



MIDWEST
RELIABILITY
ORGANIZATION

Risk Based Oversight and Monitoring

The Continued Evolution of Compliance Oversight Plans

Jeff Norman, Director of Compliance Monitoring

July 27, 2021

CLARITY

ASSURANCE

RESULTS

Evolution of Risk Based Monitoring

Present Focus

- New COP Process
 - New IRA
 - COP
- Mutual understanding of risk
- Internal controls integrated into all interactions
- Inherent Risk

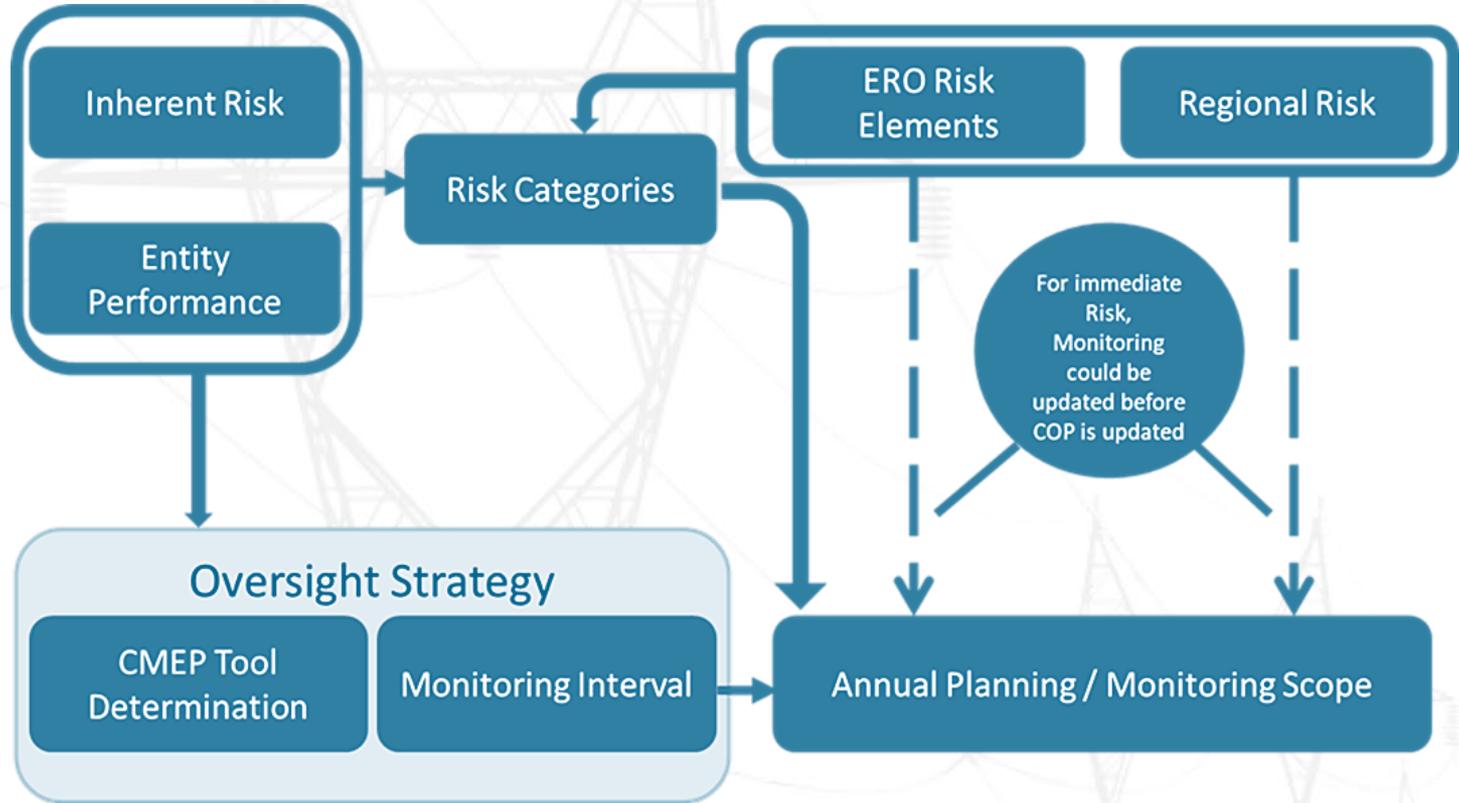


COP Philosophy

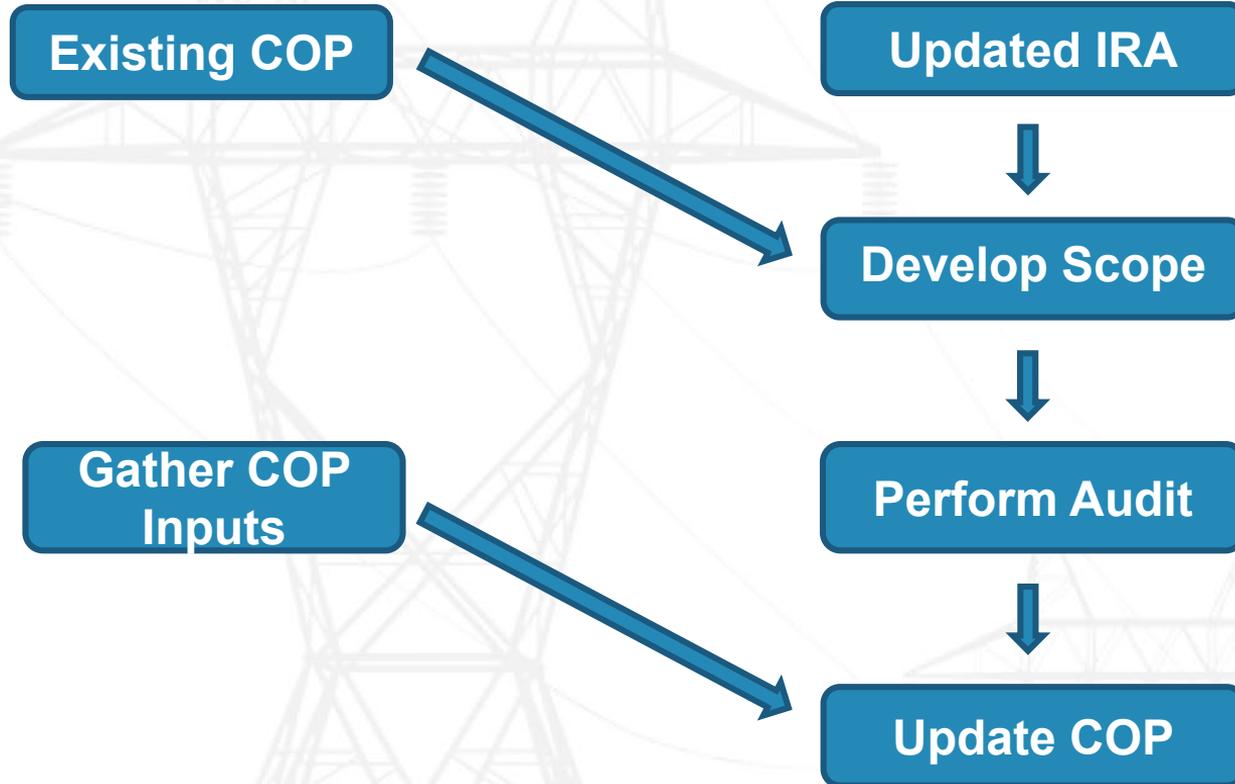
- COPs are how we assess, categorize, and prioritize registered entities
- Continuous cycle to inform planning and scheduling of compliance monitoring activities
- NERC Rules of Procedure require regions to have “Compliance Audit processes” that are based on professional auditing standards
- Risk assessment is a component of good planning in those standards and the COP supports that obligation



MRO COP Process



Timeline of a COP



Examples of Oversight Strategy

- **Hypothetical**
- **Evidence**
 - What MRO observed
- **Risks**
 - What the evidence could indicate
- **Language**
 - How MRO communicates the conclusion in the COP



Examples of Oversight Strategy

● Evidence:

- MRO staff is able to test compliance, but:
 - Do not have direct access to SMEs
 - Do not understand internal controls
 - Policies or procedures might be too high level, or
 - Do not have open discussions about risks and/or controls

● Risks:

- Entity may be focused on minimizing compliance risk instead of maximizing reliability and security

● Language:

- There is an opportunity for additional improvement to the “Culture of Compliance”
- Examples include....



Examples of Oversight Strategy

● Evidence:

- MRO staff see repeat issues of same requirements
- Issues are self identified

● Risks:

- Entity is able to self identify issues
- Entity may not have mature internal control program

● Language:

- ...this is indicative of strong detective controls that test compliance, but could provide some opportunities to improve corrective, preventive, or detective controls that test the adequacy of internal controls



Examples of Oversight Strategy

● Evidence:

- MRO staff see repeat issues of same Risk Category
- Issues are minimal risk and/or self-identified

● Risks:

- Entity is able to self identify issues
- Entity may not have mature internal control program

● Language:

- There is an opportunity for improvement of preventive and detective internal controls
- In addition, development of detective internal controls that test the design and implementation of existing internal controls to identify which controls are performing well and ones that are not would strengthen its internal compliance program



Inadequate Evidence

- **Evidence:**

- MRO does not have adequate documentation of evaluated internal controls and internal control programs

- **Risks:?? Add language or remove**

- **Language:**

- Continued transparency of internal controls with MRO would better inform the development of the organization's Compliance Oversight Plan



Key Takeaways

- **Unless stated by a requirement, internal controls are not required**
- **Internal controls are now part of all MRO activities**
- **Demonstrated positive performance considerations is a high bar to obtain**
- **COPs are living documents and help MRO document industries' continual improvement**

