

Internal Controls

Public

By: Mike Hughes, Principal Technical Auditor

DO YOU HAVE DOCUMENTED INTERNAL CONTROLS?

"Wait, what?" "Let me check..." "Maybe."

Sound familiar? It's been said *"we all have internal controls; we may not call them that."* The discussion on internal controls often starts with the compliance department/primary compliance contact, then filters out to other departments; this approach can result in a shotgun pattern of awareness at the functional department or subject matter expert level.

And with that, a new internal control is born. No ceremonial banners. No formal title as an internal control. No controls mapping. No label as preventive, detective or corrective. Simply passed along as tribal knowledge. New hires will learn about the "fix" through on-the-job training.

The challenge with internal controls is not that they are created from necessity and passed along through informal or formal training, but that they rarely get labeled as an internal control. Is this wrong? The short answer is "no." But the long answer is that in today's world, where the compliance program is starting to focus on reasonable assurance of future compliance, regulators are often focusing more on how the entity's program helps to ensure future reliability and security of the bulk electric system. And really, isn't this where entities would rather have the discussion lead? From an entity perspective, isn't it better to be discussing the future as an academic discussion versus past compliance where the stakes (from a regulatory perspective) are higher?

While subject matter experts may know the controls from a tribal perspective, the control activities may not be labeled as an "internal control" and are likely not documented. Thus, when staff turnover occurs, tribal knowledge is easily lost. This presents several challenges. First, how can controls be documented to the extent that tribal knowledge of internal controls is not lost with staff turnover? Second, how can internal controls address the risk of not only standards compliance, but also other risks to the Bulk Electric System? Finally, how can internal controls be demonstrated to outside regulatory staff to the extent that reasonable assurance is provided, not only for historical compliance, but also for future compliance?

In a future article expect to hear more about "maturity" of internal controls, and perhaps more aptly, the maturity of the internal control environment, within an organization.

Please share your internal controls success stories with RF Entity Engagement through the form on the [Contact Us page on our website](#); we want to recognize and celebrate your success!



Let's see how staff at fictional "TOPGUN POWER COMPANY" deal with a recurring issue on the delivery dock:

Worker: Boss, another truck backed into the light pole.

Boss: The one we replaced last week?

Worker: Yes.

Boss: How bad?

Worker: Scraped, but if it got knocked over like last time it would have taken out Frank and a quarter million dollars' worth of breakers. I'd really miss those breakers.

Boss: What's holding up relocating that pole?

Worker: Budget hold-up for the pad extension. Could be years...

Boss: How can we prevent this from happening until we move the pole? We don't want anyone to get hurt.

Worker: It would take a little effort, but we could have a flagman on radio with the driver as he backs in.

Boss: Great – let's try that.