

General Engagement Plan Briefing

Compliance Audits & Spot Checks

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Introduction

This document outlines the general planning process for Compliance Audits (audits) and Spot Checks (both generally referred to as engagements) by Texas Reliability Entity, Inc. (Texas RE). This engagement plan briefing identifies the due diligence related to engagement planning and to documenting the results of the engagement planning process as required by the Generally Accepted Government Auditing Standards (GAGAS) 8.132.¹ The North American Electric Reliability Corporation (NERC) Rules of Procedure (ROP) include high level considerations for compliance engagements and this document is meant to supplement those considerations. Detailed process steps are covered in other Texas RE documentation.

Texas RE has developed this engagement plan briefing to illustrate that appropriate methodology, planning, resources, processes, and assessments of risk are performed prior to, during, and after performing the compliance engagement of its registered entities. The goal of this engagement plan briefing is to assure consistency and objectivity in performing compliance engagements. The compliance engagement processes are included in the NERC ROP and the ERO Compliance Monitoring and Enforcement Program (CMEP) Implementation Plan, available at www.nerc.com.

The planning of engagements covered by this document is for both Compliance Audits and Spot Checks. Compliance Audits of registered entities are scheduled in accordance to the NERC ROP and identified risks. Compliance Audits have comprehensive scopes for a range of identified risks. Spot Checks are a focused tool for the review of a subset of identified risks. The general process for both Compliance Audits and Spot Checks is similar with the minor differences noted by the ROP.

The NERC CMEP generally conforms to the United States Government Accountability Office (GAO) - GAGAS. The terminology used herein is as defined by the NERC ROP and the NERC Glossary of Terms.

Engagement Objective

The objective of all engagements is to obtain reasonable assurance of compliance with applicable NERC Reliability Standards (GAGAS 8.01).

All registered entities within the Electric Reliability Council of Texas (ERCOT) region are subject to Compliance Audits and Spot Checks, as well as other monitoring methods described in the CMEP, for compliance with all NERC Reliability Standards applicable to the identified functions performed by the registered entity. Additionally, Texas RE participates in the Multi Region Registered Entity Coordinated Oversight (MRRE CO) Program in the roles of lead regional entity (LRE) and affected registered entity (ARE). The MRRE CO Program allows for the combining of engagements where registered entities operate in multiple regions.

- Texas RE will audit the NERC Reliability Standards relative to the current NERC and Texas RE identified risks, risk elements, and Compliance Oversight Plans (COPs) of other regions, if part of coordinated oversight.

¹ See link: <https://www.gao.gov/assets/700/693136.pdf>

- Texas RE will Spot Check the NERC Reliability Standards as appropriate based upon identified risks, taking into consideration entity circumstances and regional events.

Engagement Planning Factors

The Engagement Planning Factors sections provide an overview and analysis of certain topics related to the registered entity in order to appropriately apply the engagement approach and procedures. The subheadings that follow highlight the specific areas of analysis considered when planning an engagement. Scope, compliance history review, auditor skill sets, independence, and the registered entity's internal compliance program are all taken into consideration when planning (GAGAS 8.04).

Risk Identification

The NERC Reliability Standards and Requirements included in the scope of an engagement are based upon the Inherent Risk Assessment (IRA) and Compliance Oversight Plan (COP) completed by Texas RE staff for the individual registered entities within the ERCOT Interconnection (GAGAS 8.05). NERC Reliability Standards and Requirements are reviewed and considered based upon the risk to the ERCOT Interconnection. MRRE CO Program participants undergo an IRA and COP process that involves heavy coordination between the LRE and each ARE to determine appropriate risk identification.

Risk Assessment staff conduct a formal review of an individual entity's risks to the BPS and ERCOT Interconnection with the engagement team. In addition to providing an engagement scope, the Risk Assessment staff provide additional input based on the entity's overall performance based on all of the data reviewed during the IRA and COP processes.

During the actual engagement, the engagement team lead, based upon the observations of the entity, may expand the engagement to include the review of additional NERC Reliability Standards and Requirements.

Engagement Scope

The engagement scope (GAGAS 8.10) identifies the period of time covered by the engagement, the location and timing of the engagement, the registered entity's NERC registered functions included in the engagement, and other pertinent engagement details. The engagement scope maybe part of a larger COP, developed by Texas RE staff for each individual entity. The start date of the engagement period will typically be the latter of the entity's registration date, the day after the end of the previous audit², or the effective date of the NERC Reliability Standard. The location of the engagement will be one of the following:

- Texas RE office (referred to as "off-site" or "tabletop")
- Registered entity's office (referred to as "on-site")
- In two parts consisting of an off-site portion at the Texas RE office and an on-site portion at the registered entity's office

² During 2018 the definition of the last audit date transitioned from the date of the exit briefing plus one day to the date of the engagement notification letter plus one day.

The NERC and Texas RE CMEP are designed to monitor, assess, and enforce compliance.

The scope of a compliance engagement will focus on, but not be limited to, those NERC Reliability Standards and Requirements that are identified in the Electric Reliability Organization (ERO) CMEP Implementation Plan and those NERC Reliability Standards and Requirements associated with identified risks of registered entities.

Internal Compliance Program (ICP)

Registered entities are advised to have an ICP in place to show commitment to grid reliability and to demonstrate a culture of compliance. Elements of the ICP are:

- The role of senior management in fostering compliance
- Effective and efficient preventive, detection, and corrective controls
- Prompt detection, cessation, remediation, and reporting of violations

The risk team will consider the Committee of Sponsoring Organizations (COSO) 2013 Framework that includes the following five standards (COSO framework) in assuring a robust internal control philosophy by the registered entity as referenced in the publication titled, “Standards for Internal Control in the Federal Government.”³

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring Activities

The engagement team may also comment on the entity’s compliance culture as discovered by direct observation during the engagement.

Staffing Considerations

When planning an engagement, careful consideration must be made as to the makeup of the engagement team (GAGAS 8.31).

Engagement team members are primarily from Texas RE’s Compliance Monitoring staff but other qualified Texas RE staff may be involved. Additionally, MRRE CO engagements are comprised of additional resources from other Regional Entities. One of Texas RE’s Compliance staff members will be designated as the engagement team lead unless otherwise determined by the involved Regional Entities.

Texas RE generally does not use contract auditors. If that were to become necessary, the auditors under contract to Texas RE may be used as engagement team members and are to be treated the same as Texas RE Compliance staff.

³ See link: <https://www.gao.gov/assets/670/665712.pdf>

NERC Compliance staff, at their own discretion, may participate on any Regional Entity engagement team at any time. Federal Energy Regulatory Commission (FERC) staff, at their own discretion, may participate as observers on any Regional Entity engagement team at any time. The engagement team lead will notify the registered entity of any NERC or FERC participation in the engagement.

Auditor Qualifications (GAGAS 8.31)

All engagement team leads must have completed NERC lead auditor training and maintain any re-qualification training as may be required by NERC. All auditors must have NERC auditor training and maintain any re-qualification training as may be required by NERC.

Verification of engagement team lead training is performed by management before an auditor can be designated as an engagement team lead. Verification of auditor training is performed by the engagement team lead prior to the engagement notification letter being sent to the registered entity.

Auditor Confidentiality and Independence (GAGAS 3.17-3.63)

All Texas RE engagement team members are required to sign the Texas RE Employee Ethics Agreement. This ethics agreement includes both the Texas RE confidentiality agreement and declaration of any conflicts of interest the employee may have. Ethics agreements are also required for auditors participating MRRE CO engagements.

Verification that the engagement team lead has a signed Texas RE Employee Ethics Agreement on file is performed by management before an auditor can be designated as an engagement team lead. Verification that each auditor has a signed ethics agreement on file is performed by the engagement team lead prior to the engagement notification being sent to the registered entity. As part of the engagement notification, a document confirming the engagement team lead review of the work history, required NERC training, and ethics agreement for each member of the engagement team is provided.

Engagement team members and observers should not discuss aspects of the engagement with anyone other than engagement team members, management, and Texas RE legal staff. Once the final engagement non-public reports are published, the engagement team members will securely dispose of all materials collected prior to and during the engagement that are determined to be not needed to support the engagement. Texas RE Compliance staff will retain one copy of all supporting engagement materials in accordance with NERC guidance and Texas RE requirements. Information deemed by Texas RE or the registered entity as Critical Energy Infrastructure Information (CEII), or other confidential information as defined in the NERC ROP Section 1501 and 1502, shall be redacted from any public reports.

Subject Matter Experts (GAGAS 4.05-4.06)

When determining the Compliance staff to be assigned to an engagement, Texas RE considers the criteria needed to evaluate the NERC Reliability Standards and Requirements in scope for

the engagement. Every effort is made to comprise the engagement team with sufficient staff having adequate collective professional competence and experience.

Throughout the course of the engagement, the engagement team may need to speak with or interview the registered entity's subject matter experts (SMEs). Whenever possible, the engagement team lead will work with the registered entity to schedule a time that takes into consideration the needs of the audited entity.

Engagement Methodology (GAGAS 8.11, 8.20, 8.77, 8.79)

General

The overall engagement methodology, while consistent in process from engagement to engagement, may be specifically tailored to each engagement based upon the registered entity's COP.

The engagement team will review the information, data and evidence submitted by the registered entity, and then assess compliance with the Requirements of the applicable NERC Reliability Standards. Data, information, and evidence submitted in the form of policies, procedures, e-mails, logs, studies, data sheets, etc. will be validated, substantiated, and cross-checked for sufficiency and appropriateness.

Sample sets for Requirements subject to sampling will follow the Sampling Guide found in the NERC Compliance Monitoring and Enforcement Manual and be developed based upon the significance and risk to the reliability of the Bulk Electric System (BES). In some cases, the Texas RE engagement team will choose to review all records provided by the entity for a particular NERC Reliability Standard and Requirement, which is not a sample, but a review of the entire population. This is done on a case-by-case basis.

Preliminary findings are based on the engagement team's knowledge of the BES, the NERC Reliability Standards, and the engagement team's professional judgment. All preliminary findings are developed based upon the consensus of the engagement team. In those cases where a consensus cannot be reached, the engagement team lead makes the final determination with justification to Texas RE management. In order to take a conservative approach, the engagement team lead's decision is generally considered a preliminary finding when a consensus cannot be reached. The engagement team presents all preliminary findings to Texas RE's Management for oversight, quality control, and consistency. Please see the section on Engagements with Preliminary Findings for additional details. Entities are encouraged to begin mitigating activities for all associated preliminary findings.

After the engagement notification package has been sent, Texas RE provides guidance to the entity on self-identified potential noncompliances occurring within the notification period and prior to Texas RE's commencement of the engagement. Generally, due to added administrative burden to the registered entity and Regional Entity staff, the entity is asked not to immediately Self-Report on the Texas RE Compliance portal, but to notify the engagement team lead immediately of the potential noncompliance and supply evidence surrounding the potential noncompliance with the registered entity's initial engagement submission. The self-discovery and reporting of the potential

noncompliance during the preparation for a scheduled engagement will be treated similarly to a Self-Report by the Texas RE Enforcement staff. The entity is also instructed to determine the “extent of condition”, begin performing and documenting any mitigating actions for the potential noncompliance, and to provide this information to the engagement team lead.

Engagement Notification

In 2019, Texas RE started targeting a 90 day notification for ***all*** compliance engagement types to facilitate effective and efficient process flows for the registered entity and Regional Entity staff.

Texas RE Compliance staff notifies the registered entity of an upcoming engagement via an engagement notification package per the following schedule:

- Spot Check, Self-Certification, and Compliance Audit notification is at least 90 days prior to the start of the engagement and requires the entity to submit its response at least 60 days prior to the start of the engagement.
 - Compliance Audit notification is required to be no less than 90 days, per the NERC ROP, prior to the start of the Compliance Audit.
 - Spot Check notification is required to be no less than 20 days, per the NERC ROP, prior to the start of the Spot Check.
 - Self-Certification notification is required to be no less than 30 days, per the NERC ROP, prior to the start of the Self-Certification.

Note: Compliance Audits are ***required*** to, at the minimum, meet the 90 day notification. Self-Certifications and Spot Check Reports are ***targeted*** to meet the 90 day notification. This briefing focuses on Compliance Audits and Spot Checks. The general premises described are used in Self-Certifications albeit with less administrative overhead (e.g. no RSAWS provided in notification package).

The engagement notification package may include, but is not limited to, the following documents:

- Engagement notification letter (includes link to instructions for uploading to the Texas RE Extranet site)
- Engagement Agenda
- Collection of Data Information
- General Information Request
- PRC-005 Spreadsheet (if applicable to scope)
- NERC CIP Version 5 Evidence Request (if applicable to scope)
- Reliability Standard Audit Worksheet (RSAW) information certification
- RSAWs for NERC Reliability Standards in scope
- Engagement Team Bios
- Texas RE Confidentiality Agreement
- TOP Information Request (if applicable to scope)
- Additional documents pertinent to the engagement

The engagement notification letter includes a link to Texas RE’s general information briefing on Texas RE’s website, along with a link to the NERC feedback survey. The general information briefing includes information on the following topics:

- Confidentiality
- Engagement methodology
- Engagement monitoring periods
- Engagement report timing
- Exit briefing
- General engagement scope
- Request for evidence
- Preliminary findings
- Process if there are potential noncompliances

Within two business days of the notification package being sent to the registered entity, the engagement team lead will make a call to the registered entity's primary compliance contact (PCC). The purpose of the call is to verify the entity has received the notification package and to answer any questions the PCC may have regarding the documents, due dates, or the engagement process.

The PCC's are encouraged to contact the engagement team lead with any questions at any point during the engagement. Open communication is critical to the success of the engagement process for the entity and Texas RE.

Engagement Preparation

Upon receipt of the completed notification package from the registered entity, Texas RE will complete a preliminary review and notify the entity that Texas RE has received the requested material.

The engagement team lead holds an engagement expectations meeting with the engagement team members to discuss the engagement plan, assignments of NERC Reliability Standards for review, logistics, and any other pertinent information related to the engagement.

The engagement team reviews the completed RSAWS, evidence, and supporting documentation. The team also reviews previous relevant compliance related submittals, Technical Feasibility Exceptions (TFEs), and any outstanding compliance violations or mitigation plans the registered entity may have with Texas RE and NERC. Additional requests for information and additional questions may be sent to the registered entity by the engagement team lead if the team members have a need for additional information to determine compliance. The quantity of questions is often determined by the quality of the evidence submitted.

Prior to the engagement (usually the week prior to the engagement), the engagement team lead will contact the registered entity and the engagement team members to review logistics, the engagement process, and answer any additional questions. The engagement team lead will provide the entity a preliminary engagement schedule or discuss the details of any schedules given previously. The preliminary schedule could include the engagement team's assigned NERC Reliability Standards and an estimate of the timing of the NERC Reliability Standards to be reviewed. The engagement team lead and the PCC coordinate any schedules for SME or operator interviews. Logistics such as site and location visitation requirements for tours of the control

center, backup control center, data centers, substations (when applicable), plant sites (when applicable), and other details of the engagement should be discussed.

At a minimum, during the week prior to the engagement, the engagement team lead will hold a meeting with the engagement team members to provide a high level overview of the engagement, introduce any observers, alert auditors to any last minute issues, concerns, or areas of focus. The team will discuss open issues after their preliminary review of evidence and the review of entity responses to additional questions and data requests, discuss interviews required, and review any logistics required to complete the engagement.

Off-site Engagements

For an off-site engagement, the engagement team will meet before the introduction briefing to discuss any remaining items. Texas RE will host a conference call to share the introduction briefing presentation. Team members, including any observers, are introduced; compliance engagement scope is reviewed; and the engagement agenda, including schedules and site tours, will be discussed.

At this point, the registered entity, at the engagement team lead's discretion, may give a brief introduction presentation for their entity. Additional conference calls may be established as needed and will be coordinated by the engagement team lead.

The engagement team reviews the evidence submitted and entity responses to additional questions and data requests. The engagement discussion is led by the auditor assigned to the NERC Reliability Standard. The engagement team will discuss any issues, approaches, differences in opinion, and adequacy of evidence during the off-site engagement. The engagement team reviews the status of any previous compliance violations, mitigation plans, and implementation plans.

The engagement team interacts with the registered entity to verify completion of all appropriate NERC RSAWs for the NERC Reliability Standards that are included within the scope of the engagement. At any time during an off-site engagement, the team may request additional information. The engagement team lead will discuss the requests via teleconference and follow-up with an email. The data requests are given a deadline and both the data requests and entity responses to support compliance are tracked.

Texas RE will update the registered entity during the off-site engagement at the end of the day to summarize status of reviews, to recap data requests, and to provide feedback on any concerns in a clear and transparent manner.

Note: Supporting evidence submitted by the registered entity later than the exit briefing of the engagement will be made available to Enforcement staff.

There is some flexibility in any engagement schedule and the engagement team should take as much time as is needed to complete the engagement, even if it extends the engagement beyond the scheduled completion date.

On-site Engagements

For an on-site engagement, the engagement team arrives at the entity's offices approximately a half hour prior to the scheduled engagement start time to set-up and prepare. Texas RE delivers the introduction briefing presentation. Team members, including any observers, are introduced; compliance engagement scope is reviewed; and the engagement agenda, including schedules and site tours, will be discussed. The registered entity, at the engagement team lead's discretion, may give a brief introduction presentation.

The engagement team lead guides the engagement team through the engagement. The team conducts interviews and consultations for clarification of material with appropriate front line personnel and associated SMEs (e.g., system operators, IT staff, planning staff, etc.). The engagement team may stop at any time during the engagement or interviews to caucus to discuss any issues, approaches, differences in opinion, and adequacy of evidence during the on-site engagement. NERC and FERC observers are included in the caucus meetings, if present, and appropriate.

The engagement team interacts with the registered entity to verify completion of all appropriate NERC RSAWs by the engagement team for the NERC Reliability Standards that are included within the scope of the engagement. At any time during an on-site engagement, the team may request additional information. The requests are followed up with an email with an official request for information. The data requests include a deadline for completion, and both the data requests and the entity responses to support compliance are tracked.

The engagement team will hold a daily joint end-of-day meeting with the registered entity to summarize status of reviews, recap data requests, and provide feedback on any concerns in a clear and transparent manner. Observers are included in this meeting.

Note: Supporting evidence submitted by the registered entity later than the exit briefing of the engagement will be made available to Enforcement staff.

There is some flexibility in any engagement schedule and the engagement team should take as much time as is needed to complete the engagement, even if it extends the engagement beyond the scheduled completion date.

Engagements with no Preliminary Findings

At the conclusion of the engagement, if there are not any preliminary findings, the engagement team will proceed with the exit briefing. The exit briefing presentation will be done by teleconference for off-site engagements and on-site for engagements conducted at the registered entity's offices. Engagement team members, any observers, and the registered entity are all included. The exit briefing is a summary of the engagement team's conclusions. The engagement team will attempt to answer any questions the registered entity may have at that time.

Engagements with Preliminary Findings

If there are preliminary findings at the conclusion of the engagement, the engagement team will present the registered entity with a summary briefing that outlines the engagement team's preliminary finding(s). The summary briefing includes:

- A summary with supporting information of the engagement team's preliminary findings discovered during the engagement.
- Notification that preliminary findings will be further reviewed and the registered entity will be given up to four weeks to submit additional evidence.
- Notification that additional reviews will take place based upon any additional evidence received before the engagement findings are determined. There are four possible outcomes for each preliminary finding:
 - Potential noncompliance
 - Area of concern
 - Recommendation
 - No finding
- Notification that engagement findings may be processed by Texas RE's Enforcement staff.

Preliminary findings are reviewed by additional Texas RE staff, including management, to help ensure consistency and completeness. After all preliminary findings have been confirmed, an exit briefing will then be held. The exit briefing will include the engagement team members, the registered entity, and any observers from the engagement. The exit briefing will include a summary of the engagement team's conclusions including any potential noncompliances, areas of concern, and recommendations to the registered entity. At this time, the engagement team will attempt to answer any questions the registered entity may have.

After the Engagement

Within 20 days of completion of the engagement (defined as the date on the exit briefing presentation), the engagement team lead will write a first draft of the non-public engagement report to be circulated to engagement team members and then Texas RE management for review. Following the reviews by the engagement team and a review by Texas RE management, the first draft of the engagement report is due to be sent to the registered entity for review and comment approximately 45 days following the engagement. The registered entity will be given ten business days to submit comments back to the Texas RE engagement team lead. The registered entity's comments regarding the draft report will be taken under consideration by the engagement team lead and at the engagement team lead's discretion or that of Texas RE management, changes may be made to the report based on the entity comments.

The Final Reports

Final engagement non-public reports are normally provided to the registered entity 60 days after the completion of the engagement. Engagements with potential noncompliances will not be issued a public report until all due process is completed by Texas RE Enforcement staff. Potential noncompliances are processed in accordance with the NERC ROP enforcement process.

There are both public and non-public versions of the report for operations and planning engagements (O&P). Critical Infrastructure Protection (CIP) engagements and Spot Checks of

any nature do not have a public report. If the engagement combined both CIP and O&P, all references to CIP must be redacted from the report before it is made public.

The Texas RE engagement team lead finalizes the non-public engagement report, incorporating possible changes from the registered entity's comments, if necessary. If any of the registered entity's comments resulted in a change to a finding in the draft engagement report, the engagement team lead will discuss with Texas RE's Findings Review Team for approval.

Note: Any deviations in findings from the exit briefing will be discussed in the Executive Summary section of the report.

The engagement team CMEP Analyst creates the public report from the non-public report by redacting confidential information, auditor notes, names of engagement participants and making modifications to the title page, headers and footers. The final non-public (and public if applicable) engagement report(s) are sent to the engagement team lead and Texas RE management for approval. Once approved, a final ".pdf" version of the engagement report is sent to the registered entity and NERC. The public report will be posted on the NERC website by NERC staff.

Potential Noncompliances

Potential noncompliances found during the engagement are presented at the exit briefing. Texas RE's Enforcement staff may also attend the exit briefing to give additional information on the steps for processing of potential noncompliances. The engagement team lead will provide information about the initial potential noncompliances for entry into Texas RE's enforcement tool (webCDMS) and provide details for Texas RE Enforcement staff to begin the disposition process.

Texas RE's Enforcement staff will review the draft engagement report, the information provided by the engagement team, and the evidence provided by the registered entity regarding the potential noncompliance. Texas RE's Enforcement staff determine the initial findings of alleged violations and make the initial determination of penalties or sanctions, if applicable.

Texas RE's Enforcement staff will issue the Notice of Alleged Violation (if any) to the registered entity as identified in the Texas RE's Compliance Monitoring and Enforcement Program.

Document Retention

Texas RE Compliance staff will retain supporting engagement material in accordance with NERC and Texas RE requirements.

Milestones

Activity	Engagement Due Date
Prepare engagement plan.	Prior to Sending the Engagement Package

Notify registered entity of compliance engagement.	90 days prior to engagement
Texas RE receives completed engagement package and RSAWs from the registered entity.	60 days prior to engagement
Texas RE performs initial review of engagement package for completeness.	As Required
If necessary, Texas RE will request additional information. If necessary, the registered entity shall submit additional information.	As Requested
Texas RE performs the engagement.	Per engagement notification
Exit briefing.	Last day of engagement
Texas RE issues draft engagement report.	Generally 45 days after engagement