows completed, risk & control matrix to be finalized by October 2015*];
  - Masking bank account fields for staff outside of the Payments Department to ensure confidentiality of sensitive customer information [*Status – implemented*]; and
  - Performing 'day in the life' training to allow end users to experience the production system prior to go-live [*Status – implemented*].

Health & Safety (2013)

- The focus of this engagement was elements of the occupational health & safety management system – specifically governance, risk identification and risk mitigation.
- Internal Audit noted adherence to and understanding of the Health & Safety requirements during site visits, as well as a robust management system for tracking reporting, inspections and outstanding issues.

- Key results from the Internal Audit recommendations include:
  - Providing training to the Board of Directors and Executive Management on their responsibilities relating to Bill C-45 [*Status – implemented*]; and
  - Updates to policies and procedures to ensure they were consistent with recent changes to the Occupational Health & Safety Act [*Status – implemented*].

Asset Management – Recording & Reporting (2013)

- The focus of this engagement was the recording of asset additions, disposals and depreciation within the capital asset subledger.
- Internal Audit noted that there was significant effort in converting the capital asset processes to comply with the adoption of International Financial Reporting Standards in the prior year.
- Key results from the Internal Audit recommendations include:
  - Enhancement to the asset tracking process to ensure staff were clear on their responsibilities for documenting installs/removals for different types of projects (i.e. replacement programs, equipment failures, damage claims, etc.) [*Status – implemented*]; and
  - Development of custom reports within JD Edwards to improve efficiency with month-end processes [*Status – currently in queue for development by JD Edwards programmer*].

Conservation & Demand Management (2013)

- The focus of this engagement was to review Conservation & Demand Management (CDM) programs and related funding, as well as the allocation of costs between the LDC (core business) and the CDM Department.
- Internal Audit noted that the CDM Department had developed robust strategic and program delivery plans, and were actively tracking performance towards the energy and demand savings targets.
- Key results from the Internal Audit recommendations include:
  - Changes to the treatment for Harmonized Sales Tax (HST) related to the CDM program incentive payments [*Status – implemented*]; and
  - Changes to the quality assurance review process to ensure compliance with the Ontario Power Authority (OPA) program agreement [*Status – implemented*].

Contract Management (2013)

- The focus of this engagement was on vendor contract creation, authorization, retention and tracking.
- Internal Audit noted that the Procurement and Legal Departments were effectively working together to understand purchase requirements and to develop contractual terms for vendors to reduce PowerStream's risk exposure.
- Key results from the Internal Audit recommendations include:
  - Reviewing third parties with system access to ensure that existing contract terms contained appropriate confidentiality clauses [*Status – implemented*]; and

- Development of a centralized contract tracking database to retain all executed contracts [*Status – completed project planning for use of File Nexus database with expected implementation in December 2015*].

Fleet Management (2013)

- The focus of this engagement was on vehicle additions/disposals and maintenance activities.
- Internal Audit noted that the Fleet Department was in the process of updating the fleet management software to enable additional reporting of vehicle mileage and maintenance, as well as physical tracking through GPS systems installed in the vehicles.
- Key results from the Internal Audit recommendations include:
  - Development of a preventative maintenance schedule by vehicle class to ensure that maintenance is completed based on manufacturer guidelines [*Status – implemented*]; and
  - Creation of an approval form to obtain appropriate authorization for disposal of a fleet vehicle [*Status – implemented*].

Miscellaneous Accounts Receivable (2013)

- The focus of this engagement was to review the controls in place related to the issuance and collection of non-energy accounts receivables.
- Internal Audit noted that the Accounting Department has developed automated reminder letters that are created by JD Edwards for overdue accounts and also started to issue interim billings for cost recovery on large capital projects that could take more than a year to complete.
- Key results from the Internal Audit recommendations include:
  - Completing month-end reconciliations within a timely manner (i.e. review and approval prior to the following month-end) [*Status – implemented*]; and
  - Performing additional review of open work orders at year-end to ensure the receivable is recorded in the correct fiscal period [*Status – implemented*].

Asset Management – Material & Construction Costs (2014)

- The focus of this engagement was on managing construction costs through review of the usage of materials (inventory), internal labour and external contractors.
- Internal Audit noted that there had been significant improvements in the work order close process, including the creation of a form for analyzing the estimate-to-actual costs and obtaining the related approvals for variances.
- Key results from the Internal Audit recommendations include:
  - Providing refresher training to staff to ensure change order forms were completed and approved when construction cannot follow the original design [*Status – implemented*]; and
  - Tracking the explanations provided in the estimate-to-actual cost variance form in order to identify recurring issues or enhancements that can be made to the capital project estimation process [*Status – implemented*].

Fraud Risk Audit (2014)

- The focus of this engagement was to review the controls in place to prevent fraud.
- This was based on a fraud risk assessment that was completed to determine the impact and probability of potential fraudulent acts being committed at PowerStream.
- Key results from the Internal Audit recommendations include:
    - Eliminate manual processing of electronic fund transfer (EFT) requests by enabling JD Edwards to submit the EFT files directly to the bank once approved [*Status – currently in testing phase with expected implementation in December 2015*]; and
    - Restricting user access rights within JD Edwards to limit the ability to make changes to the employee or vendor master files [*Status – currently in testing phase with expected implementation in December 2015*].

Affiliate Relationships Code (2015)

- The focus of this engagement was to review PowerStream's compliance with the Affiliate Relationships Code (ARC).
- Internal Audit noted that all staff had taken the required training for ARC, and that there were appropriate safeguards within the information systems (i.e. JD Edwards and CIS).
- Key results from the Internal Audit recommendations include:
    - Change to the term of the Service Level Agreement (SLA) to a period of 5 years [*Status – implemented*].

Payroll (2015)

- The focus of this engagement was on payroll processing, in particular the validation of the active employee listing and pay rates, calculation of the payroll registers and the remittance of withholdings.
- Internal Audit noted that the results from testing were very positive, with only a few minor differences noted during the review of supporting documentation and calculations.
- No significant recommendations were issued for this engagement.

PowerStream

kPMG
cutting through complexity

Review of CIS Project Implementation

CONFIDENTIAL

Milestones 1 and 2

Phase I

February 24, 2013

#	Sub Section	Finding	Risk / Impact	Recommendation	Project Team's Response with Action Plan
4	Risk Register Update Process	Our review of the project risks identified in the risk register noted the following: • A formal risk assessment has not been performed to identify and assess the risks impacting the project. Currently, the risk register is being populated once a risk is identified by a member of the CIS project team. • The determination of risk ratings (high/medium/low) for the risks identified is based on a subjective assessment, and has not been prepared based on an established criteria or framework. We noted that the CIS project team is using a risk methodology that differs from the PowerStream Enterprise Risk Management ("ERM") framework by not separating the impact and probability of the risk occurring. **Priority: Medium**	Without a formal risk assessment, there is a likelihood that key risks may not be identified. Further, not using the organization's standard ERM framework and risk definition could result in inconsistencies in ratings and could result in resources not being optimally allocated to key project risk areas.	The CIS project team should complete a formalized risk assessment of the project before the start of the implementation phase. Further, rating decision rationale should be integrated into the risk register via the addition of impact and probability ratings, or via the retention of minutes from meetings where these ranks were discussed.	Agreed. Action: Adopted the PowerStream ERM model and modified our risk log accordingly.

PROJECT DESTINY
RISK ANALYSIS – NOVEMBER 2013

THREAT	RANKING	MITIGATION STRATEGY
1. In Service Date – November 24th 2014	High	- This is our highest risk – approach like Disaster Recovery Planning - Commence immediate assessment of alternatives for deferral of the I-S date: - Develop impact assessments for two alternative IS dates - December 2014 & February/March 2015 - Need to identify functionality that could be deferred or eliminated e.g. Macro Biz Talk solution, Bill Print - Assessment of alternatives should also support messaging – i.e. develop an Advocacy Strategy and Communications Plan for the Board of Directors – create awareness of limited options for deferral
2. Critical Resource Availability	High	- Develop a specific plan for critical PowerStream staff where there is no backup capability. Develop an associated "key staff strategy" to ensure commitment to the Project - availability and productive time are concerns – may require incremental resources - Ensure that the "team culture" attracts new resources - Monitor CGI to ensure their key sub-contract resources are fully engaged - Initiate a discussion with regards to PowerStream's capability to simultaneously implement and support multiple core system replacements and enhancements - Key overall mitigation strategy is the Weekly Governance Meeting
3. Interface Dependencies	High	- Vendor engagement/management strategy in development – vendor feedback will help identify risks - This exercise will also identify critical interdependencies and communication needs of our vendors - Need to mitigate legal risks and assess how "deep" to go with each vendor

4. New Business Processes	High	o Greatest need is relative to Change Management – build project awareness and the desire to change – sell "what's in it for me?" o A complimentary exercise to identify new businesses processes has also commenced o The Internal Communications Plan is the key mitigation strategy. It must succeed in engaging all Stakeholders in a timely manner, emphasising both functional and cultural change requirements, identifying "Business Champions" and leveraging their influence to effect change throughout the organisation.
5. Testing Resources	High	o Testing has commenced and already there have been PS resource shortfalls o Greater familiarity with the system will help alleviate the problem as will the development of a more team-oriented and committed culture o However, this will continue to require tight management and escalation by the PMO o May require the use of "trade-offs" as appropriate and greater leveraging of CGI resources
6. Corporate Agreement on a Quiet/Freeze Period	Medium/High	o Develop a PowerStream internal communications plan to "sell" the need for an Implementation "Quiet Period" – need to identify "Business Champions" o Key audience for this messaging is Mid-Level Supervisory staff where an understanding of and support for the strategic importance of this requirements is essential o Immediate need is for tight Change Management with Key Stakeholders to ensure consensus and buy-in at all Corporate levels
7. Project Budget	Medium	o Current Project Budget is not achievable even with an I-S date of November 2014 o Corporate Finance have costed the financial impacts of I-S date delays o Impact is "lumpy" because of one-time taxation effect o Regulatory cost recovery does not appear to be a critical issue

PROJECT DESTINY
RISK ANALYSIS – NOVEMBER 2013

8. Change Requests/Contract Revisions	Medium	o Will require strong management to ensure changes have universal alignment and appropriate prioritisation o An immediate need is for the cities of Markham & Vaughan to complete their assessment of the Storm Water Fee implementation Completing negotiation of the Managed Service Agreement and the Statement of Work prior to Phase 2 Project commencement should help address this risk
9. Oracle Product & Management Issues	Medium	o Mitigate this risk through monthly "touch points" with the Oracle Representative o Implementation of the same software by other Ontario LDCs should provide considerable mitigation
10. Discovery Process Scope	Medium	o In spite of the extensive effort devoted to the Discovery Phase it is possible new issues will be identified during the Testing Phase. With the planned overlap in "Testing Waves" there is little ability to accommodate remedial work o Risk is mitigated through the comprehensive approach to the Discovery Phase, identifying and closing gaps at that stage, and building on our current business process knowledge and the expertise of CGI o Risk is also mitigated by PMO structure and oversight function o Finally, risk mitigation will be provided by the I-S date Scenario exercise, which will better define the nature and scope of the associated risks
11. New Bill Print Implementation	Low	o Bulk of the associated work is resourced by a 3rd Party o Change management for Customers is key deliverable – Corporate Communications has agreed to provide a dedicated resource
12. Master Project Plan Adequacy	Low	o Risk is being assessed and managed on a weekly basis o Information Services currently reviewing their Plan – limited buffer