Internal Controls

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Look back and look forward:

Our 2020-2021 review for your future focus

ReliabilityFirst (RF) reviewed compliance monitoring data for 2020 and 2021, including audit findings such as Potential Non-Compliances (PNCs), Areas of Concern (AoCs), Recommendations and Positive Observations, in addition to self-reports to identify compliance trends and areas for future focus and improvement. This analysis was split into two sections, one for the O&P Standards and another for the CIP Standards.

Most violations were self-reported rather than observed on engagements, a testament to each entity's commitment to a strong culture of compliance and integrity. The major themes of these violations and audit findings are described below. In addition to the usual positive elements of a good compliance program (e.g., mock audits, near-miss investigations, root cause analysis), a robust internal controls program – with preventative, detective and corrective controls – could help alleviate some of the issues identified in the themes.

O&P: Overall, the major observed O&P themes encompassed training, documentation, improved procedures and general Internal Controls program issues.

Training is a key component to any program and helps to ensure procedures and processes are performed as intended. Training should produce results in which staff understand their roles, responsibilities and expectations, helping maintain compliance across standards.

Documentation refers to the importance of consistent and thorough records. For example, for maintenance activities, when the storm hit, what equipment was repaired or replaced? Were these changes properly documented and were records updated as needed? To avoid discrepancies across records, ask if there is a central record repository. Is there an opportunity to institute peer-checks or third-party reviews? Do my completed MOD-025 forms include all data fields required by the

standard? Consistent and thorough documentation is key to proving compliance and ensuring all critical information is recorded.

Improved Procedures. This theme calls for for specificity in and timely updates to procedures. Are there reminders for what needs to be updated when a Standard changes? What about when equipment, footprint, departments or staff changes? And rather than stating every possibility allowed in the Standard, ask "does this procedure state what we *actually* do?" Procedures should show the specific steps or tasks that should be taken to achieve specific goal(s), not just repeat the Standard without specifying which process the entity follows.

Internal Control Program Issues. This theme itself shows that entities are working to create and improve their own internal control programs and is a great sign of commitment to continued compliance. Establishing strong internal controls can help with a multitude of compliance requirements, such as meeting implementation dates, ensuring notifications are timely, ensuring responsibilities are properly mapped in mergers and acquisitions, ensuring clerical errors that could become big mistakes down the road are minimized, and ensuring any control or process doesn't hinge on one person.

Some entities went beyond expectations (doing more frequent checks, adding additional measurements, etc.) and implemented strong controls and best practices. These entities often have strong training programs, good controls and trackers, and in cases where there are issues, they perform thorough extent of condition reviews and place importance on continuous improvement efforts.

These themes are captured in engagements as Positive Observations – evidence of entities understanding the role of compliance, demonstrating a sustainability mindset and achieving compliance at a high level.

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CIP

Entities continue to improve at detecting and reporting issues, indicated by the sustained reduction of PNCs found in CIP Audits, Spot Checks and Self Certifications from 2020-2021. Overall, this indicates a general maturation and enhancement of CIP Compliance programs through automation in several functional areas such as:

- Identity and access management systems for onboarding, tracking and revoking access
- Security patch and vulnerability management programs
- Use of new generation Security Event Information Monitoring (SEIM) systems for logging, monitoring and alerting
- Integrated use of configuration management systems for tracking ports and services and system baselines

While automation provides a solid basis for internal controls, entities must also demonstrate and document clearly how automation functions and supports programs. When configured properly and securely, automated processes can prevent, detect and correct issues more efficiently. With continued focus on internal controls, the trend should also continue to show more limited audit findings.

The Bottom Line:

Entities are showing commitment to reliability in their self-reports and internal controls program efforts, but continuous improvement is a must. Designing and implementing a strong internal controls program can help to address these major themes, spread across many Standards, departments and processes.

Internal controls help every organization mitigate their own specific risks and there are always opportunities for improvement. We cannot be complacent – risks evolve and so must our controls. We also cannot show off an internal controls program like a fancy car – where it looks so shiny and new, so sleek and impressive – but when you look under the hood of the car, the engine is missing! An effective internal controls program goes deeper than the surface level.

Consider attending the 2023 Internal Controls Workshop hosted by RF in Independence, Ohio. We will build off the previous 2019 Internal Controls Workshop, with short lectures and collaborative group activities concentrating on FAC-008, CIP-005 and CIP-007 risks. The workshop will be technical and interactive, so SMEs (in addition to their PCCs) are highly encouraged to attend!

More information can be found on the Eventbrite page. We hope to see you there!