WHITE PAPER

Internal Control for Compliance

A blessing or a Curse?

What are Internal Controls?

Aside from the ever present concern over cyber-security risks to the Bulk Electric System, few other topics garner as much attention in the electric industry as Internal Control for reliability standards compliance.

Of course, Internal Control is not confined to the mechanisms of compliance with reliability standards. Controls are commonly in place throughout an organization in the form of quality checks, peer reviews, internal audits, new resource onboarding, and of course training. Any and all of these measures can and should be leveraged so incorporating internal control into compliance practices is a matter of integration and not creating from a blank slate.

Controls are commonly in place throughout an organization in the form of:

- Quality checks
- Peer reviews
- Internal audits
- New resource onboarding
- Training

For several years, NERC has been talking about Internal Control and how we can relate the importance of the measures to the industry. Depending on who you talk to and what their level of success or frustration with compliance efforts currently is, developing and incorporating a set of internal controls into their operations is either a logical step or a needless exercise. Those in the latter category will remind you internal controls are not mandatory, and their company operates on a *"do everything we have to do but absolutely nothing extra"* philosophy. They relegate internal controls into the *"nothing extra"* category.

But are internal controls truly something extra?

It depends on your approach. If you believe internal controls are a separate and distinct set of requirements that require additional time and resources to implement, then yes, it is a true statement. However, that belief includes several misconceptions.

First, internal controls don't need to be separate and distinct. When we look again at the nature of complying with reliability standards, compliance evidence consists of either a documented procedure to do something, such as an Event Reporting Plan or a Protection System Maintenance Plan, or evidence some action was taken, as in reporting a component outage or issuing or responding to an Operating Directive. That's it. A procedure to do something or evidence you did something.

Second, controls ensure procedures are produced in a timely manner or actions are taken when they should be. Every entity we work with has some type of control baked into some processes. If, when reviewed, controls are identified, look programmatic, and can be broadly applied, they are not something extra. Successfully integrating internal controls shouldn't add to your current workload.

What is an internal control? The NERC ERO Enterprise Guide for Internal Controls[1] offers the following, *"Effective internal controls support the reliability and security of the bulk power system (BPS) by identifying, assessing, and correcting issues; and their use can demonstrate reasonable assurance of compliance with NERC Reliability Standards."* Internal controls are classified as:

Preventive Detective Corrective

A simple analogy is the gas gauge in an automobile. Its primary purpose is to make sure you don't run out of gas – **PREVENTIVE**

It achieves this purpose by displaying the fuel tank level. At times, it will warn you when the level is getting low – **DETECTIVE**

If you have an older car, the gas gauge doesn't do much more. A newer car's WIFI connection can show you where the nearest gas station is relative to your location, so you can fill your tank – **CORRECTIVE**

If you have a delivery business with vans running all over town, these controls would help ensure your drivers don't run out of gas.

Why do regulators emphasize internal controls so much?

Entities with strong internal controls will better recognize the circumstances that can lead to possible compliance violations, which prevents violations from occurring. And, if a possible violation does occur, strong internal controls kick in to correct the issue and help prevent future occurrences.

In operations vernacular, internal controls enable a compliance program to run close to automatic. The preventive, detective, and corrective measures can be triggered within operating procedures, so the actions defined check themselves. At this point, internal controls actually save work instead of creating it by reducing the amount of incremental manual input or attention by the compliance staff.

Also, a strong Internal Compliance Program supported by judiciously applied internal controls for your entity's specific high-risk standards may reduce the scope of your unique Compliance Oversite Plan. More work is saved by reducing the prep time for and perhaps frequency of audits.

Are controls difficult to design and implement?

Controls shouldn't be difficult to design and implement. You should look first at what is already in place and assess:

1. Can existing measures be better defined as internal controls?
2. Can existing measures be modified to better serve the preventive, detective, and corrective functions?
3. Can currently successful control models be replicated in other areas?

HSI recommends a holistic approach to defining and implementing internal controls. You should first look at the controls in place, sort out what is most useful, seek to improve and replicate them, then document them. In a successful program, most emphasis is on preventive controls. If these are successful, then detective and corrective controls may never be triggered.

Here are some simple examples of internal controls by type.

Preventive:

- Documented and available Internal Compliance Program
- Training
- Desktop exercises
- Procedures for standards that don't require a procedure
- Standard reviews as an agenda item for periodic safety or team meetings
- Tracking changes under development that could affect your operation and preparing for the changes
- RSAWs kept up to date

Detective:

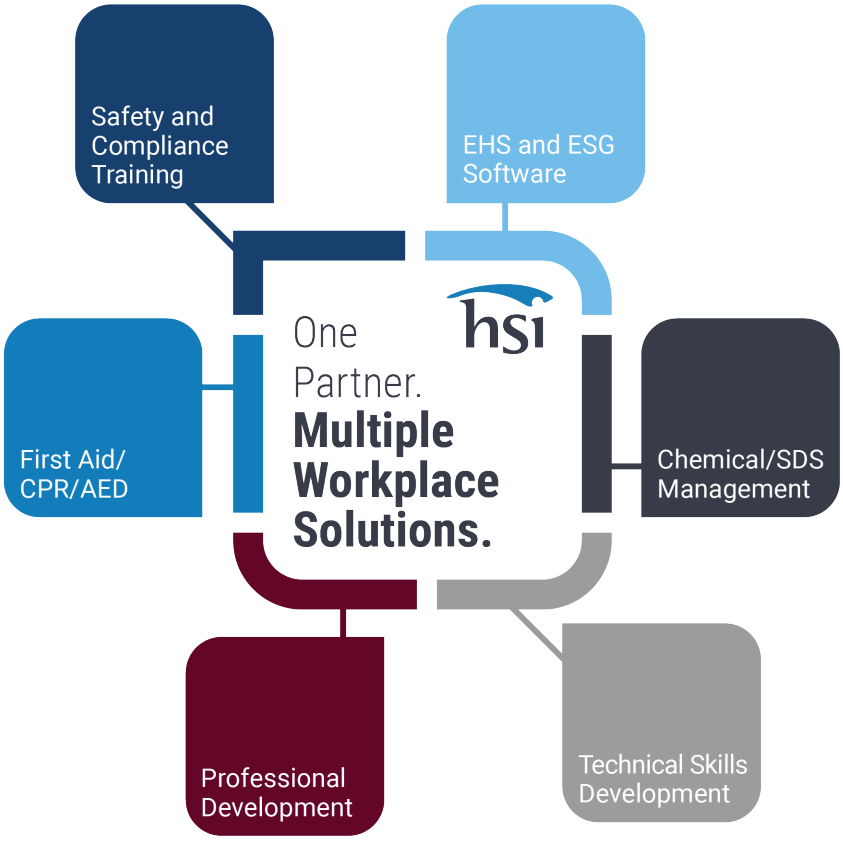
- A calendar notification that a process document is past due for updating
- A weekly review of operator logbooks for any associated compliancerelated incidents
- A weekly review of visitor logs to determine if physical security measures were employed
- RSAWs kept up to date
- Periodic self-evaluations

Corrective:

- Training
- Procedure revision following an event review or self-evaluation
- Focused meetings following an event to review how well the documented process performed

Internal controls can be a valuable and integral part of a robust and successful Compliance Program. If implemented well, they function seamlessly as the Program is executed and provide some assurance that problematic issues are less likely to fall through the cracks.

[1] https://www.nerc.com/pa/comp/Reliability%20Assurance%20Initiative/Guide_for_Internal_Controls_Final12212016.pdf



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