# Internal Controls Review

*By: Denise Hunter, Senior Technical Auditor*

During the 2014 Fall Workshop, I presented on Internal Controls and the concept of Risk versus Compliance. The survey results of that presentation were less than stellar. The idea of internal controls and risk, and how they addressed reliability to the BES, seemed suspect. The region, as a whole, struggled to understand how those activities mitigated the risk identified by the Standard/Requirement and wondered "what about compliance?"

Fast forward four years to the 2018 Fall Workshop, and I had the honor to work with three companies that realize that mere compliance is a thing of the past and are working towards establishing internal control programs that include: identification of risks, mitigating their risks via internal controls, transparency of actions, and open dialogue to ensure understanding, coordination and cooperation throughout the region.

When I was asked to present at the Fall Workshop, I wrestled with coming up with a topic that I felt would move us to the next level. In previous workshops, I had detailed what an internal control was, what constituted a good one versus a weak one, and the objectives of internal controls.



From left tor right Nicholas Poluch, Amy Foltz, Bob Solomon

For this workshop I wanted to demonstrate what the review of an internal control would look like during an engagement such as an audit. The idea of a Mock Audit presented itself, but I wasn't sure I would find a single entity that would be willing to participate, so the idea shifted to a panel discussion.

A quick email was sent to a random selection of entities asking if anyone would be willing to "have a frank discussion regarding their internal controls" at the upcoming workshop. Before that day ended Nick Poluch at Talen Energy, Amy Folz with Vectren and Bob Soloman, Hoosier all stepped forward.

During our first meeting it became very apparent that Nick, Amy and Bob all agreed that sharing controls was necessary in order to proliferate a conversation detailing successes and failures of internal control design. Because of their enthusiasm regarding the topic, I decided to ask them if they would consider presenting our topic in a different manner: would they participate in a Mock Audit?

All three of them realized immediately what that meant: exposing their controls to scrutiny and comment by the entire region. It took about a minute before all of them said "Why not? Someone has to start the conversation."

The scope of the mock audit (PRC-005-6 R3, PRC-019-2 R1, VAR-002-4.1 R2) was based on standards and requirements that often present a challenge within our region.

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I benefited greatly by participating in the Mock audit /Internal Controls discussion. The prep meetings with RF and the team allowed me to see the breath of internal controls that cover many different standards. It also provided me opportunity to practice articulating Talen's internal controls in a more concise fashion which worked out well for the RF presentation.

In addition, but just as important, I was able to present Talen's internal controls to Senior Management and NERC compliance team in a fashion that was easily understood and timely fashion.

One additional item, I learned that internal controls will change based on the risks at the time. Talen is a young company which is made up of several different companies. So the risks in the past couple years may not be the same risks that we see in the future. This was something you highlighted.

We are now looking to the future and are prepared to make changes the internal controls program based on future potential risks.

*Nicholas Poluch, Senior Mgr. of NERC Eng. and Cyber Secuity, Talen Energy*

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During the demonstration the following controls were discussed:

- Checklists: to assure all expected activities were performed.
- Contract management: necessary to manage the negotiation, execution, performance, modification and completion of contracts due to risk mitigation being provided by a third party.

- Data analysis: detailed review of data to determine mitigation of risk, trends and identify opportunities of improvement.

- Reviews: to ensure accuracy and completeness.

- Risk assessment: analysis of the adequacy of a process, set priorities for the organization, and determine the level of risk.

- Standardized documentation: mitigates the risk of information that is often presented in varying forms.

At the end of our hour it was apparent that the conversation had been started and a paradigm shift was occurring.
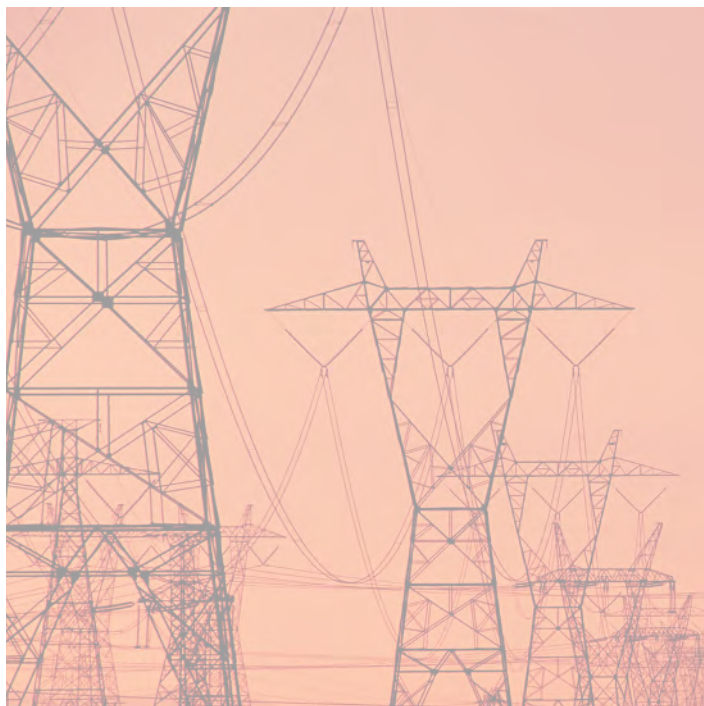
Now that the RF community of registered entities has seen the shift, it is ALL of our responsibility and duty to continue these open dialogues.

These conversations will help to promote our continuous improvement model around risk and internal controls and safeguard the reliability, security and resiliency of the Bulk Power System.

"This was a great opportunity for me to engage with RF staff and other utility experts, both on the panel and at the conference.

I value RF conferences as opportunities to share experiences, to connect with others in the regulated community and to positively impact electric reliability AND compliance."

Thanks for the opportunity.

*Amy Foltz, Electric Reliability Compliance Mgr., Vectren Corporation*

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The Internal control portion of the RF Workshop was an excellent opportunity to discuss real examples of internal controls with Denise Hunter in a mock audit setting. This was an excellent next step in RF's efforts in assisting all of the entities at the workshop in the development of internal controls. Hoosier is eager to share and see examples of internal control from other entities in the RF footprint.

Any of the entities at the workshop are welcome to contact Hoosier Energy if they would like any of the material that was presented at the workshop. Hoosier Energy also benefited by participating in this exercise in regard to improving Hoosier's internal control program and analyzing risk.

*Bob Solomon, Mgr., Compliance, NERC and Power Markets, Hoosier Energy*

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