

BPA Policy 232-1

Internal Controls

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1. Purpose & Background

As required by the Federal Managers Financial Integrity Act (FMFIA) of 1982, each federal employee is responsible for safeguarding Federal assets and the efficient delivery of services to the public through internal controls. Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved (GAO-14-704G, OV1.01). The purpose of this policy is to establish the requirements for internal controls at BPA as prescribed by OMB Circular No. A-123 and the GAO Green Book standards for internal control in the Federal Government.

2. Policy Owner

The Executive Vice President (EVP) of Compliance, Audit, Risk Management, who is the Chief Risk Officer, or their designee, owns this policy and has overall responsibility for its implementation and proposing revisions.

3. Applicability

Requirements and standards expressed in this policy apply to all operational, reporting and compliance activities at BPA.

4. Terms & Definitions

- A. **Federal Managers Financial Integrity Act of 1982 (FMFIA):** Amends the Accounting and Auditing Act of 1950. Sets the regulatory framework for OMB Circular A-123's control requirements and the GAO Green Book's control standards.
- B. **Office of Management and Budget (OMB) Circular A-123:** Provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls.
- C. **GAO Green Book (GAO-14-704G):** Issued by the Comptroller General of the United States, sets the Standards for Internal Control in the Federal Government and is required by OMB Circular No. A-123 when evaluating the internal controls of an organization.
- D. **Internal control:** A process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved (GAO-14-704G, OV1.01).

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- E. **Internal control system:** A continuous built-in component of operations, effected by people, that provides reasonable assurance—not absolute assurance—that an entity’s objectives will be achieved (GAO-14-704G OV1.04). An internal control system is the policies, processes, and procedures that a business puts into place in order to protect assets, ensure accounting and reporting data is correct, and maximize the efficiency of operations and promote an atmosphere of compliance among employees.
- F. **Head of the agency:** In the federal government, FMFIA mandates that the head of each executive branch agency annually prepare a statement as to whether the agency’s systems of internal accounting and administrative controls comply with the requirements of the act. At BPA, the Administrator is the “head of the agency”.
- G. **Oversight body:** As defined by the GAO Green Book, the oversight body is the first of three major roles in an internal control system. The oversight body consist of those responsible for overseeing the design, implementation, and operation of internal control system(s) (GAO-14-704G OV2.14). At BPA, the ACGC (Audit, Compliance, and Governance Committee) acts as the “oversight body”.
- H. **Management:** As defined by the GAO Green Book, management is the second of three major roles in an internal control system. Management are those who are directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of the entity’s internal control system(s) (GAO-14-704G OV2.14). At BPA, any individual in a supervisory or management position is considered “management” by OMB/GAO Green Book terms.
- I. **Personnel:** As defined by the GAO Green Book, personnel is the third major role in an internal control system. Personnel are those that help “management” design, implement, and operate an internal control system. At BPA, any individual that is not in a supervisory or management position is considered “personnel” by OMB/GAO Green Book terms regardless of employment type (i.e., BFTE or CFTE).
- J. **Enterprise risk management (ERM):** A strategic business discipline that supports the achievement of an organization’s objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio. ERM provides a disciplined process for managing risk and seeks to embed this discipline in existing business processes.
- K. **Reasonable assurance:** A high degree of confidence, but not absolute confidence, that entity objectives will be achieved. An effective internal control system increases the likelihood that an entity will achieve its objectives (GAO-14-704G, OV1.04 and OV1.07).

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5. Policy

The FMFIA requires federal entities to establish internal controls, evaluate internal controls, and report annually to Congress and the President on control evaluations. The FMFIA authorizes the Office of Management and Budget (OMB) to define the requirements for fulfilling these regulatory obligations. BPA shall adhere to the requirements prescribed by OMB Circular No. A-123 which includes adherence to [GAO Green Book](#) standards for internal controls in the Federal Government. See Section 8, Standards & Procedures for specific guidance on how BPA addresses these requirements.

- A. Employees in a supervisory position are considered “management” by GAO Green Book terms and are required to build internal controls into their organization as part of, rather than separate from, the policies, programs, and processes that exist to achieve organizational objectives. See section 8, Standards & Procedures of this policy for more information.
- B. Employees in non-supervisory positions are considered “personnel” by GAO Green Book terms and are responsible for reporting issues that would impact the entity’s ability to meet operations, reporting, or compliance objectives (GAO-14-704G OV2.14). Issues that are reported by a non-supervisory employee are tracked and monitored by the BPA Internal Control Program and the ICOT. See section 5.5, Identifying and Rating Control Deficiencies of the [BPA Internal Control Program Manual](#) for more information regarding reporting control issues.
- C. ACGC members are considered the “oversight body” by GAO Green Book terms and are responsible for (i) assessing and monitoring control deficiencies; (ii) recommending to the head of the agency which control deficiencies are deemed to be material weaknesses and if should be included in the annual FMFIA assurance statement; (iii) overseeing the timely implementation of corrective actions related to control deficiencies; and (iv) determining when sufficient action has been taken by management to declare that a control deficiency has been corrected. See Table 6 of [OMB Circular No. A-123](#) for control deficiency ratings, definitions, and reporting requirements.
- D. The BPA Administrator is considered the head of the agency by GAO Green Book terms and is responsible for annually preparing a statement as to whether BPA’s systems of internal accounting and administrative controls comply with the requirements of the Act.

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6. Policy Exceptions

The ACGC determines if any exceptions to this policy exist or are appropriate.

7. Responsibilities

- A. **BPA Administrator:** As the head of the agency, and as required by FMFIA and OMB Circular No. A-123, signs the annual attestation letter of reasonable assurance of internal control sent to Congress and the President.
- B. **Executive Vice President of Compliance, Audit & Risk Management:** Manages the Compliance, Audit and Risk Management (CAR) organizations in BPA. EVP of CAR chairs the ACGC and is responsible for facilitating the ACGC member’s review of control assessments such that control deficiencies can be identified and corrected and to provide a determination of reasonable assurance of internal control to the Administrator for annual control reporting to Congress and the President.
- C. **Audit, Compliance, & Governance Committee (ACGC):** Chartered by the Enterprise Board and is comprised of the EVP of Compliance, Audit and Risk, the Chief Finance Officer, the EVP of General Counsel, the Chief Administrative Officer, the Chief Operating Officer, and the Chief Workforce & Strategy Officer. This committee acts as the oversight body for management’s internal control systems.
- D. **BPA Accounting Officer:** Oversees accounting and financial reporting for FCRPS and BPA. Sends annual report to the President, Secretary of Energy, and certain members of Congress containing a completion of the BPA Annual Report, audit opinions, reports on compliance and internal controls, and the annual FMFIA attestation letter signed by the Administrator.
- E. **Chief Compliance Officer:** Manages the Governance and Compliance organization, which includes BPA’s Internal Control Program. The CCO chairs the Internal Controls Oversight Team and provides leadership and direction regarding BPA’s Internal Control Program priorities, especially as it relates to assessing controls, identifying and correcting controls and control reporting to DOE, Congress, and the President.
- F. **Internal Controls Oversight Team (ICOT):** A chartered subcommittee of the ACGC comprised of thirteen Tier II and III managers and supervisors across BPA. This team’s primary responsibility is to support the assessment of controls, identification of control deficiencies, and control reporting to the ACGC.
- G. **Internal Controls Working Group (ICWG):** Chartered by the ICOT and is comprised of several business line internal control subject matter experts. The ICOT is chaired by the Internal Controls Compliance Officer. This group’s primary role is to review control

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assessment processes and results to ensure consistent application of the GAO Green Book standards.

- H. **Internal Controls Compliance Officer:** Manages BPA’s Internal Controls Program consistent with FMFIA, OMB Circular No. A-123 requirements, and GAO Green Book standards. The Internal Controls Compliance Officer leads the annual process for prioritizing control assessments as they relate to mitigating key risks, assessing controls, identifying control deficiencies, and reporting control deficiencies per OMB Circular No. A-123 control reporting guidelines.
- I. **Internal Control Program:** Managed in CGC by the Internal Control Compliance Officer. The Internal Control Program provides the process, structure, and methodology for fulfilling OMB Circular No. A-123 requirements and GAO Green Book standards. The Internal Control Program provides training and consultation to management and personnel on how to fulfill OMB Circular No. A-123 requirements and follow GAO Green Book standards when designing, implementing, and operating internal control systems. Program resources can be found by going the [BPA Internal Control Program SharePoint site](#).
- J. **Tier I/II/III/IV Supervisory Positions:** Responsible for establishing an effective internal control system as defined by GAO Green Book standards for internal control in the Federal Government. BPA managers and supervisors have an obligation to understand the [GAO Green Book](#) standards and to exercise judgment in achieving these standards.
- K. **Non-Supervisory Positions:** Any individual that is not in a supervisory or management position are those that help management design, implement, and operate an internal control system and are responsible for reporting issues that would impact the entity’s ability to meet operations, reporting, or compliance objectives (GAO-14-704G OV2.14). Issues that are reported by these individuals are tracked and monitored by the BPA Internal Control Program and the ICOT. See section 5.5, Identifying and Rating Control Deficiencies of the [BPA Internal Control Program Manual](#) for more information regarding reporting control issues.
- L. **BART Program Manager:** Tracks and reports organizational and BPA-wide control deficiencies and associated corrective actions to the ACGC.
- M. **BPA Internal Audit:** Internal Audit provides independent and objective assurance to help BPA deliver on its mission by: working with clients to improve the efficiency and effectiveness of operations; improving compliance with laws and regulations; and strengthening financial and operational controls.
- N. **Performance Scorecard Program Manager:** Acts as central point of contact for BPA leadership to define the BPA’s highest level objectives and measures of success and uses those results to gauge the effectiveness of BPA as a whole. Communicates and

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collaborates with BPA managers and SMEs to define process by which to set annual measure(s) and quarterly targets that are SMART and of high quality. Provides KPI information to the Internal Controls Compliance Officer as needed to support annual control prioritization efforts.

- O. **Enterprise Risk Manager:** Reports to the EVP of CAR, and is responsible for ensuring consistent implementation of BPA’s ERM program throughout BPA. The ERM Manager develops, administers, and helps interpret ERM policy. The ERM Manager is responsible for the development, maintenance, and implementation of the Corrective Actions Program at BPA. Provides ERM information to the Internal Controls Compliance Officer as need to support annual control prioritization efforts.
- P. **Corrective Action Program:** BPA’s Corrective Action Program (CAP) is a BPA resource that offers a risk-based evaluation process to help identify and correct problems before they become repetitive issues. CAP supports the investigation of significant adverse events, the identification and validation of causes of those events, and the development, implementation, and tracking of corrective actions necessary to prevent the adverse events from happening again.

8. Standards & Procedures

OMB Circular No. A-123 sets forth internal control requirements that federal agencies must follow. These requirements are not intended to limit or interfere with duly granted authority related to legislation, rulemaking, or other discretionary policy making in an organization. The sub-headings below outline the “high-level” requirements of OMB Circular No. A-123 to which BPA must adhere.

8.1 Implementing Enterprise Risk Management

Section II of the OMB Circular No. A-123 requires federal entities to implement an Enterprise Risk Management (ERM) capability that is coordinated with the entity’s strategic planning and strategic review processes, as well as the internal control processes required by FMFIA and the GAO Green Book. To fulfill this requirement BPA will utilize;

- BPA’s Enterprise Risk Management Program, or similar programs, to assess top risk and management’s mitigation efforts as related to achieving entity objectives.
- Adhere to BPA Policy 231-1, Enterprise Risk Management, or similar, policies/procedures for defining risk profiles.
- The ACGC, or similar committees, as a “risk management council”.
- BPA’s Performance Scorecard Program, or similar strategic planning and review programs, to document entity objectives and identify risks to achieving entity objectives.

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The BPA Internal Control Program will utilize these policy/program/committee elements as the basis for setting the scope of the program’s annual control evaluations. See the [BPA Internal Control Program Manual](#) for more information.

8.2 Establishing and Operating Effective Internal Control Systems (Entity Level)

Section III of the Circular requires federal entities to establish internal controls for those risks identified by management as requiring a formal system of internal controls to provide reasonable assurance that objectives are achieved. There are three main requirements for doing this at the entity level (see table below).

OMB Circular No. A-123 Requirement:	BPA Shall:
1. Federal managers (BPA Managers and Supervisors at the Tier I, II and III/IV level) are to carefully consider the appropriate balance between risk, controls, costs, and benefits as they establish and operate an effective system of internal controls to meet mission objectives.	Utilize BPA’s Enterprise Risk Management Program and the Agency Decision Framework (ADF), or similar programs, to develop and maintain effective internal controls that are consistent with the entity’s established risk appetite and risk tolerances. See the CB – Risk Management SharePoint Site for more information.
2. Establish a senior management council or “oversight body” to assess and monitor deficiencies in internal control.	Utilize the ACGC, or similar committees, to assess and monitor deficiencies in internal control, recommend to the Agency head which significant deficiencies are deemed to be material weaknesses and be included in the annual FMFIA assurance statement, oversee the timely implementation of corrective actions related to material weaknesses, and determine when sufficient action has been taken to declare that a significant deficiency or material weakness has been corrected.
3. Establish Entity Level Control (ELC) or controls that have a pervasive effect on an entity’s internal control system and pertain to multiple organizational components.	<ul style="list-style-type: none"> Utilize the BPA Internal Control Program’s Annual Control Evaluation Process to set the scope of controls that need to be evaluated each reporting year.

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	<ul style="list-style-type: none"> • Utilize enterprise-wide governance structures such as the Enterprise Board and its sub-committees to set agency priorities and risk tolerances. • Adhere to enterprise-wide policies to establish expectations, roles and responsibilities, and accountability. • Utilize enterprise-wide programs and processes (e.g., Ethics program, Compliance and Governance programs, Internal Audit, etc.).
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8.3 Establishing and Operating Effective Internal Control Systems (Functional Level)

“Functional Level” refers to BPA Managers and Supervisors at the Tier III and IV Level. These individuals have an obligation to understand the GAO Green Book standards and to exercise judgment in achieving these standards. Also these individuals are responsible for documenting control activities in order to provide evidence of reasonable assurance that their organizations internal controls over operations, reporting, and compliance are operating effectively. Unless otherwise specified by the ACGC, individuals in a BPA supervisory or management position (at the Tier III and IV Level) shall at a minimum meet the following control requirements:

OMB/GAO Requirement:	BPA Shall:
Develop and maintain documentation of internal control systems. (GAO-14-704G, Par. 3.09)	Management will ensure organizational processes are documented consistent with BPA Policy 310-1 Business Process Management.
Document in policies the internal control responsibilities of the organization. (GAO-14-704G, Par. 12.02)	Management will ensure organizational roles and responsibilities of the organization are documented in organizational processes/procedures, or desk references, or service level agreements, or business line/enterprise policies, etc. Management shall provide a file location, in accordance with Information Governance Lifecycle Management policies and organization Information Asset Plans, of said

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	documentation to the BPA Internal Control Program upon request.
Document results of ongoing monitoring and evaluations to identify and remediate internal control issues. (GAO-14-704G, Par. 16.09 and 17.05)	If a control deficiencies has been reviewed and rated by the ACGC, Management will work with the BPA Internal Control Program to ensure results of control monitoring and evaluations are documented in BART as corrective actions. Management may also consider using organizational/functional/project level metrics, or organizational process/tool change logs, or updated processes/procedures, or desk references, or service level agreements, or business line/enterprise policies as a form of control monitoring/evaluation documentation. Management shall provide a file location to said documentation to the BPA Internal Control Program upon request.

8.4 Assessing Internal Controls

Section IV of the Circular requires that Tier I/II supervisors, but not Tier III/IV supervisors, utilize the BPA Internal Control Program to evaluate the effectiveness of internal controls annually using GAO Green Book standards. To fulfill this requirement BPA Internal Control Program shall;

- Implement risk-based control evaluation processes for BPA to assess the design, implementation, and operating effectiveness of internal control systems. Results from these evaluations will be used to support the oversight body’s (i.e., ACGC) annual review of reasonable assurance of internal control. See Section 5.4 of the [BPA Internal Control Program Manual](#) for more information regarding evaluating internal controls.
- Utilize findings and recommendations from other evaluations including, but not limited to;
 - BPA program periodic reviews;
 - Management reviews and annual performance evaluations;
 - The Regulatory Compliance Program Annual Compliance Certification Process results;
 - The Information Governance Lifecycle Program information asset plan evaluations;

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- The Reliability Compliance Program Annual Self-Certification Process results;
- Internal Audit reports; and
- Price Waterhouse Cooper (PWC) Audit reports, Office of Inspectors General Management reports, or other external audit reports.

8.5 Identifying and Correcting Control Deficiencies

Section V of the circular requires that management correct internal control deficiencies. In this case management is considered Tier I, II, III/IV managers and supervisors. These individuals are responsible for identifying, managing, and where appropriate correcting control deficiencies.

When a control issue might affect FMFIA reporting, management is not solely responsible for performing these responsibilities. The CGC Internal Control Program facilitates control deficiency evaluations and documentation to support recommendations for rating control deficiencies, the potential impact to the final FMFIA attestation, and submission of ACGC approved deficiencies to the BART program. The CGC Internal Control program may utilize many forms of information and evaluations to provide the ACGC with enough information to make determinations of reasonable assurance of internal control. Effective remediation of control deficiencies is essential to achieving the objectives of the FMFIA, and uncorrected or longstanding control deficiencies must also be considered in determining the overall effectiveness of internal control. To fulfill this requirement BPA shall;

- Utilize BPA’s root cause analysis reports and processes, or similar programs, to identify and develop an understanding of the root cause of control deficiencies.
- Utilize BPA’s Internal Audit reports, or similar audit reports, to identify findings and recommended corrective actions.
- Utilize BPA Internal Control Program Bi-Annual FMFIA Polling Process, or similar, and FMFIA Issue Documentation Process, or similar. See [BPA Internal Control Program Manual](#) for FMFIA Issue Documentation Processes.
- Utilize Price Waterhouse Cooper, Western Electricity Coordinating Council, National Archives Records Administration, or other external audit reports or evaluations.
- Utilize third party consulting firm to evaluate, identify, and recommend corrective actions.
- Utilize the Bonneville Audit and Reporting Tracking program (BART) to track and monitor the correction of control deficiencies that were identified.

8.6 Internal Controls Reporting

Last, Section VI of the Circular requires that management provide assurances on internal control effectiveness. To fulfill this requirement BPA shall:

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- Utilize the annual report the BPA Accounting Officer, or similar official, submits to the President, Secretary of Energy, and certain members of Congress which contains the FMFIA attestation of internal control signed by the BPA Administrator.

9. Performance & Monitoring

In conjunction with the Office of General Counsel, the ACGC, and the ICOT, the Internal Controls Compliance Officer monitors the BPA’s implementation of OMB Circular No. A-123 requirements. At the direction of the ACGC, Internal Audit may also serve as a monitoring function.

10. Authorities & References

- A. [H.R.1526](#), Federal Managers Financial Integrity Act of 1982
- B. [OMB Circular No. A-123](#), Management's Responsibility for Enterprise Risk Management and Internal Control
- C. [GAO Green Book](#), Standards for Internal Control in the Federal Government
- D. [Pub. L. No. 111-352, 124 Stat. 3866 \(2011\)](#), GPRA Modernization Act of 2010
- E. [BPA Policy 231-1: Enterprise Risk Management](#)
- F. [BPA Policy 310-1: Business Process Management](#)
- G. [ISO 31000: Risk Management](#)
- H. [BPA Internal Control Program Manual](#)

11. Review

This policy shall be reviewed every five years or whenever changes are made to FMFIA, OMB, and GAO control requirements and standards.

12. Revision History

Version Number	Issue Date	Brief Description of Change or Review
1.0	5/3/23	Major rewrite to Policy and change of Policy number

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