

General Information Briefing

Compliance Audits & Spot Checks

Confidentiality

- **Texas Reliability Entity, Inc. (Texas RE) compliance staff will keep one copy of all the provided materials for the official record. All other copies will be destroyed or returned by the audit or spot check team members.**
- **Audit and spot check engagement documentation can only be used for the purpose of the audit/spot check.**
- **Audit/spot check team members have executed the Texas RE Employee Ethics Agreement.**
- **Audit/spot check team members and observers will not discuss aspects of the engagement with anyone other than audit/spot check team members and Texas RE staff.**

Request for Evidence

- **The following is a summary of documents referenced in the engagement package that allow Texas RE auditors to obtain and remove evidence from registered entities:**
 - 18 CFR 39 – Rules Concerning Certification of the Electric Reliability Organization (ERO); and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards
 - Federal Energy Regulatory Commission (FERC) Order 672 – Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards (Final Rule)
 - North American Electric Reliability Corporation (NERC) Rules of Procedure (ROP) – Sections 400 and 1500.
 - ERO Compliance Monitoring and Enforcement Program (CMEP) Implementation Plan

Audit/Spot Check Methodology

- **Reliability Standard Audit Worksheets (RSAWs):**
 - Provide guidance and consistency for auditors
 - Are reviewed by NERC
- **Audit questions included in the RSAWs:**
 - Help validate evidence reviewed
 - Provide clarification and context
 - Are not all inclusive to determine compliance
- **Management, subject matter experts, and operator interviews:**
 - Validate evidence reviewed
 - Provide clarification and context
 - Are valuable for “reasonable assurance”

Audit/Spot Check Scope

- **Audits and spot checks assess compliance with NERC Reliability Standards for the registered functions.**
- **The scope of an audit or spot check is based upon:**
 - NERC Reliability Standards
 - Risk of the entity
 - Entity's internal controls
 - Registered entity's compliance performance

Audit Scope

- **Current considerations for the compliance obligation period are:**
 - The last three years based upon the audit cycle as determined by the registered entity's function as either a Reliability Coordinator (RC), Balancing Authority (BA) or Transmission Operator (TOP)
 - Registration date(s) by function
 - Last audit date
 - 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.
 - Periods specified in the individual NERC Reliability Standards and ERO CMEP Implementation Plan
- **NERC Reliability Standards and Requirements are included in the audit scope based upon the risk of the registered entity.**

Spot Check Scope

- **Generally, the scope of a spot check is more focused than a compliance audit.**
- **The monitoring period for spot checks is defined in the spot check notification letter.**
- **A spot check scope is determined by:**
 - A review of entity risk
 - A standards applicability review initiated from an event, complaint, self-report, self-certification, or periodic data submittal

Preliminary Findings

- **If the registered entity fixes an issue during the audit or spot check, there will still be a preliminary finding.**
- **The engagement team presents Texas RE's management with preliminary findings to finalize categorizations.**
 - Preliminary findings may become
 - Potential noncompliance
 - Area of concern
 - Recommendation
 - No finding

At the End of the Audit/Spot Check

- **At the conclusion of the audit or spot check:**
 - If a preliminary finding is discovered, a summary briefing will be presented.
 - Entities are encouraged to begin mitigation activities for any preliminary findings.
 - Upon completion of further review by Texas RE staff, an exit briefing will then occur.
 - If there are no preliminary findings discovered, the exit briefing will occur immediately.
 - Copies of presentations will be provided to the registered entity.

Audit Feedback Survey

- **Texas RE asks registered entities to complete the NERC Compliance Audit Feedback Survey at the conclusion of each audit or spot check.**
 - Conducted online through Survey Monkey
 - <https://www.research.net/r/FX88M8W>
 - Responses are provided to NERC and the Texas RE Director of Compliance Assessments
- **Texas RE supplied a NERC Compliance Audit Feedback Survey Worksheet (MS Word) with the Audit Notification Package**
 - It is intended for internal use by the registered entity's staff to assist in coordinating the information needed to complete the survey

If There Are Potential Noncompliances

- **If potential noncompliances are found during an audit or spot check, the following will occur:**
 - The audit/spot check team notifies enforcement staff
 - The entity is sent a notice of possible violation (NPV)
 - NPVs are reported to NERC and FERC
 - The entity is sent an enforcement initiation letter
- **The entity can request settlement negotiation at any time during the process.**

Audit/Spot Check Draft Report

- **Draft audit/spot check report is prepared, generally, within 45 days.**
 - The audit/spot check team lead will draft the report based on input from team members.
 - Team members and Texas RE management will review the draft report.
 - The registered entity will have 10 days to review the report.
 - Texas RE staff will review registered entity comments and incorporate relevant changes.

Audit/Spot Check Final Report

- **Final audit reports without potential noncompliances will be prepared, generally, within 60 days.**
- **Final reports with potential noncompliances will not be issued until all due process has been completed.**
- **The final public audit report will be posted on the NERC website.**
 - Confidential and Critical Energy Infrastructure Information (CEII) will be redacted from the posted public report.

Expectations for NERC and FERC Observers

- **The observers, per the ROP, do not participate in conducting audits or in making engagement findings or determinations.**
- **Observers are expected to:**
 - Thoroughly understand their role as observers
 - Contact the engagement team lead with any questions or clarifications
 - Attend the engagement expectations briefing
 - Participate in the off-site discussions as time permits
 - Be available for status updates with entity (typically at 4 p.m. Central Time)
 - Be available for status updates without the entity as determined by the engagement team lead
 - Observe the on-site audit and provide feedback each day

Questions?

If a registered entity has general questions about the audit/spot check process, please contact:

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