Get Control of Yourself: Sometimes You Need a Nudge

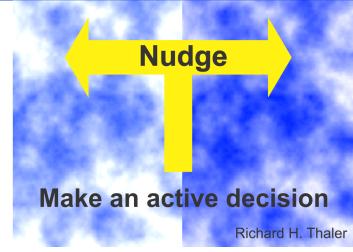*By Denise Hunter, Principal Technical Auditor*

A paradigm shift is a major change in how something is performed or accomplished. In fall 2014, RF announced that a paradigm shift was coming regarding the transition from a compliance-based oversight process to one that is risk based. Numerous presentations and "Get Control of Yourself" newsletter articles followed—either addressing what a risk-based approach looks like and entails or providing guidance on activities that should occur within a risk-based environment.

RF introduced internal control conversations during engagements in 2018. Initially these conversations consisted of simply discussing controls we saw and inquiring about others. The process matured to assessing design. Following the 2020 RF Internal Controls Workshop, we determined that many organizations had embraced the concept and it was time to fully implement the program, thus including discussions around risk identification and control effectiveness. The next month, COVID-19 rolled in. We postponed taking that next step, but we continued conversations and plans to initiate the full program review later. During this time, we focused on determining likely pain points for any Entity just getting started in the process. We identified that simply knowing how and where to begin is often a hurdle.

If you're familiar with any of RF's internal controls guidance or materials, you know how important it is to ensure that the cost of an internal control should never exceed the benefit. In order to determine where to focus your resources, you must first determine where your risk lies. Before we go on, it is essential to understand that the risk I am talking about is your overall risk to the grid, not only your compliance risk. A fully functioning internal control program is a system of systems. Therefore, in order to gain the full strength and benefit, you must mitigate all your organization's risk.

Where and Why Should You Start?

Considering that we've all been assigned to ensure the reliability, security and resilience of the grid, we felt it prudent to start there—and the one constant we know applies to all of us is the ERO Compliance Monitoring and Enforcement Program Implementation Plan (CMEP IP) and the ERO Risk Elements.

The CMEP IP defines the risk elements as "...ERO-Enterprise-wide risks to the reliability of the BPS and mitigating factors that may reduce or eliminate the impacts from a given reliability risk."[1] This idea has been included in presentations, assist visits, one-on-one conversations, during engagements, and basically everywhere the opportunity arose.

During all these efforts and opportunities, we realized that with change, sometimes you need a nudge...thus the introduction of the Risk and Control Entity Profile Questionnaire (EPQ) question.

Now that you have the background, I'm guessing your next question is "What's in it for me?" There are numerous benefits, but to gain an understanding of the importance, I will provide an example. Our industry has an aging workforce, and with that a wealth of information that soon will be walking out the door for

Nudge

Make an active decision

Richard H. Thaler

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[1] 2021 ERO Enterprise Compliance Monitoring and Enforcement Program Implementation Plan, pg 7 Process for Risk Elements and Associated Areas of Focus

the last time. We all discuss the need to capture that "tribal knowledge" but often can't figure out how. If you ask those amazing longtime employees what they know, they often reply that they don't do anything special. They may tell you they just keep the grid up and just know what to do when the moment presents itself.

Without focusing the questions or risks, the concept of identifying what needs to happen is beyond human capability. We need a more focused process. Internal controls are that process. Involve those experienced individuals as you design and document your controls. Oftentimes a control applies to event-driven activities (i.e., investigating an event), and it can be difficult to identify the information to capture. For those types of controls, it's impossible to capture everything. But those amazing employees can identify the "trouble areas," or areas to start the investigation, because they know their portion of the grid like it's part of their family.

You can capture that and provide the control documentation with a place to start or areas to consider. By tapping into this knowledge during the design phase, you will develop controls that are consistent and sustainable, which creates an environment where someone with little industry knowledge has the tools needed to quickly become a functioning asset.

What We've Heard from You

I'd like to address two related questions we've heard from Entities: what if the control questions are beyond the maturity of my program, and what is RF going to do with this information?

The EPQ questions regarding internal controls were written that way by design. We knew there was a very good possibility that some of the questions would be beyond the maturity of some Entities' programs. We decided to include them for two reasons. First, if an Entity's program already included that information, it would give them the opportunity to inform RF, and even if they weren't prepared to submit any evidence to that fact, we could have meaningful conversations with them during any engagements.

Second, if an Entity's program wasn't at that maturity level, we hoped the questions would help "feed the design." The drop-down list of options was intended to provide a few ideas as to what the control activity should include.

Finally, what will RF do with this information? RF uses this information in a number of ways. One is that the Risk Analysis and Mitigation (RAM) department is working toward incorporating this information into the Compliance Oversight Plan (COP). A number of factors are included in that process, and this information is one area.

Additionally, our conversations regarding internal controls are focused on this information, such as design, consistency, and monitoring activities. Therefore, we wanted to give you some guidance on what your controls should consider.

A strong internal control program will help your organization identify gaps and gain efficiencies. How you design your program is the key to your success.

I hope I've answered your questions regarding the Risk and Control EPQ question. RF created an EPQ FAQ for your reference, but please email any additional questions to entityprofile@rfirst.org

Until next time, be kind to each other and get control of yourself!