

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Revisions 3-16-10

Appendix 4A

Audit of Regional Entity Compliance Programs

Effective ~~January 18, 2007~~[DATE]

Overview, Objective, and Scope

The NERC regional entity audit process for auditing regional entity compliance programs was established to assess how the regional entity's compliance programs implementation of the NERC Compliance Monitoring and Enforcement Program (CMEP) and determine their effectiveness whether the program, as implemented by the regional entity, effectively meets the requirements under the CMEP, the NERC Rules of Procedure (ROP), and the corresponding annual implementation plan. Each year, NERC establishes which standard requirements will be placed into the CMEP compliance enforcement program through its annual implementation plan. The regional entities are expected to measure compliance to these requirements and, if desired, additional requirements. The scope of the regional entity audits includes the CMEP, related sections of the ROP, the annual implementation plan as approved by NERC, and additional directives provided by NERC for implementing the CMEP and related ROP sections.

Scheduling

Each regional entity compliance program shall be audited at least once every three five years. The schedule for the regional entity compliance audit program audits is approved by NERC staff and the Compliance and Certification Committee.

Audit Team

- A member of NERC staff will be designated as the Audit Team Lead (ATL) for the regional entity audits. In this role, the ATL maintains oversight of the auditing process, coordinates and facilitates the audit process steps with the applicable ERO governmental authorities, the Compliance and Certification Committee (CCC), and the audited regional entity.
- NERC staff will conduct the audit, in whole or in part.
- NERC may use external, independent auditors to conduct the audit, in whole or in part.
- A representative from (i) the applicable ERO governmental authority, and (ii) the CCC, may participate as an observer.

In addition, compliance staff from other regional entities may participate as observers, with the mutual consent of NERC and of the compliance manager of the regional entity being audited. The audit team consists of at least one representative from each of the following:

- NERC staff,
- Compliance and Certification Committee (one of whom shall serve as team leader), and
- Regional entity compliance manager from another regional entity.

Audit team members shall not be from the regional entity being audited.

Planning or Pre-Audit

The NERC ATL shall send a Notification of Intent to Audit letter to the CEO of the regional entity to be audited at least sixty (60) days prior to the on-site audit. The letter will contain the

scope of the audit and key audit dates. Also, within the same sixty (60) day time period, the NERC ATL shall sent to the audited regional entity: (i) pre-audit questionnaire(s), and (ii) request(s) for information. The audited regional entity returns a complete questionnaire to NERC, along with the requested reports and other documentation, thirty (30) days prior to the on-site audit.

The regional entity may request a planning conference with NERC to review audit scope, logistics, and other pertinent coordination matters to effectuate an efficient audit process. In preparation for an audit, NERC staff develops a questionnaire that outlines the primary discussion areas to be covered during the on-site audit. The questionnaire includes a list of requested documents, some of which will be provided prior to the meeting and others to be provided and reviewed during the meeting. The questionnaire is sent to the regional entity being audited 60 calendar days in advance of the audit for completion.

Within 30 calendar days prior to the on-site audit, regional entity staff returns a completed questionnaire to NERC, along with the requested reports and documentation. NERC staff sends all of this to each of the team members 10 calendar days prior to the audit.

Audit team members make their own hotel and airline reservations for the audit. The on-site audit is typically scheduled for one and one-half calendar days.

On-Site Audit and Fieldwork

During the on-site audit, detailed questions related to the completed questionnaire(s) and requests for information are evaluated along with a random sampling of applicable evidence. The evidentiary review of documentation from the regional entity is used to determine whether the regional entity's program is effective and meeting the requirements described above. are discussed by all the participants. The team tours the facilities and meets with the regional entity staff involved in implementing the compliance enforcement program. To determine the effectiveness of the regional entity's program, NERC shall evaluate the controls, physical security goals, tools, staff training and internal procedures to meet the requirements of the of each regional entity's audit program scope compliance enforcement program. The audit team debriefs the regional entity staff at the end of the audit with initial findings and preliminary recommendations.

Preparation and Posting of the Audit Reporting

Upon completion of the on-site fieldwork, the audit team shall provide the regional entity with an exit briefing which shall include any preliminary findings and/or results from the examination. Within thirty (30) business days of the last day of on-site fieldwork, NERC shall provide the regional entity with a drafts a report which shall include a review of the scope, methodology, and evaluation of internal controls, documenting the findings and recommendations of the audit and submits it to the regional entity within 30 calendar days after the on-site audit. The regional entity is provided with a draft of the report to verify that it accurately reflects the discussions at the on-site audit.

The regional entity has thirty (30) business calendar days to respond to the draft audit analyze each recommendation and finding and report and may request a conference with NERC to

address any concerns with the draft report. Throughout this entire process, the information provided, discussions held, and the draft report will be kept confidential on those it has implemented or plans to implement. If there are recommendations that the regional entity does not plan to implement, its rationale for reaching that conclusion will be provided.

NERC will issue a final report to the regional entity ~~forty-five (45) business calendar~~ days after the receipt of the regional entity's comments to the draft report is issued. The audited regional entity is provided an opportunity to respond to the audit conclusions. If the regional entity disputes a finding or recommendation it shall refer to the NERC Rules of Procedure, Sections 409-411 within 15 days of receiving the final report from NERC.

Throughout this entire process, the information provided, discussions held, and the draft report will be kept confidential. The final report, along with the regional entity's response to the recommendations, are posted on the NERC Web site 15 days after NERC presents the final report to the NERC Board of Trustees Compliance Committee the final report is sent to the region or when due process is complete, whichever is greater.

If there are exceptions to the identified audit scope, the regional entity shall develop a corrective action plan to resolve the exceptions noted by the audit and provide quarterly updates to NERC on the status of the corrective actions until completed.