

Exhibit to Agenda Item #5

Board Finance & Audit Committee Meeting and Special SMUD Board of Directors Meeting

Tuesday, February 19, 2019 scheduled to begin at 5:30 p.m.

Customer Service Center, Rubicon Room

Agenda

- Internal Auditors - Role and Value
- Internal Audit at SMUD
 - Internal Audit Vision
 - Role of Internal Audit
 - Internal Audit and Enterprise Risk Management (ERM)
- Annual Disclosures
 - Reporting Relationship and Organization
 - Purpose, Authority and Responsibility
 - Internal Audit Professionalism
- Noteworthy Items
- Key Focus Areas for 2019
- Questions

Internal Auditors – Role and Value

The Auditor Role

- Assist the Board and Executive Management in governing the organization and protecting
 - Assets
 - Reputation
 - Sustainability
- Provide an independent view on whether the organization has an appropriate risk and control environment
- Provide consultation and advice



Value Proposition

- Provide the Board and Executive Management with
 - Objective assessments
 - Insight as to whether the right controls are performed correctly and cost effectively

Internal Audit Vision

Our Vision

- Valued business partner
- High performing, risk intelligent team
- Continuous improvement and innovation



Trusted Audit Partner

Role of Internal Audit at SMUD

Assist the Board and Management

Key focus areas

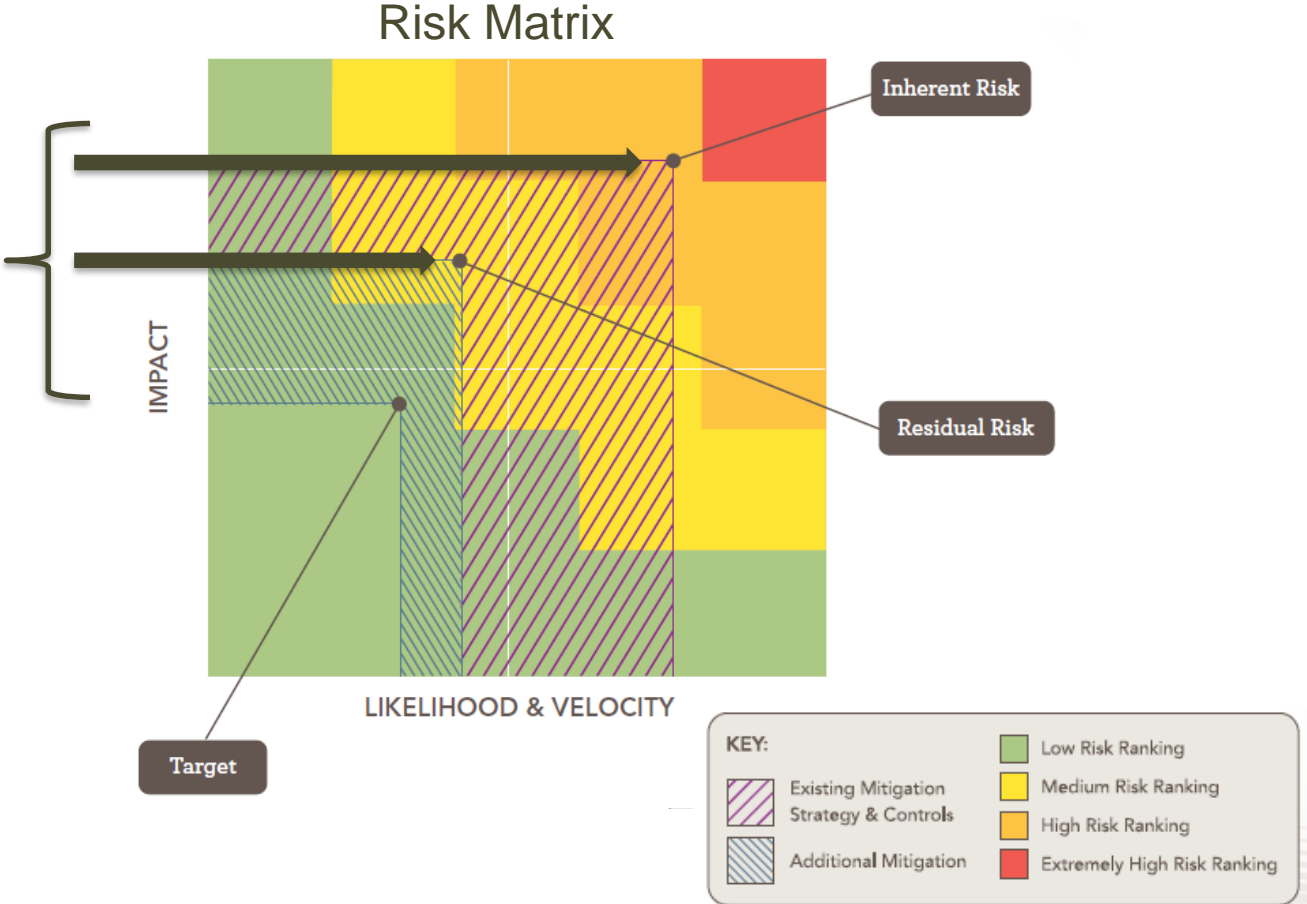


- Accuracy of the Strategic Direction Monitoring Reports
- Efficiency and effectiveness of:
 - Operations/ processes
 - Internal controls
 - Financial controls
- Compliance with:
 - Applicable laws and regulations
 - Policies and procedures
- Special projects, investigations and advisory services

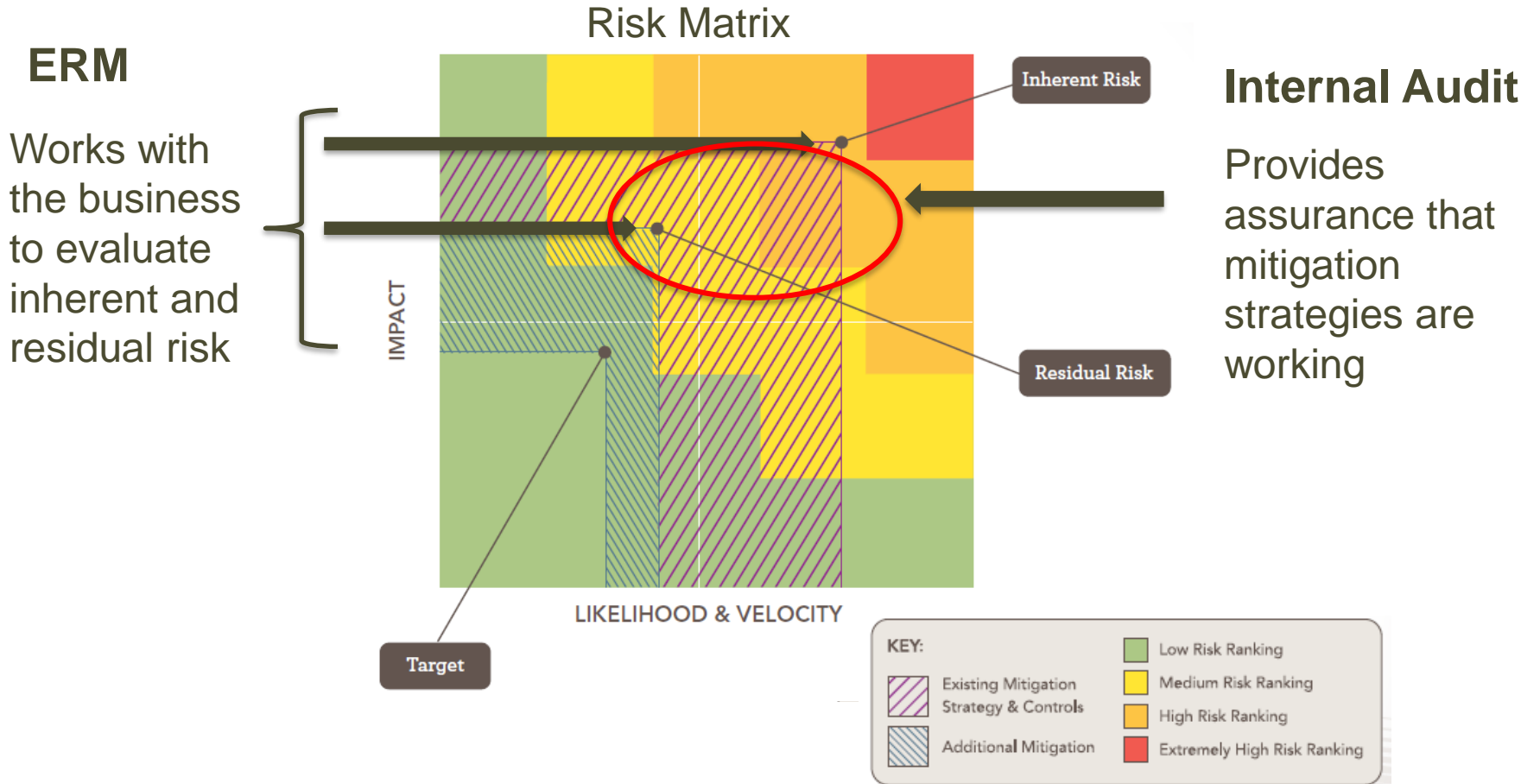
Internal Audit and Enterprise Risk Management (ERM) Alignment

ERM

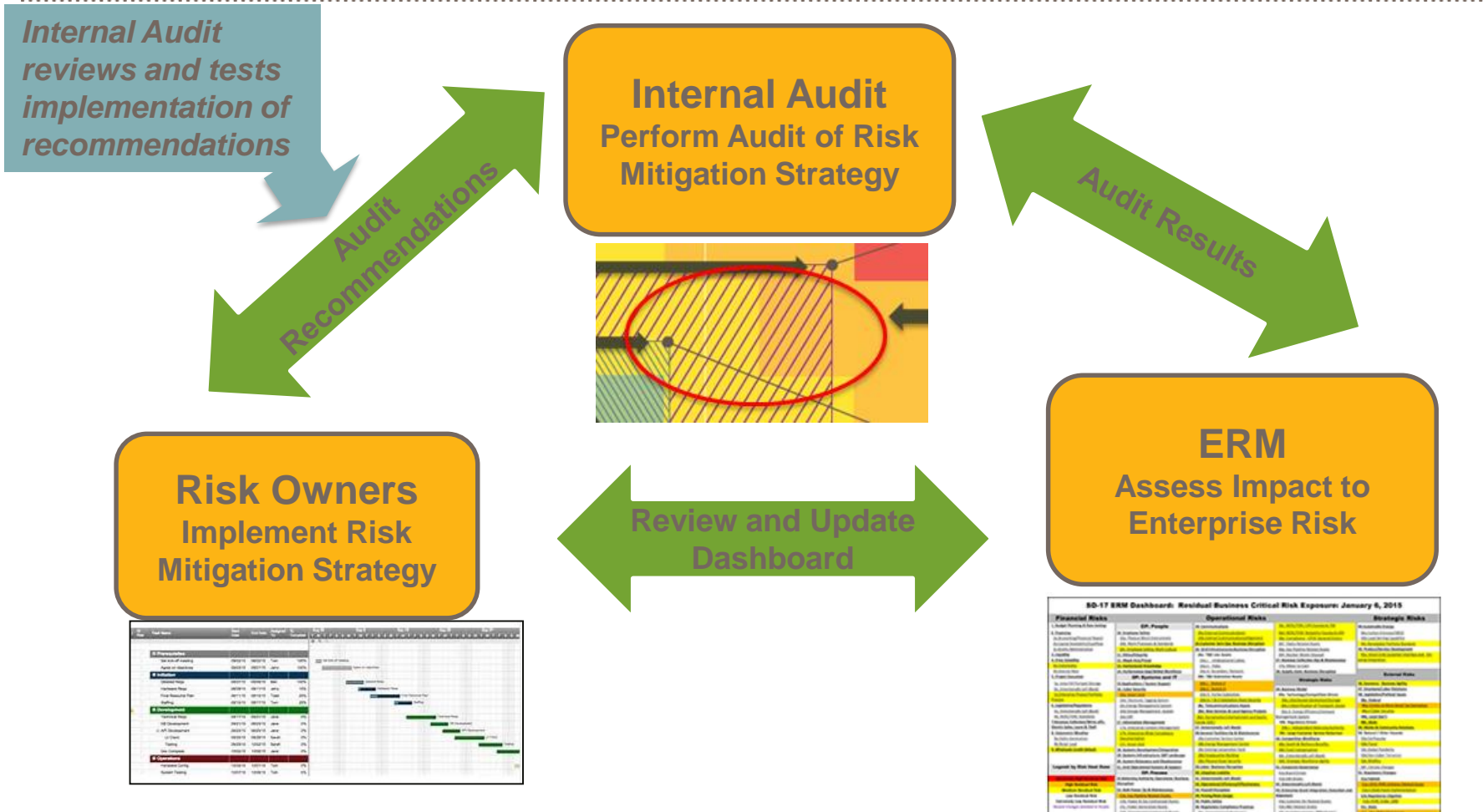
Works with the business to evaluate inherent and residual risk



Internal Audit and Enterprise Risk Management (ERM) Alignment



Internal Audit and ERM – Audit Results

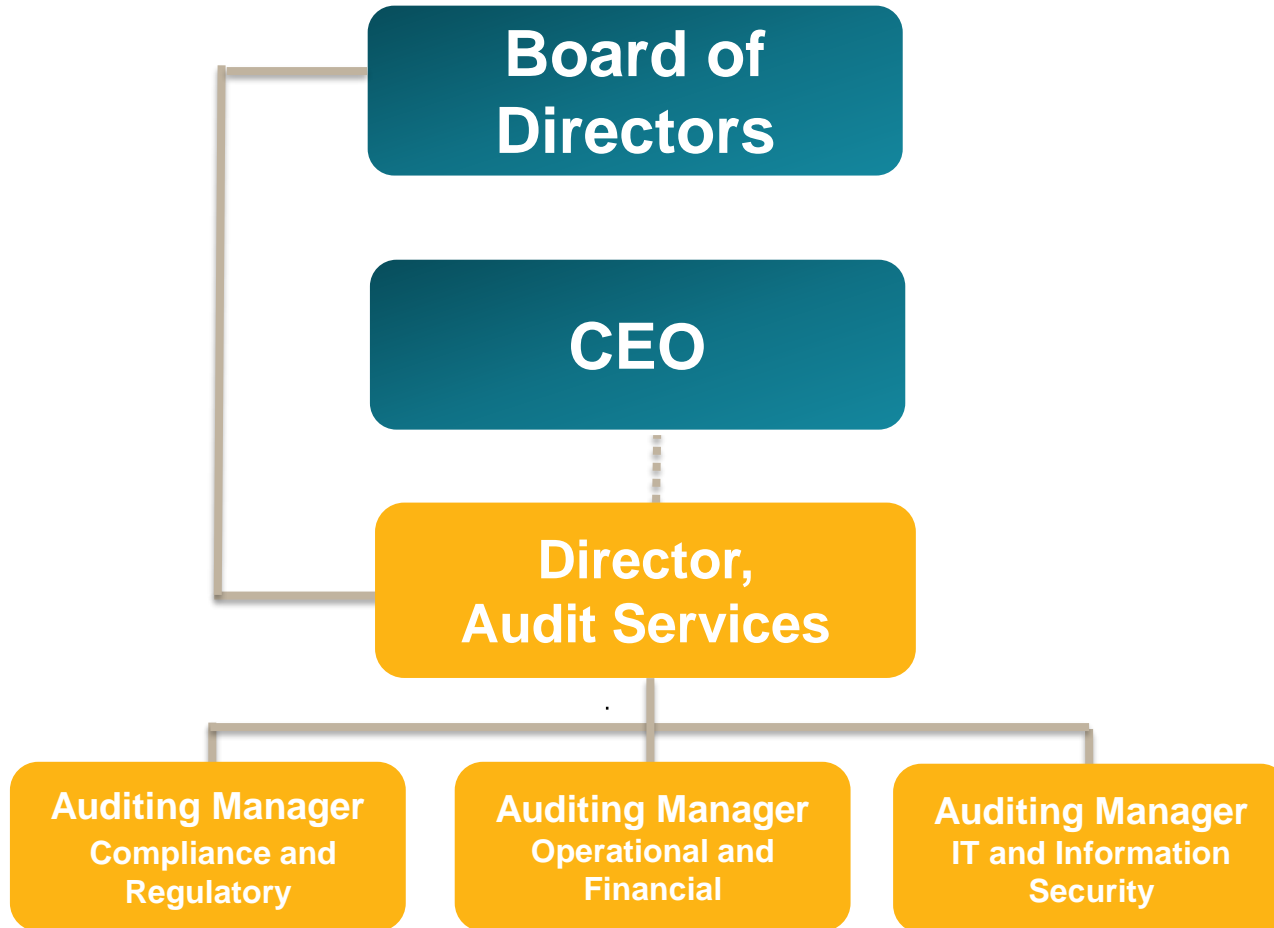


Category	Item	Start Date	End Date	Status
1. Governance	Board Meeting	08/21/18	08/21/18	Complete
	Board Meeting	09/18/18	09/18/18	Complete
	Board Meeting	11/14/18	11/14/18	Complete
	Board Meeting	02/19/19	02/19/19	Complete
2. Strategy	Board Meeting	08/21/18	08/21/18	Complete
	Board Meeting	09/18/18	09/18/18	Complete
	Board Meeting	11/14/18	11/14/18	Complete
	Board Meeting	02/19/19	02/19/19	Complete
3. Operations	Board Meeting	08/21/18	08/21/18	Complete
	Board Meeting	09/18/18	09/18/18	Complete
	Board Meeting	11/14/18	11/14/18	Complete
	Board Meeting	02/19/19	02/19/19	Complete

SD-17 ERM Dashboard: Residual Business Critical Risk Exposure January 6, 2019

Financial Risks	Operational Risks	Strategic Risks
<ul style="list-style-type: none"> 1. Credit Default 2. Liquidity 3. Interest Rate 4. Foreign Exchange 5. Commodity 6. Inflation 7. Counterparty 8. Operational 9. Reputational 10. Regulatory 	<ul style="list-style-type: none"> 1. IT Systems 2. HR 3. Legal 4. Compliance 5. Environmental 6. Safety 7. Quality 8. Supply Chain 9. Logistics 10. Procurement 	<ul style="list-style-type: none"> 1. Market 2. Reputation 3. Regulatory 4. Environmental 5. Safety 6. Quality 7. Supply Chain 8. Logistics 9. Procurement 10. Innovation

Reporting Relationship & Organization



Purpose, Authority & Responsibility - BL-3

Purpose

- Independent appraisal function
- Assist Board and Management to effectively carry out duties and responsibilities and meet business objectives
- Audit, provide recommendations, consult and advise

Authority

- Unlimited access to all of SMUD
- Direct access to the Finance and Audit Committee
- Allocate resources, select audits and scope to accomplish audit objectives
- Obtain necessary assistance

Responsibility

- Submit to Finance and Audit Committee the annual audit plan
- Report results and recommendations of each audit
- Conduct special projects, audits and advisory services, investigations
- Maintains a improvement program

Internal Audit Professionalism

Institute of Internal Auditors (IIA) International Professional Practices Framework

Definition

Internal auditing is an *independent, objective, assurance and consulting* activity designed to add value and improve an organization's operations

Code of Ethics

Internal auditors are expected to apply and uphold principles

- Integrity
- Objectivity
- Confidentiality
- Competency

IIA Standards

Principle-focused and provide a framework for performing and promoting internal auditing



Noteworthy Items

Audit Report

- Updated “Appendix A” to more closely align to ERM
- Removed summary of observations

Quarterly Status of Recommendations

- Q1 Revised Report

Appendix A - Observation Definitions

Observation: Audit observations are risk ranked using the guidance below and focused on policy, compliance and operational improvement opportunities of the audited area.

Risk Rankings:

Extremely High

- Material loss of assets or financial impact; or
- Severe legal, regulatory or compliance sanctions; or
- Cessation of business services for the foreseeable future; or
- Critical impact in achieving SMUD’s goals and objectives; or
- Major deterioration in customer metrics and surveys. Irreparable negative media coverage and damage to SMUD’s reputation; or
- Widespread loss of confidence from employees. Unable to fill critical positions for a long period of time

High

- Significant loss of assets or financial impact; or
- Significant legal, regulatory or compliance sanctions; or
- Widespread disruption of service levels and interruption of business functions; or
- Significant delays or modification of operational goals and objectives; or
- Significant deterioration in customer metrics and surveys; Significant negative media and erosion of trust; or
- Significant loss of confidence from employees. Significant increase in unanticipated employee separations. Slight impact to fill critical positions

Medium

- Moderate loss of assets or financial impact; or
- Moderate legal, regulatory or compliance sanctions; or
- Moderate operational impact to service levels or business disruption; or
- Moderate delays or modification to goals and objectives; or
- Moderate decline in customer metrics and surveys. Modest negative media; or
- Moderate loss of confidence from employees. Moderate increase in unanticipated employee separations. Little to no impact to critical positions

Low

- Minor loss of assets or financial impact; or
- Minor legal, regulatory or compliance sanctions; or
- Minor operational impact to service levels and business activity; or
- Minor delays or modifications to goals and objectives; or
- Slight decline in customer metrics and surveys. Limited public criticism; or
- Minor loss of confidence from employees. Slight increase in unanticipated employee separations. No impact to critical positions

Components:

Criteria – The standards, measures, or expectations used in making an evaluation and/or verification (the correct state)

Conditions – The situation that you found, supported by evidence and characterized by facts, measurements, examples, etc. (the current state)

Causes – The reasons for the difference between expected and actual conditions

Effects – The actual or potential risks or exposure the organization faces if causes and the conditions continue.

2019 Audit Plan – Key Focus Areas

- Board Monitoring Reports
- Hazardous Material Management
- HIPAA (Health Insurance Portability and Accountability) program
- HQ Rehabilitation - Construction
- NERC Reliability
- Information Technology Single Points of Failure

Questions?