NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

FINAL REPORT

Regional Entity Compliance Monitoring and Enforcement Program (CMEP 4A) Audit

Northeast Power Coordinating Council (NPCC)

Date: August 4, 2022

RELIABILITY | RESILIENCE | SECURITY




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To: Charles Dickerson, President & CEO, NPCC

From: NERC Internal Audit

Date: August 4, 2022

Subject: Regional Entity CMEP 4A Audit – Northeast Power Coordination Council (NPCC)

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Enclosed, please find Internal Audit's report as it relates to the Regional Entity Compliance Monitoring and Enforcement Program (CMEP Appendix 4A) Audit of NPCC.

The audit objective is to assess NPCC's implementation of the NERC CMEP and determine whether the program effectively meets the requirements under the Rules of Procedure (ROP) Section 400, Appendix 4C, the corresponding annual CMEP Implementation Plan (IP), including monitoring and enforcement of compliance with relevant Reliability Standard requirements, and the delegation agreement.

Should you have any questions about this review, please contact Kristin Miller at kristin.miller@nerc.net or at 404-230-4663.

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Note: Individuals whose names appear in bold type are management action plan owner(s).

EXECUTIVE SUMMARY

NPCC

CMEP Appendix 4A Audit

Background

NPCC is one of six Regional Entities subject to the Electric Reliability Organization's oversight authority under a delegation agreement. NPCC's offices are located in New York, New York. NPCC has approximately 236 registered entities consisting of municipal utilities, cooperatives, investor-owned utilities, and independent power producers.

The NPCC geographic region includes the State of New York and the six New England states as well as the Canadian provinces of Ontario, Québec and the Maritime provinces of New Brunswick and Nova Scotia. Overall, NPCC covers an area of nearly 1.2 million square miles, populated by more than 55 million people.

The NERC Regional Entity audit program was established to assess the Regional Entity's implementation of the NERC Compliance Monitoring and Enforcement Program (CMEP) and determine whether the program, as implemented by the Regional Entity, effectively meets the requirements under the CMEP, the NERC Rules of Procedure (ROP), and the corresponding annual Compliance Monitoring and Enforcement Program Implementation Plan (CMEP IP). Each year, NERC identifies risks to focus CMEP activities through its annual CMEP IP.

NERC Internal Audit independently performed the audit of the Regional Entity Compliance Monitoring and Enforcement Program, which is required at least once every five years.

NPCC has participated in periodic self-certifications related to its CMEP and activities up to the period of this engagement. The audit report contains observations and recommendations to assure the effective and efficient reduction of risks to the reliability and security of the Bulk Power System (BPS).

Audit Summary

The scope of the audit engagement included select areas of the ROP, Appendix 4C, annual CMEP IP risk elements and associated areas of focus and monitoring schedules, and an evaluation of the Regional Entity's approach to and application of the risk-based CMEP, including the use of monitoring tools as defined within the ROP, or directed by NERC.

From the outset of this audit, NPCC leadership expressed an openness to the audit and a willingness to receive observations and recommendations to enhance its operations. NPCC fosters an environment that enables continuous improvement.

The primary monitoring tools used during the period under audit were Compliance Audits (covering 62 registered entities) and Self-certifications with 57 CIP and 5 O&P completed in 2021. NPCC utilizes the Master Monitoring Schedule spreadsheet to give each Registered Entity in their footprint a risk category and a monitoring interval.

Since 2020, the NPCC methodology calls for the development of Compliance Oversight Plans (COPs) for all entities on the audit schedule, in advance of the audit. As a result, COPs have been developed for approximately 64 or 27% of the entities within the RE footprint. The COP is an essential component of risk-based CMEP and assists in the consistent administration of the ERO Oversight Strategy. Therefore, without the existence of a COP, compliance monitoring activities are potentially incomplete, or established with ineffective intervals to proactively address and mitigate risks.

NPCC has 22 Full Time staff (FTEs) dedicated to Compliance Monitoring, Enforcement and Entity Risk Assessment activities. This equates to roughly half the average number of FTEs (43) of the other five Regional Entities. With increasing noncompliance activity across the US and the varied, complex governance models across the Canadian provinces, NPCC is facing challenges to stay ahead of the growing volume of potential noncompliance in their Region. NPCC has recognized this trend and has budgeted for CMEP Staff to grow to 28 FTEs in the 2023 BP&B. Requests for additional CMEP resources are expected to occur in 2024 and 2025.

The demands of CMEP activities are unrelenting, as registered entities continue doing their part to identify, report, and mitigate noncompliance. NPCC should maintain its commitment to continuous improvement to ensure it adequately allocates its limited resources to the activities that assure the effective and efficient reduction of risks to the reliability and security of the BPS.

Audit Period and Scope

The period under review was January 1, 2020 through December 31, 2021.

The scope included the following:

- Governance/Regional Delegation Agreements (RDA)
  - Compliance Registry - CMEP Contacts
  - Conflict of Interest (Board and Employees)
  - Training
- Risk Assessment/Risk Categories/Factors/Elements
  - Inherent Risk Assessment
  - Regional Risk Assessment
  - Potential Non-Compliance (PNC)
  - Mitigating activities
- Compliance Oversight Plans (COPs)
- Enforcement activities and actions
  - Issue processing
  - Disposition determination
  - Penalty processes/assessments
- Compliance Monitoring Processes and Tools
  - Compliance Audits
  - Internal controls
  - Spot Checks
  - Self-Reports, Self-Logging, Self-Certifications
  - Periodic Data Submittals (PDS)
- Supporting Activities
  - Methodologies and Processes
  - CMEP IP, Annual ERO Oversight Plan
  - Physical Security

Observation Summary

	Ratings			
Area	**High**	**Medium**	**Low**	**Total**
Governance	0	0	1	1
Risk Assessment	0	3	0	3
COPs	0	1	1	2
Enforcement	0	1	0	1
Monitoring Tools	0	2	1	3
Supporting Activities	0	1	0	1
Total	**0**	**8**	**3**	**11**

High/Medium/Low-Risk Rated Observations *(High, medium, and low risk observations require a management action plan)*		
Rating	**Observation**	**Risk**
Medium	Open Enforcement Actions (OEAs) are not processed timely to address risk of non-compliance with the appropriate disposition and action	Unprocessed OEAs increases risk to BPS. Lack of transparency to all Open Enforcement Actions prevents complete assessment of entity risk and mitigation.
Medium	Compliance Audits are not conducted as planned	Continued focus on prior year audits may increase the risk of delays to the current year audits as well as not identify risks and potential noncompliance in a timely manner.
Medium	IRA/COPs have not been developed for a majority of registered entities within the footprint and IRA/COP process lacks flexibility to fully support a risk-based approach	Incomplete or inaccurate identification of assets to apply required reliability standards and the appropriate monitoring interval and tools to mitigate risks to BPS.
Low	IRA/COP results lack continuity to audit scope	Risk-based audit scope is not adequately explained. Registered entity and outside observers may not have clear understanding of rationale for all Reliability Standards included in the scope.
Medium	Mechanism for periodic risk assessment with entities is not timely to support annual audit planning	Annual audit planning process is ineffective without a current risk assessment.
Medium	Annual audit planning is not formally documented with support of entity risk assessment factors to ensure coverage of relevant risks and related reliability standards.	The annual audit plan does not sufficiently address the most current risks.
Medium	CMEP Policies and Procedures are not developed and in some cases have not been updated.	Risk-based approach to CMEP is not administered through documented and routinely updated policies and procedures.
Medium	Current risk assessment and audit planning processes do not address two-year gap with the execution of CIP-014 audits as a result of pandemic conditions.	Increased likelihood of CIP-014 non-compliance with reliability standards may adversely affect the BPS.

Low	A process outline does not exist to support and assist employees with understanding and execution of the Conflict of Interest (COI) Policy	Misunderstanding and interpretation of COIs exist and inaccurate or unfavorable responses are not effectively identified and resolved.
Medium	Offsite Audits are designed to be executed with limited interaction and without interviewing registered entity personnel, demonstrating a self-certification approach versus audit	Lack of audit techniques, such as direct questioning via interviews, may hamper auditors understanding of processes and associated internal controls, increasing the risk of inaccurate conclusions.
Medium	Audit work programs are not consistently developed to assess an entity's internal controls prior to the start of audit Fieldwork per NERC guidance and audit standards (i.e. IIA/IPPF)	Inconsistent assessment of internal controls reduces the effectiveness of risk-based CMEP.

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
1.	**Enforcement** **App 4C – Section 3.0, 3.8 and 5.0, 5.1 and 5.2.** **NERC ROP Section 403 - Required attributes of RE CMEP; 403.5 Program Resources - RE Compliance Staff**	**Open Enforcement Actions (OEAs) are not processed timely to address risk of noncompliance with the appropriate disposition and action. (Self-Identified)** The volume of OEAs has been increasing the past few years to the point where NPCC had 552 open on April 1 2022. The breakdown of which year they originated is as follows: 2019: 48 2020: 159 2021: 280 2022: 65 **Total: 552** Preliminary Screens are processed according to process (Section 3.8) however, many of those determined to be Minimal Risk, via the Initial Triage Process, are not processed timely as Compliance Exceptions. NPCC attributes their inability to keep pace with the increasing numbers of noncompliance to resource constraints. With no timetable represented to ensure complete processing, there is increased	1. NPCC will advance the plan to hire additional FTE's for enforcement. Specifically, NPCC plans to onboard two to three new FTEs in 2022 to assist in enforcement. This will result in 7 to 8 FTE's to work on enforcement issues (up from 5 historically). 2. NPCC will evaluate and consider whether to request additional FTE's for the 2024 and 2025 Business Plans and Budgets. 3. NPCC will develop enforcement approaches designed to streamline the processing of	December 31, 2022 June 30, 2023 December 31, 2022	Regional Entity Manager, Enforcement and Regional Entity Associate General Counsel, Director Enforcement Regional Entity Associate General Counsel, Director Enforcement All enforcement staff	Medium

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		risk associated with non-processed PNCs including: • Potential of repeat or recurring violation of Reliability Standards • Lack of visibility hampers the complete view of the entity risk profile and increases reliability and security risk to the BPS. NPCC should review the current and prospective Enforcement personnel resource model to ensure: 1) proper review all OEAs in the pipeline and 2) determine a sustainable approach in the future to identify and process PNCs timely, and apply the required monitoring strategy and interval.	commonly violated Standards and document all the steps within the processing.			
2.	**Compliance Monitoring** **NERC ROP Section 403 - Required attributes of RE CMEP; 403.5 Program Resources - RE**	**Compliance Audits are not all completed in the calendar year of the plan.** IA testing performed in mid-May 2022, identified 4 of 16 (25%) 2021 compliance audits were still in progress. Audit Notification Letter's (ANL's) for 2 of 4 indicated the audits did not commence until 2022. As of May 17, 2022, NPCC asserted that 9 of 22 (41%) of the 2021 Compliance audits were not yet completed.	NPCC has as a matter of practice, accepted a degree of off-site completion overlap between years. The 2023 annual audit plan that will be developed in 3rd/4th quarter 2022 will take into consideration previous historical	October 31, 2022 (when 2023 annual plan is developed)	Regional Entity Director, Compliance Monitoring	Medium

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		As a practice, the majority of audits should be completed during the calendar year. Audit execution delays may increase the risk of noncompliance not being detected timely, and/or determining the proper monitoring interval as a result of the executed audit In addition, increased back log of prior year audits may increase the risk of delays to current plan year audits. NPCC leadership cited the continuous requests from registered entities to extend or delay audit start dates as a practice they honor, and in some cases honor several requests. NPCC should ensure that Compliance Audits are executed within the plan year to adequately support auditor resource planning, and consider evaluating other performance criteria to support extensions as requested from the registered entities to delay the audit start date. This practice may reduce the back log, and ensure that audit staff is equipped to execute audits as planned	delays that will result in a 2023 annual plan that will more accurately align with actual capabilities to complete a finite quantity of off-site audits in the 2023 calendar year.			

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		within the appropriate monitoring interval.				
3.	**COPS**	**COPs have not been developed for a majority of registered entities within the footprint and IRA/COP process lacks flexibility to fully support a risk-based approach** At current, 64 of 236 (27%) of registered entities within the NPCC footprint have a completed COP. NPCC's approach since 2020 is to complete the IRA/COP process for each entity on the annual audit plan and to complete others, time permitting. Per NERC ROP and ERO Enterprise oversight strategy and CMEP tool interval guide, an Inherent Risk Assessment should be developed as the first step to determine what assets are owned by the registered entity and associated Reliability Standards required to comply. Further, Regional Entity staff should develop IRAs and COPs in accordance with the defined oversight strategy to determine the appropriate CMEP tool(s) for a registered entity.	CMEP candidate search is ongoing as NPCC is budgeted for 25 CMEP FTE in 2022 and 28 CMEP FTE for 2023. To ensure NPCC COP mitigation will align with ERO COP expectations, NPCC will coordinate the RPMG (and the RAPTF) for agenda item discussions to reconfirm NERCs uniform direction to the Regions on the development of COPs and possible adjustment of the top 5 rule as needed. NPCC will add words to CI-22 IRA and CI-23 COPs to allow for additional Staff	December 31, 2022 September 30th and December 31, 2022 RPMG/RAPTF meetings September 30, 2022	Regional Entity VP, Compliance Regional Entity Manager Entity Risk Assessment Regional Entity Manager	Medium

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		The IRA/COP process lacks flexibility to support a risk-based approach. Specifically: NPCC utilizes the following calculation to determine a weighted percentage for each Risk Category: **NPCC IRA Tool identified RSs / Total ERO RSs for a specific risk category** Once the percentages are assigned, NPCC applies the "Top 5" rule where 5 and only 5 Risk Categories are selected. This rule lacks flexibility to support a risk-based approach. In addition, there does not appear to be the opportunity to override using professional judgement to alter results within the methodology. There is no ability to utilize professional judgement by overriding statistical calculations built into the COP process or to deviate from the "Top 5" rule. The Oversight Strategy was not consistently documented within the COP report and there was insufficient evidence to validate the overall target monitoring interval. Overall, the current IRA/COP process may not correctly identify to NPCC and to the	flexibility and professional judgment.		Entity Risk Assessment	

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		entity the Reliability Standards which present the greatest risk to the BPS. An increase in Entity Risk Assessment personnel would likely increase NPCC's capability to: • Build flexibility to support a risk-based approach to the IRA/COP process • Complete IRA/COPs for a greater percentage of Registered Entities overall, modeling risk-based CMEP.				
4.	**COPS**	**IRA/COP results lack continuity to audit scope** As significant time is taken to prepare the IRA/COP and the COP is shared with the entity, entities are given a roadmap as to the population of Reliability Standards which were considered to be included in the scope of their audit. However, our analysis identified several audits where the scope included Reliability Standards which are not included in the COP. In some cases, our testing noted Reliability Standards listed in the IRA which were not included in the output of the COP, however these same Reliability	To ensure NPCC COP mitigation will align with ERO COP expectations, NPCC will coordinate the RPMG (and the RAPTF) for agenda item discussions to reconfirm NERCs uniform direction on the development of COPs, Appendix B in the COP, the relation to audit scope, and to discuss consistent inclusions of enhanced	December 31, 2022	Regional Entity Manager Entity Risk Assessment	Low

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		Standards were included in the audit scope. With no explanation for the inclusion of RSs in the scope, which were not included in the COP, the credibility of the IRA/COP process may be challenged. A clear explanation of why certain Reliability Standards, which were not included in the COP, but were included in the Scope would provide improved continuity and help support confidence in the credibility of the IRA/COP process. Further, our testing of the IRA/COP process identified 4 of 15 samples, which did not have a completed COP prior to the issuance of the Audit Notification Letter (ANL). A review of the IRA/COP process to identify opportunities to strengthen the continuity/transparency of Reliability Standards being evaluated and ultimately selected for the scope, would enhance the credibility of the IRA/COP process.	explanation to the entity. NPCC will add words to CI-22 and CI-23 to allow for Staff flexibility and to include enhanced explanations.	September 30, 2022	Regional Entity Manager, Entity Risk Assessment	

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
5.	**Risk Assessment** **NERC ROP Section 403 - Required attributes of RE CMEP; 403.5 Program Resources - RE Compliance Staff**	**Mechanism for periodic risk assessment with entities is not timely to support annual audit planning** NPCC does not have a mechanism (i.e., Entity Profile Questionnaire) in place to receive timely updates from their entities in order to support the annual audit planning process. ***IIA Standard 2010.A1*** *– The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually.* Our analysis demonstrates more than 50% of the entities have not provided an updated IRA since 2016. NPCC should have an annual process to check in with their entities to get a summary of any significant changes which have occurred. Without timely updates, NPCC may not have the most relevant entity information to utilize to conduct their risk assessment in support of the annual audit planning process.	CMEP candidate search is ongoing as NPCC is budgeted for 25 CMEP FTE in 2022 and 28 CMEP FTE for 2023. NPCC will develop a plan to conduct annual communications to all entities to remind them of their obligations to update NPCC for changes that may affect their IRA.	December 31, 2022 September 30, 2022 Method for enhanced annual communication decided upon and implemented September 30, 2022	Regional Entity VP Compliance Regional Entity Manager, Entity Risk Assessment	Medium

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		NPCC has a smallest CMEP staff among the regions. Resources have not been assigned to gather an update for each entity on an annual basis.				
6.	**Risk Assessment** **NERC ROP Section 403 - Required attributes of RE CMEP; 403.5 Program Resources - RE Compliance Staff**	**Annual audit planning is not formally documented with support of entity risk assessment factors to ensure coverage of relevant risks and related reliability standards.** NPCC audit planning includes the selected the 3 year audits (as per ROP) which are due for the year and then applies professional judgement for the remaining 219 entities without evidence of a documented risk based evaluation for the entities. IA was unable to evidence documentation which supports the risk evaluation of each entity. NPCC Master Schedule nor any other tools were available, which contained: performance data, compliance history, and internal controls, etc, which would be expected to be available for inclusion in the risk evaluation. **ROP 3.1.4 Scope of Compliance Audits** states:	CMEP candidate search is ongoing as NPCC is budgeted for 25 CMEP FTE in 2022 and 28 CMEP FTE for 2023. To ensure NPCC Risk Assessment mitigation will align with ERO COP expectations, NPCC will coordinate the RPMG (and the RAPTF) for agenda item discussions to reconfirm NERCs uniform direction on performing risk assessments and resulting audit scopes to understand opportunities to enhance audit planning actions	December 31, 2022 December 31, 2022	Regional Entity VP Compliance Regional Entity Manager Entity Risk Assessment	Medium

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		Regional Entities will tailor the final scope of any Compliance Audit based on the results of the Registered Entity's Inherent Risk Assessment and, if applicable, taking into consideration the results of an Internal Controls Evaluation. Without documented support for the risk evaluation there is increased risk the annual audit plan may not reflect what management intended. NPCC has not had resources to support the development of automated tools to help provide the information needed to adequately support the annual audit planning process. Going forward, additional resources should be dedicated to provide the needed tools to support the annual audit planning process.	(including acquiring CMEP technology solutions) that were identified in these 6 Regional audits and then document the new processes.			
7.	**Supporting Activities**	**CMEP Policies and Procedures are not developed and in some cases have not been updated** Policies and procedures are not documented, or have not been updated in a timely manner. These include: • Complaints and Investigations procedures are not documented.	NPCC will develop a procedure for complaints and investigations. NPCC will update the Enforcement manual to include changes to account	September 30, 2022 September 30, 2022	Regional Entity Associate General Counsel, Director Enforcement	Medium

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status

		• NPCC Enforcement Manual version 2.0 (last updated 10/17/2019).
		  ○ Changes to account for the implementation of Align as well as organizational changes were not reflected
		  ○ Triage process is not documented
		• Within the Compliance Oversight Plan CI-23 Rev 3, there is not a concise methodology for assignment of: Minimal, Moderate and Serious ratings.
		• NPCC includes their own risk elements into an NPCC CMEP IP each year – this is only partially documented in CI-22.
		
		Procedures should be reviewed/updated whenever significant changes occur or at least annually.
		
		Without clearly documented policies and procedures the Regional activities may not be as management intended.
			for the implementation of Align, organizational changes, and documentation of the procedure for the Triage process.
			
			NPCC will update the methodology for assignment of ratings in CI-23.
			
			NPCC will fully document inclusion of risk elements into an NPCC CMEP IP in CI-22.
			
			As NPCC policies and procedures are updated, NPCC will implement and use a Governance, Risk, and Compliance tool to ensure that each policy and procedure is reviewed for updates at least annually.
				
				September 30, 2022
				
				September 30, 2022
				
				September 30, 2022
					Regional Entity Enforcement Attorney
					
					Regional Entity Manager, Entity Risk Assessment
					Regional Entity Manager, Entity Risk Assessment
					
					Regional Entity Associate General Counsel, Director Enforcement	

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
8.	**Compliance Monitoring** **NERC ROP Section 403 - Required attributes of RE CMEP; 403.5 Program Resources - RE Compliance Staff**	**Current risk assessment and audit planning processes do not address two-year gap with the execution of CIP-014 audits as a result of pandemic conditions** CIP-014 audits require that procedures and evidence be executed on-site/on-premise. However, due to pandemic related conditions, CIP-014 was not audited in 2020 and 2021, and NPCC has no plans to make up the audits. Alternatively, the registered entities scheduled in 2020 and 2021 will be evaluated in the next auditing cycle. Since there has been a two-year gap, NPCC should prioritize the CIP-014 audits and conduct them as soon as possible rather than waiting for the next auditing cycle. In addition, with the recently approved revisions to the ROP related to CIP-014, there is flexibility to conduct the audits through other methods or procedures versus strictly on-site. Without conducting the CIP-014 audits, noncompliance with CIP-014 may not be identified for several years, increasing the risk to the bulk power system.	NPCC is including CIP-014 in 2022 TO/TOP audit scope for remote audits and on-site audits. The inclusion of CIP-014 for remote audits began in May 2022 and will continue in-person upon our return to on-site audits in October 2022. CMEP candidate search is ongoing as NPCC is budgeted for 25 CMEP FTE in 2022 and 28 CMEP FTE for 2023.	June 30, 2022 October 31, 2022 December 31, 2022	Regional Entity VP, Compliance; Regional Entity Director Compliance Monitoring Regional Entity VP Compliance	Medium

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		NPCC has the smallest CMEP staff comparatively amongst all the Regional Entities. Resources have not been assigned to perform CIP-014 audits due to availability of resources and priorities established by NPCC leadership. NPCC should evaluate and prioritize CIP-014 audits using a risk-based approach.				
9.	**Governance**	**A process outline does not exist to support and assist employees with understanding and execution of the Conflict of Interest (COI) Policy.** Question number 2 from the NPCC COI disclosure is not clear. The policy question states: "Please list any entities in the electricity sector in which you, or any relative/ family member, or any member of your immediate household, have a direct or indirect financial interest. You need not list diversified mutual funds that may have electricity sector holdings. Please indicate whether the equity or other ownership/beneficial interest in such entities (as a percentage) is in excess of 5%."	NPCC staff will review the COI Policy and annual questionnaire and develop recommended edits or a procedure to assist staff with understanding and executing the COI Policy.	December 31, 2022	Regional Entity Associate General Counsel, Director Enforcement	Low

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		NPCC reported there was confusion concerning what the 5% is in reference to, such as an individual's portfolio or 5% of the outstanding company stock? Other questions were raised concerning whether other criteria need to be considered. For example: • Is less than 5% acceptable, or should all be disclosed and required to divest? • Should affiliates of the entity be considered? The COI policy should be reviewed with intent of clarifying specifics about what constitutes a COI, and consistently apply the policy and ensure the correct interpretation and understanding.				
10.	**Compliance Monitoring**	**Offsite Audits are designed to be executed with limited interaction and without interviewing registered entity personnel, demonstrating a self-certification approach versus audit** For RA, BC and TOPS, NPCC utilized an "onsite" audit approach. During the pandemic "onsite" audits were conducted remotely but did include interviews. For the remainder of the	NPCC recognized the benefit of this prior to the NERC CMEP audit and started in 2022 to include an interview aspect in the NPCC off-site audits.	September 30, 2022	Regional Entity Director, Compliance Monitoring	Medium

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		registered entity audits on the audit plans for 2020 and 2021, NPCC conducted "offsite" audits. For "offsite" audits, it was NPCC's intention to execute the monitoring activity while minimizing interviews, relying instead on the use of Request for Information (RFI), where possible. When NPCC felt there was a lack of information from the RFI(s), NPCC did conduct interviews. Lack of audit techniques, such as direct questioning via interviews, may hamper auditors understanding of processes and associated internal controls, increasing the risk of incomplete or inaccurate conclusions. In addition, the audit approach may be perceived as less credible or unfair by the registered entity due to the lack of interaction or participation in the audit. NPCC asserts that as of 2022, the procedures for Offsite audits now include interviews and other widely accepted audit techniques				

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		NPCC should develop a consistent approach to planning and executing Offsite audits with the appropriate audit techniques and procedures that include participation from the auditee.				
11.	**Risk Assessment**	**Audit work programs are not consistently developed to assess an entity's internal controls prior to the start of audit Fieldwork per NERC guidance and audit standards (i.e. IIA/IPPF)** IIA Standard **2240.A1**- Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly. The intent to perform an evaluation of the registered entity's internal controls is not appropriately evidenced prior to the commencement of the audit fieldwork. In 2020, Reliability Standard Audit Worksheet (RSAWs) did not include the results of an evaluation of internal controls. While a number of reviews included internal controls in 2021, the approach was inconsistent overall.	In 2022, NPCC began using the NERC ICAT form and familiarizing our way through the use of the form with the other Regions. This will help us with documenting a "plan" of what controls we need to focus on understanding/assessing during the forthcoming audit. Improving our proficiency in the use of the ICAT will also help us with memorializing in sufficient fashion the results of the controls assessment aspect of the	September 30, 2022	Regional Entity Director, Compliance Monitoring; Regional Entity Manager, Entity Risk Assessment	Medium

Observation #	Location	Observation	Management Action Plan (MAP)	Action Plan Due Date	Responsible Person(s)	Status
		A work program which documents the expected controls should be reviewed and approved prior to the commencement of fieldwork. The inclusion of internal controls on RSAW going forward should formulate a more informed assessment of the registered entity as fieldwork begins.	completed audit engagement.			

Appendix

Audit Approach

The scope of our procedures was determined through our annual risk assessment process, discussions with members of management, and qualitative and quantitative factors identified during the audit-planning phase. The audit engagement team performed various auditing techniques described in the table below:

Technique/Test	Description
Inquiry	Questions and responses to confirm understanding and ownership of processes, risks and controls; potentially establish additional testing criteria.
Inspection	Examining records or documents indicating performance of the control activity or physically examining inventory, systems, books and records.
Observation	Looking at a process or procedure performed by others (e.g., observation of user access reviews by the Company's personnel).
Re-performance	Verifying the operational effectiveness and/or accuracy of a control.
Analytical Procedures	Evaluating information by studying plausible relationships among both financial and nonfinancial data.

Throughout our testing, we used widely accepted audit sampling techniques. These sampling techniques allowed us to obtain audit evidence, which is sufficient and appropriate, and necessary to arrive at a conclusion on the population.

Note: The status of the management action plans will continue to be reported to the Audit/Finance Committee until the observation is successfully remediated.

Observation Ratings

In determining an observation's risk rating (i.e., high, medium, or low), we consider a variety of factors including, but not limited to, the potential impact, the likelihood of the potential impact occurring, risk of fraud occurring, regulatory and legal requirements, repeat observations, pervasiveness, and mitigating controls.