

**NERC**

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

# Independent Evaluation of NERC's CMEP and ORCP ROP Requirements

October 18, 2016

**RELIABILITY | ACCOUNTABILITY**



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# Executive Summary

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Pursuant to Section 400, Paragraph 406 and Section 500, Paragraph 506 of the North American Electric Reliability Corporation (“NERC” or “The Company”) Rules of Procedures (ROP), NERC is required to conduct an independent evaluation of (i) its Compliance Monitoring and Enforcement Program (CMEP) and (ii) Organization Registration and Certification Program (ORCP) through its Compliance and Certification Committee (CCC). The independent evaluation of the ROP was conducted by independent expert auditors selected by the NERC Board of Trustees. Under the direction of Mechelle Thomas, NERC’s Director of Internal Audit and Corporate Risk Management, and with active participation from CCC Observers, NERC engaged an independent audit firm (“independent auditor”) to conduct a review of NERC’s CMEP and ORCP procedures, determine compliance with the ROP, and evaluate enhancements to the CMEP and ORCP processes subsequent to the last independent review in 2013. This report has been prepared by the independent auditor.

## Scope and Method

To satisfy the ROP requirement, the independent auditor conducted a review of NERC’s compliance with the CMEP and ORCP sections of the ROP to cover the three year period between 2013 and 2015. As part of the NERC independent evaluation of the CMEP and ORCP requirements, the independent auditor performed the following procedures between February 2016 and April 2016:

- Obtained relevant ROP “shall statements” from NERC staff and assessed the completeness of the population of “shall statements” and the statements’ relevance to the audit objectives;
- Met with key process owners and gained an understanding of the CMEP and ORCP policies, processes and procedures;
- Assessed whether NERC is performing its responsibilities as set forth in the ROP and whether the existing policies, processes or procedures support the requirements outlined in the NERC ROP with respect to CMEP and ORCP;
- Assessed whether remediation efforts related to the 2013 independent review are designed appropriately and operating as intended; and
- Identified areas of non-compliance and process improvement opportunities, as needed.

The scope of the ROP included in the review (the “in-scope sections”) was as follows:

- **Section 400:** Compliance Monitoring and Enforcement (including Appendix 4A, 4B, 4C, 4D)
- **Section 500:** Organization Registration and Certification (including Appendix 5A, 5B)
- **Section 1500:** Confidential Information (only to the extent in-scope Sections 400 and 500 refer to Section 1500 in order to satisfy ROP confidentiality requirements from those Sections)

To support compliance with the ROP, this report includes the independent auditor’s observations on areas where NERC generally conformed to the ROP, areas of non-compliance with the ROP, and specific process improvement opportunities. The criteria used to determine non-compliance was based on either the observation of specific evidence that NERC did not comply with the ROP requirements, or the lack of specific evidence to demonstrate that NERC clearly complied.

The independent auditor identified process improvement recommendations where evidence indicated that ROP requirements were achieved, but additional activities and internal controls could be implemented to enhance execution.

Between February 2016 and April 2016, the independent auditor met with NERC staff and performed detailed testing procedures on processes supporting the requirements of the in-scope Sections of the ROP, including related appendices. This report summarizes the meetings with key members of NERC staff and testing procedures performed by the independent auditor, as well as the independent auditor’s assessment of the areas

of general compliance, areas of non-compliance, and areas of process improvement within the in-scope sections of the ROP. Appendix A provides the listing of NERC staff interviewed during the independent evaluation and corresponding processes reviewed within the in-scope sections of the ROP.

This report includes the following sections:

- Summary descriptions of procedures performed to arrive at the conclusions and recommendations provided;
- Testing strategy, procedures and related results; and
- Recommended changes to the policies, processes, or procedures that could be improved.

The independent auditor's services were performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. The independent auditor's work was limited to the specific procedures and analysis described herein and was based only on the information made available through May 1, 2016. Accordingly, changes in circumstances after this date could affect the findings outlined in this report. The sections below detail the areas observed during the review where NERC generally conforms to the ROP, as well as relevant observations and recommendations to further improve CMEP and ORCP activities supporting the ROP.

## General Compliance with the ROP

As a result of the interviews and testing procedures performed within the in-scope sections of the ROP (including related appendices), the independent auditor identified many areas where NERC generally conformed to the ROP and showed improvement from the 2013 independent evaluation. The key themes of general compliance with the ROP were as follows:

- Continued maturity of technologies since 2013 to enhance business process activities;
- Expanding resources and associated skills in the areas of Compliance Assurance, Enforcement, and training;
- Enhancement of ORCP processes with implementation of a "Common Registration Form" for registered entities;
- Enhanced participation in, and oversight of, Regional Entity (RE) ORCP activities; and
- Increased internal control over public disclosure processes.

Observations from the 2013 evaluation have generally been addressed. In addition to addressing these observations, the areas of general compliance with the ROP indicate NERC's proactive approach to continue to enhance CMEP and ORCP processes. Refer to Appendix D of this report for additional support on evidence reviewed by the independent auditor to identify areas of general compliance with the ROP.

## Observations

In addition to identifying areas where NERC generally conformed, the independent auditor noted specific observations of non-compliance with the ROP as well as areas for process improvement opportunities. For each observation, the corresponding recommendations include specific and actionable activities that NERC could implement to enhance overall compliance with the CMEP and ORCP sections 400 and 500, respectively. While NERC has demonstrated a commitment to further improve its activities supporting the ROP, NERC also has opportunities to enhance several of its key processes and further tailor its oversight of the REs. Key observation themes on areas of non-compliance and process improvement include:

### Non-Compliance

1. Appendix 4A of the NERC ROP requires audits of RE Compliance Programs to assess the RE's implementation of the NERC CMEP and determine whether the program, as implemented by the RE,

effectively meets the requirements under the CMEP, the ROP, and the corresponding annual CMEP Program Implementation Plan.

During the scope period, NERC did not perform audits in accordance with all of the requirements of Appendix 4A. However, NERC applied an oversight program that included compliance monitoring oversight activities and enforcement process reviews of the REs as part of NERC's focus on implementing a risk-based auditing program associated with the NERC Reliability Assurance Initiative (RAI). The RAI was completed in 2014 and RE risk-based audits of registered entities were implemented in 2015.

Please see "Appendix 4A Audits" in "CMEP and ORCP ROP Detailed Observations" on page 6 for more information.

2. In accordance with Section 1500 of the ROP, confidential information (i.e., non-public information) should be maintained confidentially and not disclosed publicly. In addition, NERC's internal policy requires redaction of registered entity names associated with Critical Infrastructure Protection (CIP) information.

During the audit scope period, there was one instance where information designated as non-public per the ROP was disclosed publicly, in violation of Section 1500 of the ROP. There was also an instance where NERC publicly disclosed registered entity names associated with CIP information, which is contrary to NERC internal policies but not the ROP. The two instances of public disclosure are listed below:

- (1) July 2013 by NERC's Compliance Assurance Function (violation of ROP)
- (2) August 2013 by NERC's Enforcement Function (violation of NERC policy)

Please see "Confidentiality" in "CMEP and ORCP ROP Detailed Observations" on page 3 for more information.

### **Process Improvement Opportunities**

1. Enhance public posting processes to ensure confidentiality is maintained per the ROP and NERC policy;
2. Enhance data management in the Compliance Reporting and Tracking System (CRATS) to ensure the completeness of data;
3. Increase process owner awareness with ROP mandates and evidence of compliance;
4. Enhance program materials;
5. Enhance training oversight; and
6. Enhance the approval process for Technical Feasibility Exceptions (TFEs)

Please see "CMEP and ORCP ROP Detailed Observations" for more information.

## Observation Themes and Associated ROP Sections

The heat map below summarizes the specific CMEP and ORCP sections of the ROP where the independent auditor has identified areas of non-compliance or process improvement. Please refer to “CMEP and ORCP Detailed Observations” for specifics on the observations of non-compliance and process improvement along with corresponding recommendations.

		2013 to 2015 NERC Observation Themes and Associated ROP Sections						
Key Themes	All	CMEP				ORCP		
		402	Appendix 4A	Appendix 4C	Appendix 4D	501	502	505
Confidentiality								
Appendix 4A Audits <sup>1</sup>								
Data Management <sup>2</sup>								
ROP General Compliance								
Program Materials								
Training Oversight <sup>2</sup>								
TFE								

	Area of non-compliance
	Process improvement opportunities

To evaluate compliance with the CMEP and ORCP requirements, the following criteria were used to determine whether an observation was an area of non-compliance with the ROP or an area of process improvement.

**Non-Compliance:** Non-compliance was based on either the observation of specific evidence that did not comply with the ROP or the lack of specific evidence to demonstrate that NERC clearly complied with ROP requirements.

**Process Improvement Opportunities:** Process improvement opportunities were identified where evidence indicated that the ROP requirements were achieved; however, the efficiency or effectiveness of the process could be improved.

<sup>1</sup> One instance of non-compliance ties to both §402 and Appendix 4A. See “Appendix 4A Audits” in “CMEP and ORCP Detailed Observations” below.

<sup>2</sup> Two process improvement recommendations tie to more than one section. See “Data Management” and “Training” in “CMEP and ORCP Detailed Observations” below.



# General Compliance with the ROP

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To evaluate the CMEP and ORCP processes in place between 2013 and 2015, the independent auditor met with 15 individuals on NERC's staff between February 2016 and April 2016 and collected supporting evidence across the three year review period. Please refer to Appendix A for the list of NERC staff interviewed during this review and to Appendix B for the evidence collected during the review. During walkthroughs and testing, a number of areas were observed where NERC generally complies with the CMEP and ORCP ROP requirements. Furthermore, it was noted that the two items of non-compliance with the ROP from the 2013 independent review were remediated by NERC and many of the recommendations for improvement have also been addressed.

Throughout the review, NERC staff was accommodating and responsive to the requests of the independent auditor. NERC worked diligently to provide supplemental information requested by the independent auditor and answered questions in a timely manner.

## CMEP Areas of General Compliance with the ROP

Based on the procedures performed within the scope of CMEP processes, and the results of those procedures, the independent auditor identified the following areas where NERC generally conforms to the CMEP requirements in the ROP.

1. NERC has continued to focus on its compliance resources by better aligning individuals with engineering and auditing backgrounds to compliance needs in order to improve monitoring quality and streamline audit procedures. Additionally, NERC has demonstrated a consistent focus on improving activities and frequently interacting with Bulk Power System (BPS) stakeholders.
2. NERC dedicates significant effort to review RE enforcement actions, including settlement agreements and mitigation plans. Through independent review of the enforcement documents, the independent auditor noted that NERC provides feedback and comments to the REs during each level of NERC review.
3. To create a culture of compliance, NERC dedicates significant effort to encourage self-reporting through program design, implementation, and monitoring.
4. NERC dedicates significant effort to maintaining the RE's and registered entities' confidentiality. In an abundance of caution, NERC will sometimes exceed the requirements of the ROP to maintain confidentiality. The independent auditors observed that NERC takes the concept of confidentiality very seriously.

## ORCP Areas of General Compliance with the ROP

Based on the procedures performed within the scope of ORCP processes, and the results of those procedures, the independent auditor identified the following areas where NERC generally conforms to the ORCP requirements in the ROP. Furthermore, it was noted that key findings from the 2013 independent review have been addressed and remediated by NERC.

1. Through review of registration forms for entities registered during the three-year review period (2013 – 2015), the independent auditor noted that forms were properly completed for the entities reviewed. Additionally, the independent auditor reviewed evidence of certification forms for the functions requiring certification per the ROP (i.e., Balancing Authorities ("BAs"), Transmission Operators ("TOPs"), and Reliability Coordinators ("RCs")). Per review of the forms and additional supporting evidence, the independent auditor noted that the registered entities were properly notified that they had been registered/certified for the appropriate function.



2. Through review of ORCP processes and entity registration documents, the independent auditor noted that NERC has enhanced ORCP processes with implementation of a “Common Registration Form” for registration.
3. NERC’s ORCP group initiated annual oversight visits of the REs in 2014. Oversight visits in 2015 included an increasing level of inquiry and examination of RE ORCP processes, with a focus on process design. Currently, the 2016 visits are scheduled using a risk-based approach and will test the effectiveness of ORCP processes.

In addition to these activities where NERC generally conforms to the ROP, NERC implemented a risk-based approach to compliance monitoring in order to enhance the effectiveness and efficiency of audit activities. In addition to better aligning NERC’s monitoring procedures with leading industry audit practices, the goals and objectives of risk-based compliance monitoring may also assist with addressing several of the areas observed in the sections below.

# CMEP and ORCP Detailed Observations

This section of the report includes the independent auditor’s observations and recommendations resulting from testing procedures and results. A summary description of test procedures and results is detailed in Appendix D. Detailed recommendations are designed with specific and actionable activities to enhance overall compliance with in-scope sections of the ROP.

## Confidentiality

### Compliance

In accordance with Section 1500 of the NERC ROP, confidential information (i.e., non-public information) should be maintained confidentially and not disclosed publicly. NERC internal policy requires redaction of registered entity names from Critical Infrastructure Protection (CIP) Information.

Non-Compliance		
NERC ROP §:	Appendix 4C, ¶ 3.1.6 (p. 8)	
Observation	Recommendation	NERC Response
<p>During the audit scope period, there was one instance where non-public information was disclosed publicly, in violation of §1500 of the NERC ROP, and one instance where NERC publicly disclosed registered entity names associated with CIP information, which is contrary to NERC internal policies but not the ROP. The two instances of public disclosure are as follows:</p> <ul style="list-style-type: none"> <li>(1) July 2013, Compliance (violation of the ROP)</li> <li>(2) Aug 2013, Enforcement (violation of NERC policy)</li> </ul> <p>At the time of the inadvertent public disclosures of non-public information, a control environment existed where one individual had the sole authority to publish information publicly.</p> <p>After the incidents of inadvertent disclosure, NERC's tactical response included, but was not limited to, (a) temporarily ceasing the public posting of information to NERC.com, (b) performing a review of all documents posted publicly on NERC.com, and (c)</p>	<p>The independent auditor notes that after the incidents in 2013, the risk that resulted in inadvertent public disclosure of non-public information was mitigated by NERC's process enhancement implementing dual control over public postings to NERC.com.</p> <p>No additional recommendation for remediation. The two observations below contain process improvement recommendations related to safeguarding confidential information.</p>	<p>Management agrees that these instances have been mitigated and that no additional remediation activities are necessary.</p>

<p>providing training NERC-wide in 2013 and 2014. NERC also notified the NERC Board of Trustees, FERC, and the affected registered entities.</p> <p>NERC's strategic response included, but was not limited to, (a) performing an internal audit of the affected area, (b) engaging an independent internal audit firm to conduct an on-site review of NERC's processes that are designed to maintain the confidentiality of information, and (c) enhancing the control environment by enhancing internal policies and establishing segregation of duties to upload and publish (approve) content prior to posting to NERC's public website.</p>		
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### Process Improvements

Related to the determination of non-compliance resulting from two instances of inadvertent public disclosure of confidential (“non-public”) information (see “CMEP and ORCP Detailed Observations” for “Appendix 4C”), the independent auditor identified two process improvement recommendations:

In accordance with Section 1500 of the NERC ROP, confidential information (i.e., non-public information) should be maintained confidentially and not disclosed publicly. To ensure confidential information is not disclosed publicly by posting to NERC.com, NERC employees should be aware of and understand the policy on confidential information, and the posting of information to NERC.com should be guided by detailed, department-level procedures for every NERC department that posts information publicly.

Process Improvement		
NERC ROP §:	All in-scope sections of the ROP	
Observation	Recommendation	NERC Response
<p>NERC ROP §1500 provides governing policy for confidential information, including a specific prohibition of public disclosure of confidential information, but does not provide specific, department-level functional procedures for the public posting of information.</p> <p>In order to comply with §1500 of the NERC ROP, NERC employees are required to acknowledge the NERC Confidentiality Policy upon</p>	<p>The independent auditor recommends NERC enhance its Confidentiality Policy to address the public posting of information, and include roles, responsibilities, and procedures in the event of inadvertent public disclosure of non-public information.</p> <p>The independent auditor also recommends NERC review and enhance or implement</p>	<p>NERC will review and enhance departmental procedures to further address responsibilities and procedures (including public posting) in the event of inadvertent public disclosure of non-public information.</p> <p><b>Targeted Completion Date:</b> Q4 2017</p> <p><b>Responsible Party</b> Directors of Compliance Assurance and</p>

<p>employment and also annually. The Confidentiality Policy does not address the event of inadvertent public disclosure of non-public information.</p> <p>There is a risk that NERC employees are unaware of how to respond in the event of inadvertent public disclosure of non-public information because the NERC Confidentiality Policy does not address these events in detail and there are not specific, department-level functional procedures for the public posting of information for all departments. This could result in an instance of inadvertent public disclosure of non-public information not being identified, corrected, and communicated to stakeholders timely.</p>	<p>department-level procedures for all departments that publicly post information to NERC.com. The procedures should (a) include roles and responsibilities for event identification, correction, and communication, (b) document a step-by-step process to publicly post information to NERC.com, and (c) refer to NERC’s Confidentiality Policy.</p> <p>In addition, the independent auditor recommends NERC establish an education and training program so all employees are timely informed of the procedures and its contents.</p>	<p>Enforcement and Internal Audit.</p>
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## Appendix 4A Audits

### Compliance

Appendix 4A of the NERC ROP requires audits of RE Compliance Programs to assess the RE’s implementation of the NERC Compliance Monitoring and Enforcement Program (CMEP) and determine whether the program, as implemented by the RE, effectively meets the requirements under the CMEP, the ROP, and the corresponding annual CMEP Implementation Plan.

Non-Compliance		
NERC ROP §:	<p><b>402.1.3: Regional Entity Compliance Monitoring and Enforcement Program Audit</b> (p. 26)</p> <p><b>Appendix 4A</b></p>	
Observation	Recommendation	NERC Response
<p>During the scope period, NERC did not perform audits of the REs in accordance with all of the requirements of Appendix 4A. However, NERC applied an oversight program that included compliance monitoring oversight activities and enforcement process reviews of the REs as part of NERC’s focus on implementing a risk-based auditing program, which was completed in 2014 and</p>	<p>The independent auditor recommends NERC begin conducting audits in accordance with Appendix 4A of the NERC ROP.</p>	<p>During the audit period, NERC conducted a continuous program that included compliance monitoring oversight activities and enforcement process reviews of the Regional Entities. These continuous oversight efforts were consistent with the intent of Appendix 4A of the ROP. NERC is refining its</p>

<p>implemented thereafter.</p> <p>Because NERC did not perform audits in accordance with all of the requirements of Appendix 4A, there is a risk that RE compliance programs did not effectively meet the requirements under the NERC CMEP, the NERC ROP, and CMEP Implementation Plan.</p>		<p>program to ensure a clear alignment of the program with the requirements of ROP Appendix 4A.</p> <p><b>Targeted Completion Date:</b> Q3, 2018</p> <p><b>Responsible Party:</b> Director of the Internal Audit and Corporate Risk Management Department</p>
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### Process Improvements

The independent auditor noted no significant related opportunities for process improvement.

## Data Management

### Compliance

The independent auditor noted no related instances of non-compliance.

### Process Improvements

Data transmitted to NERC's CRATS system from RE systems should be accurate and complete.

Process Improvement		
<p><b>NERC ROP §:</b></p>	<p><b>402.3: Information Collection and Reporting</b> (p. 27)</p> <p><b>502.2.1</b> (p. 48)</p>	
Observation	Recommendation	NERC Response
<p>NERC IT receives data into its CRATS system from the REs' systems through an automated sync process. Automated business rules exist in RE systems to ensure the data entered to RE systems meets certain predefined criteria. Data that does not meet the business rules is rejected by the CRATS business rule engine and is not included in the CRATS database. When data is rejected in this way, an error is generated in the RE system that must be resolved by the RE before the sync process will send the data to NERC's CRATS system. NERC IT does not monitor the RE's error resolution activities to ensure data errors are resolved timely.</p> <p>Although NERC CMEP staff</p>	<p>The independent auditor recommends NERC IT develop and implement procedures to (a) monitor RE business rules error resolution to ensure timely resolution by the RE, and (b) monitor RE transmission (sync) of data to NERC's CRATS system, through an automated, systematic control or through a periodic procedure to validate the accuracy and completeness of transmitted data.</p>	<p>NERC IT will assess the recommendation to create an automated, systematic control or procedure to further validate the completeness of the transmitted data.</p> <p>NERC IT, along with other NERC staff and the REs, is also working on plans to implement a new CMEP solution and will consider the recommendations as part of the new solution.</p> <p><b>Targeted Completion Date:</b> Q4, 2017</p> <p><b>Responsible Party:</b> Director of the Information Technology Department</p>

<p>perform some manual validation of the RE data after the automated synchronization process moves data from RE systems into CRATS, NERC IT does not monitor the automated process to synchronization data from REs to ensure the completeness of the data received into CRATS from RE systems.</p> <p>Without monitoring (a) RE data error resolution and (b) the automated data synchronizing process, there is a risk that (a) data that does not pass the business rules may not be synchronized to NERC timely, (b) data synced to NERC's CRATS system may be incomplete, which could result in incomplete data in NERC's system. Incomplete data may result in the failure of NERC to perform duties as required by NERC's ROP.</p>		
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## ROP General Compliance

### Compliance

The independent auditor noted no related instances of non-compliance.

### Process Improvements

To ensure NERC's compliance with the ROP, process owners should be aware of relevant ROP requirements (i.e., the "shall statements"), and be able to clearly link their processes (and relevant documentation) to relevant shall statements in the ROP.

Process Improvement		
NERC ROP §:	All in-scope sections of the ROP	
Observation	Recommendation	NERC Response
<p>For relevant requirements in the ROP, the independent auditor observed that process owners had varying degrees of awareness of those relevant requirements, and varying degrees of ability to clearly link processes and evidence to relevant shall statements in the ROP.</p>	<p>The independent auditor recommends NERC review the ROP and tie requirements (i.e., "shall statements") to specific process owners in order to enhance awareness among process owners of (a) their duties under the NERC ROP, and (b) what evidence</p>	<p>As recommended, NERC will review departmental policy and procedure documents, to better identify relevant ROP provisions and thereby enhance process owner awareness of duties and evidence relevant for ROP implementation.</p>

<p>There is a risk that requirements in the NERC ROP are not fulfilled or evidenced, if related process owners are not aware of the requirements, and what evidence supports their compliance.</p> <p>In addition, if process owners cannot clearly link processes and evidence to relevant shall statements in the ROP, in the event a process supporting compliance with the ROP does not operate effectively, there is a risk that process owners may not identify, mitigate, and report non-compliance with the ROP timely.</p>	<p>supports the process' compliance with the ROP. To further enhance evidence of compliance with the ROP, process owners should clearly identify ROP requirements within departmental policy and procedure documents.</p>	<p><b>Targeted Completion Date:</b> Q4 2017</p> <p><b>Responsible Party:</b> Directors of Compliance Assurance, Enforcement, and Reliability Assurance</p>
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NERC should have a defined response policy in the event of NERC's non-compliance with the Rules of Procedure (ROP).

Process Improvement		
NERC ROP §:	All in-scope sections of the ROP	
Observation	Recommendation	NERC Response
<p>The ROP and/or other procedural documentation do not clearly state what activities should occur if a NERC employee is aware of an instance of NERC's non-compliance with the ROP.</p> <p>There is a risk that NERC's non-compliance with the ROP is not disclosed timely because the ROP and/or other procedural documentation do not clearly state what actions should be taken if NERC becomes aware of its own non-compliance.</p>	<p>The independent auditor recommends NERC create a policy and/or procedure that explicitly states what NERC's roles, responsibilities, and duties in the event a NERC employee becomes aware of NERC's own non-compliance with the ROP.</p>	<p>NERC's Employee Handbook already includes a section on "Procedures to Report Complaints Regarding Violations of Labor and Employment Laws, Company Policies, NERC's Code of Conduct, Fraud, or Improper Accounting or Financial Reporting." Moreover, Appendix A of the Handbook clearly incorporates by reference Section 1500 of the ROP.</p> <p>NERC will update its Employee Handbook to more explicitly reflect NERC's roles, responsibilities, and duties in the event NERC becomes aware of NERC's non-compliance with the ROP.</p> <p><b>Targeted Completion Date:</b> Q4, 2017</p>



		<b>Responsible Party:</b> Director of Human Resources
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## Program Materials

### Compliance

The independent auditor noted no related instances of non-compliance.

### Process Improvements

In accordance with the NERC ROP, NERC shall develop and maintain a plan to ensure the continuity of Organization Registration and Organization Certification within the geographic or electrical boundaries of a RE in the event that no entity is functioning as a RE for that Region, or the RE withdraws as a RE, or does not operate its Organization Registration and Organization Certification Programs in accordance with delegation agreements.

Process Improvement		
NERC ROP §:	501.3.2 (p. 47)	
Observation	Recommendation	NERC Response
<p>Currently the ORCP Continuity Plan does not specifically identify the following events as triggers for the execution of the Plan:</p> <ul style="list-style-type: none"> <li>(a) No RE is functioning as a RE for a Region.</li> <li>(b) The RE withdraws as a RE.</li> <li>(c) The RE does not operate its Organization Registration and Organization Certification Programs in accordance with delegation agreements.</li> </ul>	<p>The independent auditor recommends enhancing the ORCP Continuity Plan to explicitly state the above triggers.</p>	<p>NERC will revise the ORCP Continuity Plan to incorporate the recommendations to explicitly incorporate the triggers (a) through (c).</p> <p><b>Targeted Completion Date:</b> Q2 2017</p> <p><b>Responsible Party:</b> Director of Reliability Assurance</p>

In accordance with Section 505 of the NERC ROP, NERC shall maintain program materials of the Organization Registration and Organization Certification Programs. Program procedures should meet leading industry practices by explicitly including roles, responsibilities, and clear procedural guidance.

Process Improvement		
NERC ROP §:	505 (p. 51)	
Observation	Recommendation	NERC Response
<p>Registration process documentation does not appear to conform to leading industry practice by explicitly including roles, responsibilities, and clear procedural guidance.</p> <p>Specific examples:</p> <ul style="list-style-type: none"> <li>&gt; Registration procedure does not explicitly detail roles and responsibilities.</li> <li>&gt; Registration procedure does not provide a step-by-step process for the Registration process.</li> </ul> <p>There is a risk that Registration’s roles, responsibilities, and procedures are not clearly communicated or understood by Registration participants and applicants.</p>	<p>The independent auditor recommends enhancing Registration process documentation to include explicitly stated roles, responsibilities, and clear procedural guidance.</p>	<p>NERC Registration will review the registration process documentation and address the specific examples listed in the Observation column.</p> <p><b>Targeted Completion Date:</b> Q2 2017</p> <p><b>Responsible Party:</b> Director of Reliability Assurance</p>

## Training Oversight

### Compliance

The independent auditor noted no related instances of non-compliance.

### Process Improvements

In accordance with the NERC ROP, NERC shall develop and provide training in auditing skills to all participants in NERC and RE Compliance Audits, and participants in Certification evaluations. NERC CMEP Oversight Plans specify required training for key positions.

Process Improvement		
NERC ROP §:	402.9: Auditor Training (p. 29) 502.2.2.7 (p. 49)	
Observation	Recommendation	NERC Response
<p>NERC does not oversee RE training activity to ensure that RE personnel are receiving</p>	<p>The independent auditor recommends NERC enhance RE training oversight activities</p>	<p>NERC’s Learning Management System tracks and maintains Regional Entity</p>

<p>ROP-required training in a timely manner.</p> <p>A process improvement observation noted during the 2012 independent review recommended NERC use available training technology to enhance monitoring the satisfactory completion of training requirements by compliance auditors. To address this issue, NERC implemented a Learning Management System (LMS), but NERC has not yet implemented procedures to monitor the satisfactory completion of compliance auditor training requirements.</p> <p>Without active oversight of RE training activity, NERC cannot be confident that all Compliance Audit and Certification participants have the ROP-required training.</p>	<p>regarding Compliance Audits and Certification to ensure RE personnel are receiving the ROP-required training.</p>	<p>employee training records. NERC will review the auditor and certification team training for the year 2016 and consider the results of this review and other inputs to assess the need for additional risk-based oversight.</p> <p><b>Targeted Completion Date:</b> Q3 2017</p> <p><b>Responsible Party:</b> Directors of Compliance Assurance and Reliability Assurance</p>
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## Technical Feasibility Exceptions (TFEs)

### Compliance

The independent auditor noted no related instances of non-compliance.

### Process Improvements

To maintain independence, RE Compliance auditors should not audit their own work.

Process Improvement		
NERC ROP §:	Appendix 4D 11.1 (p. 15)	
Observation	Recommendation	NERC Response
<p>RE Compliance auditors are charged with auditing registered entity compliance with NERC Reliability Standards. If an asset of a registered entity cannot meet a requirement of the Reliability Standards, the registered entity may apply for a Technical Feasibility Exception (TFE) to exempt the asset from the</p>	<p>The independent auditor recommends enhancing the TFE approval process to avoid the potential for a RE Compliance auditor to audit his/her own TFE work.</p>	<p>NERC will review its TFE review process to clarify the roles and responsibilities of NERC staff and RE auditors to address the potential appearance of conflict of interest. actions for the RE auditors and the committee to avoid possible misperceptions of a potential risk for an RE Compliance auditor to audit</p>

<p>specific requirement in accordance with the TFE. Currently, certain RE compliance auditors are charged with reviewing and approving TFE requests.</p> <p>Because RE compliance auditors both grant TFEs from the NERC Reliability Standards and audit registered entities compliance with the NERC Reliability Standards, the RE compliance auditor may be placed in a position where the auditor is auditing his/her own work.</p> <p>There is a risk that RE compliance auditor independence is impaired because the auditor may review his/her own work.</p>		<p>his/her own work. NERC will also determine whether a NERC Rules of Procedure change may be needed.</p> <p><b>Targeted Completion Date:</b> Q4 2017</p> <p><b>Responsible Party:</b> Director of Compliance Assurance</p>
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In accordance with the ROP, NERC and the REs should form a committee comprised of NERC and RE representatives involved in the review of TFE Requests or Material Change Reports and other Critical Infrastructure program activities.

Process Improvement		
NERC ROP §:	Appendix 4D 11.2.3 (p. 15)	
Observation	Recommendation	NERC Response
<p>NERC has established a committee to review TFE Requests or Material Change Reports and other Critical Infrastructure program activities, but the committee does not have a governing charter, and no minutes are maintained of committee meetings.</p> <p>There is a risk that the committee does not fulfill its duties as specified in the ROP because the structure around the committee is not formalized and documented.</p>	<p>The independent auditor recommends formalizing the committee by creating and approving a charter for it that meets the terms of the ROP. The charter should include but not be limited to, (a) participants, (b) meeting schedule/frequency, (c) committee responsibilities under the ROP, and (d) a requirement to maintain meeting minutes to evidence committee activity.</p>	<p>NERC will pursue enhancements, whether through a charter or other process document, to better formalize the TFE committee’s activities and address (a) participants, (b) meeting schedule/frequency, (c) committee responsibilities under the ROP, and (d) a requirement to maintain meeting minutes to evidence committee activity.</p> <p><b>Targeted Completion Date:</b> Q4 2017</p> <p><b>Responsible Party</b> Director of Compliance Assurance</p>

## Appendix A: NERC Staff Interviewed

Between February 2015 and April 2015, the independent auditor met with 15 individuals on NERC staff supporting the CMEP and ORCP processes. Please refer to the chart below for the staff interviewed as well as the date of each meeting.

NERC Staff – CMEP			
Process	NERC Staff	Title	Interview Date(s)
Compliance Assurance – Oversight of Regional Compliance Processes	Valerie Agnew	Senior Director, Compliance Assurance	3/2/2016
	Adina Kruppa	Compliance Assurance Manager	3/2/2016
	Marisa Hecht	Senior Advisor, Compliance Assurance	3/2/2016
	Fahad Ansari	Compliance Auditor	3/2/2016
	Tom Hofstetter	Senior CIP Compliance Auditor	3/2/2016
Compliance Assurance – CMEP IP Related Processes	Valerie Agnew	Senior Director, Compliance Assurance	3/3/2016
	Adina Kruppa	Compliance Assurance Manager	3/3/2016
	Marisa Hecht	Senior Advisor, Compliance Assurance	3/3/2016
	Jim Armstrong	Audit Manager, Compliance Assurance	3/3/2016
	Tom Hofstetter	Senior CIP Compliance Auditor	3/3/2016
	Fahad Ansari	Compliance Auditor	3/3/2016
	Craig Struck	Senior Compliance Auditor	3/3/2016
Compliance Assurance – Regional and Registered Entity Training, Outreach, and Communications	Valerie Agnew	Senior Director, Compliance Assurance	3/3/2016
	Adina Kruppa	Compliance Assurance Manager	3/3/2016
	Marisa Hecht	Senior Advisor, Compliance Assurance	3/3/2016
	Jim Armstrong	Audit Manager, Compliance Assurance	3/3/2016
	Tom Hofstetter	Senior CIP Compliance Auditor	3/3/2016
Complaints, Inquiries, and Investigations	Valerie Agnew	Senior Director, Compliance Assurance	3/3/2016
	Jim Stuart	Associate Director, Reliability Assurance	3/3/2016
Compliance Assurance – Handling of Confidential	Valerie Agnew	Senior Director, Compliance Assurance	3/3/2016

NERC Staff – CMEP			
Process	NERC Staff	Title	Interview Date(s)
Information and Posting of Regional Reports	Adina Kruppa	Compliance Assurance Manager	3/3/2016
	Marisa Hecht	Senior Advisor, Compliance Assurance	3/3/2016
	Jim Armstrong	Audit Manager, Compliance Assurance	3/3/2016
	Tom Hofstetter	Senior CIP Compliance Auditor	3/3/2016
Processing of Violations of Reliability Standards – Notice of Penalty (NoP), Spreadsheet NoP, Find Fix Track (FFT), and Compliance Exceptions	Sonia Mendonca	Vice President of Enforcement and Deputy General Counsel	3/8/2016
	Ed Kichline	Senior Counsel and Associate Director, Enforcement	3/8/2016
	Teri Stasko	Senior Counsel and Manager of Enforcement Actions	3/8/2016
	Farzaneh Tafreshi	Manager of Analysis	3/8/216
NERC, Region, and FERC Roles in Processing Violations of Reliability Standards	Sonia Mendonca	Vice President of Enforcement and Deputy General Counsel	3/8/2016
	Ed Kichline	Senior Counsel and Associate Director, Enforcement	3/8/2016
	Teri Stasko	Senior Counsel and Manager of Enforcement Actions	3/8/2016
	Aaron Hornick	Compliance Enforcement Analyst	3/8/2016
Oversight of Regional Enforcement Processes	Sonia Mendonca	Vice President of Enforcement and Deputy General Counsel	3/8/2016
	Ed Kichline	Senior Counsel and Associate Director, Enforcement	3/8/2016
	Teri Stasko	Senior Counsel and Manager of Enforcement Actions	3/8/2016
	Simran Ahuja	Compliance Enforcement Advisor	3/8/2016
Settlements, Mitigation Plans, Appeals	Sonia Mendonca	Vice President of Enforcement and Deputy General Counsel	3/8/2016

NERC Staff – CMEP			
Process	NERC Staff	Title	Interview Date(s)
	Ed Kichline	Senior Counsel and Associate Director, Enforcement	3/8/2016
	Teri Stasko	Senior Counsel and Manager of Enforcement Actions	3/8/2016
	Simran Ahuja	Compliance Enforcement Advisor	3/8/2016
Regional and Registered Entity Training, Outreach, and Communications	Sonia Mendonca	Vice President of Enforcement and Deputy General Counsel	3/8/2016
	Ed Kichline	Senior Counsel and Associate Directors, Enforcement	3/8/2016
	Teri Stasko	Senior Counsel and Manager of Enforcement Actions	3/8/2016
Handling of Confidential Information and Maintenance of Records	Sonia Mendonca	Vice President of Enforcement and Deputy General Counsel	3/8/2016
	Ed Kichline	Senior Counsel and Associate Director, Enforcement	3/8/2016
	Teri Stasko	Senior Counsel and Manager of Enforcement Actions	3/8/2016
	Simran Ahuja	Compliance Enforcement Advisor	3/8/2016
Public Posting of Violations and Other Enforcement Information	Sonia Mendonca	Vice President of Enforcement and Deputy General Counsel	3/8/2016
	Ed Kichline	Senior Counsel and Associate Director, Enforcement	3/8/2016
	Teri Stasko	Senior Counsel and Manager of Enforcement Actions	3/8/2016
NERC Review of Penalties and Submission of Potential Non-Compliance to FERC	Sonia Mendonca	Vice President of Enforcement and Deputy General Counsel	3/8/2016
	Ed Kichline	Senior Counsel and Associate Director, Enforcement	3/8/2016
	Teri Stasko	Senior Counsel and	3/8/2016



Appendix A: NERC Staff Interviewed

NERC Staff – CMEP			
Process	NERC Staff	Title	Interview Date(s)
		Manager of Enforcement Actions	
	Sara Minges	Compliance Enforcement Advisor	3/8/2016
	Aaron Hornick	Compliance Enforcement Analyst	3/8/2016

NERC Staff – ORCP			
Process	NERC Staff	Title	Interview Date(s)
Overseeing Registration of Entities for Bulk Power System Functions	Valerie Agnew	Senior Director, Compliance Assurance	3/2/2016
	Terry Brinker	Manager, Registration	3/2/2016
	Adina Kruppa	Compliance Assurance Manager	3/2/2016
	Marisa Hecht	Senior Advisor, Compliance Assurance	3/2/2016
	Jim Armstrong	Audit Manager, Compliance Assurance	3/2/2016
	Tom Hofstetter	Senior CIP Compliance Auditor	3/2/2016
	Fahad Ansari	Compliance Auditor	3/2/2016
	Craig Struck	Senior Compliance Auditor	3/2/2016
Certification of Registered Entities	Valerie Agnew	Senior Director, Compliance Assurance	3/3/2016
	Jim Stuart	Associate Director, Reliability Assurance	3/3/2016

## Appendix B: Catalog of NERC Documents Reviewed

During February 2015 and April 2015, the independent auditor reviewed internal NERC documentation related to the key CMEP and ORCP processes supporting the ROP requirements. Please refer to the chart below for a short summary of documents used as evidence during the review (some documents have been removed from the list due to confidentiality requirements). Evidence used by the independent auditor during the review were either reviewed via hard copy or soft copy, or observed on-screen with the assistance of NERC staff, in order to maintain confidentiality.

CMEP and ORCP Data Request Catalog		
Process	ROP §	Document Name
All	All	All FERC-related filings during the scope period
All	All	NERC RE Oversight Programs for CMEP/ORCP activities
All	All	NERC Reliability Standards as of 12/31/2015
All	All	NERC Rules of Procedure as of 12/31/2015
Data Management	All	NERC's Data Management Policies and Procedures, including Records Retention and Destruction
Data Management	All	NERC's Policies and Procedures regarding NERC's oversight of the Regional Entities' data management policies and procedures
All	All	Population of NERC members as of 12/31/2015
CMEP	All	Population of users who have the authority to post documents publicly
All	All	Procedure for modifying the ROP
CMEP	401	Compliance Reporting Procedures
CMEP	401	NERC ERO Enterprise CMEP Annual Reports during the scope period
CMEP	401	NERC Security Guidelines for the Electricity Sector — Protecting Potentially Sensitive Information
CMEP	401	NPP-CO-301.R3 — Regional Entity-led Compliance Audit Report Procedure
CMEP	401	Policy/procedure for Reliability Standards violation appeals process for (a) Bulk Power System owners, operators, or users, and (b) Registered Entity or Regional Entity
CMEP	401	Population of ALL Confirmed Violations, Penalties or sanctions, settlement agreements, and final Compliance Audits or Compliance Investigation reports during the scope period
CMEP	401	Population of all enforcement actions during the scope period
CMEP	401	Regional Reliability Standards and Variances
CMEP	401, 402	Population of compliance submissions during the scope period, including self-reported, possible, alleged, and Confirmed Violations of approved Reliability Standards
CMEP	401, 402, Appendix 4C	NERC Reliability Assurance Compliance Investigations Process
CMEP	401, 402, 403, Appendix 4A, Appendix 4C	NERC ERO CMEP Implementation Plans During the scope period
CMEP	401, 402, 403, Appendix 4A, Appendix 4C	NERC ERO CMEP Implementation Plans During the scope period

CMEP and ORCP Data Request Catalog		
Process	ROP §	Document Name
CMEP	401, 402, 404	Delegation agreements for all Regional Entities: <ul style="list-style-type: none"> <li>MRO, SERC, FRCC, WECC, NPCC, SPP RE, Texas RE, RF</li> </ul>
CMEP	401, 402, 404	NERC Compliance Monitoring and Enforcement Program
CMEP	401, 402, 404	Population of Bulk Power System owners, operators, and users, Regional Entities
CMEP	401, 404	Population of CMEP reports issued during the scope period
CMEP	401, Appendix 4B	Sanction Guidelines
CMEP	402	CCCPP-010-3 Criteria for Annual Regional Entity Program Evaluation (2015-05-07)
Code of Conduct/ Confidentiality	402	Confidentiality Policy (2012-09-01 Employee Handbook)
CMEP	402	ERO Enterprise Compliance Monitoring Group Charter (2015-09), and evidence of the following meetings: <ul style="list-style-type: none"> <li>In-person 5/15/14</li> <li>In-person 10/15/14 – 10/17/14</li> <li>Call 2/20/14</li> <li>Call March 2014</li> <li>In-person 7/8/14 – 7/10/14</li> <li>In-person 10/8/13 – 10/10/13</li> </ul>
Code of Conduct/ Confidentiality	402	NERC Employee Code of Conduct (2012-09-01 Employee Handbook)
Training	402	Population of training in auditing skills provided by NERC to audit participants and audit team leaders during the scope period
CMEP	402, 404	Population of Regional Entity CMEP audits
Training	402, 502	Training provided by NERC to REs during the scope period
Training	402, 502	NERC ERO Enterprise Staff Training Procedure
Training	402, 502	NERC's process to monitor credentials and training of individual RE auditors
CMEP	403	Population of Notices of Penalty and settlement agreements executed during the scope period
CMEP	403	Population of public reports of each Compliance Audit completed during the scope period
CMEP	404	Population of public postings of violations of Reliability Standards during the scope period
CMEP	404, 407	Population of penalties, sanctions, and Remedial Action Directives during the scope period
CMEP	406	Independent Evaluation of NERC's CMEP and ORCP ROP Requirements (2013-04-11)
CMEP	407, 413	Population of Regional Entity Hearing Body final decisions issued pursuant to Attachment 2 to Appendix 4C
CMEP	408, 409, 410	Population of all Registered Entity and Regional Entity appeals of noncompliance, penalties, violations, and audit findings.
CMEP	414	Population of Appeals of Decisions of Regional Entity Hearing Bodies Granting or Denying Motions to Intervene in Regional Entity Hearing Body Proceedings
CMEP	Appendix 4B	Population of all FFTs, SNOs, and Full NOPs issued by the REs 2013-2015

CMEP and ORCP Data Request Catalog		
Process	ROP §	Document Name
CMEP	Appendix 4B	Violation Severity Level (VSL) Matrix
CMEP	Appendix 4C	Annual FFT Reports to FERC during the scope period
CMEP	Appendix 4C	ERO CMEP Manual for Compliance Auditors
CMEP	Appendix 4C	ERO Master Audit Schedule
CMEP	Appendix 4C	ERO Self-Report User Guide
CMEP	Appendix 4C	NERC Reliability Assurance: Complaint Handling and Tracking Process (2015-12-15)
CMEP	Appendix 4C	NPP-CO-201.R2 — CMEP Implementation Plan Process
CMEP	Appendix 4C	NPP-CO-201.R4— CMEP Implementation Plan and CMEP Annual Report (2015-12-10)
CMEP	Appendix 4C	Population of all Compliance Exceptions (CEs) during the scope period
CMEP	Appendix 4C	Population of all Find, Fix, and Track (FFTs) during the scope period
CMEP	Appendix 4C	Population of all Full Notices of Penalties (FNOPs) during the scope period
CMEP	Appendix 4C	Population of all Mitigation Plans during the scope period
CMEP	Appendix 4C	Population of all Notices of Alleged Violation (NAV) during the scope period
CMEP	Appendix 4C	Population of all Notices of Possible Violation (NPV) during the scope period
CMEP	Appendix 4C	Population of all Settlements during the scope period
CMEP	Appendix 4C	Population of all spot check reports provided to NERC by the Regional Entity/Compliance Enforcement Authority
CMEP	Appendix 4C	Population of all Spreadsheet Notices of Penalties (SNOPs) during the scope period
CMEP	Appendix 4C	Population of Complaints 2013-2015, including anonymous complaints
CMEP	Appendix 4C	Population of Compliance Enforcement Authority final reports during the scope period, including whether or not the reports initially included any "Possible Violations."
CMEP	Appendix 4C	Population of Mitigation Plans accepted by a Regional Entity and submitted to NERC during the scope period
CMEP	Appendix 4C	Population of NERC publicly-posted final Compliance Audit Reports
CMEP	Appendix 4C	Population of Notices of Confirmed Violations issued to Registered Entities during the scope period
CMEP	Appendix 4C	Population of Notices of Penalties generated during the scope period
CMEP	Appendix 4C	Population of Notifications to Registered Entity of Alleged Violations from Compliance Enforcement Authority to Registered Entities during the scope period
CMEP	Appendix 4C	Population of Regional Entity Hearing Body decision appeals submitted to NERC by Registered Entities or Compliance Enforcement Authorities during the scope period
CMEP	Appendix 4C	ROP Appendix 4C
CMEP	Appendix 4C	NERC Reliability Assurance Compliant Handling and Tracking Process
TFE	Appendix 4D	List of permissible class-based categories of devices maintained on NERC's website
TFE	Appendix 4D	NERC Annual Report on Wide Area-Analysis of Technical Feasibility Exceptions (2015, 2014, 2013)
TFE	Appendix 4D	TFE Annual Reports During the scope period
TFE	Appendix 4D	TFE Sample Submittal maintained on NERC's website

CMEP and ORCP Data Request Catalog		
Process	ROP §	Document Name
ORCP	501	Common Registration Form from NERC's website
ORCP	501	NERC Compliance Registry (NCR) Active Entity / Change Activity Lists: <ul style="list-style-type: none"> <li>• March &amp; September 2013</li> <li>• August &amp; November 2014</li> <li>• February &amp; December 2015</li> </ul>
ORCP	501	NERC Compliance Enforcement Oversight Plan (2015-12)
ORCP	501	NERC Compliance Monitoring and Oversight Plan (2015-12)
ORCP	501	NERC Organization Registration Oversight Plan (2015-12)
ORCP	501	Registration and Certification Continuity Plan (2014-05-19)
ORCP	501	Risk-Based Registration Implementation Guidance (12/15/2015)
ORCP	501, 502, 503, 504	ERO Certification and Review Procedure (2015-05-15)
Training	502	Population of training in auditing skills provided by NERC to Certification participants during the scope period
ORCP	502, 503	Population of all certification evaluations held during the scope period, with detail for sampled Registered Entities
CMEP	503, Appendix 4B, Appendix 4C	Violation Risk Factors (VRF) Matrix
ORCP	504	Population of Registration or Certification appeals submitted to NERC during the scope period
ORCP	507	Joint Registration Organization (JRO) acceptance for sampled Registered Entities.
ORCP	508	Coordinated Functional Registration (CFR) acceptance and/or changes for sampled Registered Entities.
All	1500	Section 1500 of the ROP
ORCP	Appendix 5A	CFR Registry Listing as of 12/31/2015
ORCP	Appendix 5A	JRO Registry Listing as of 12/31/2015
ORCP	Appendix 5A	NCR as of 12-31-2015, including registration details for sampled Registered Entities.
ORCP	Appendix 5A	NERC ERO Enterprise Registration Procedure (2015-12-14)
ORCP	Appendix 5A	NERC Registration and Appeals Process and a Population of Registration appeals during the scope period
ORCP	Appendix 5A	Population of Deregistered Entities 2013-2015
ORCP	Appendix 5B	Process for an Registered Entity to challenge the determination that registration on the NCR is required

## Appendix C: Summary of Results of Independent Review

The chart below lists the in-scope ROP statements in sections 400 and 500, including applicable appendices (4A, 4B, 4C, 4D, 5A, 5B) covered by this report. For each statement, the independent auditor has indicated whether NERC Generally Conforms, is an area of Process Improvement, or Non-Compliance. The criteria used to assess an area of general compliance with the ROP was based on observation or inspection of evidence that NERC performs CMEP and ORCP processes in line with the ROP requirement. The criteria used to assess a section of the ROP as Non-Compliance was based on the observation of specific evidence that did not comply with the ROP requirements, or the lack of specific evidence to show that NERC complied. The criteria used to assess a section of the ROP as Process Improvement was based upon evidence that indicated the ROP requirements were achieved; however, additional activities could be implemented to enhance the execution.

Process	Section	Paragraph	Observation
<b>All</b>	All	All	Process Improvement
<b>CMEP</b>	401	1-12	Generally Conforms
	402	1	Non-Compliance
		2	Generally Conforms
		3	Process Improvement
		4-8	Generally Conforms
		9	Process Improvement
	403	1-16	Generally Conforms
	404	1-3	Generally Conforms
	406	1-4	Generally Conforms
	407	1-3	Generally Conforms
	408	1-11	Generally Conforms
	409	1-8	Generally Conforms
	410	All	Generally Conforms
	413	All	Generally Conforms
	414	1-5	Generally Conforms
	Appendix 4A	All	Non-Compliance
	Appendix 4B	1-4	Generally Conforms
	Appendix 4C	1-2	Generally Conforms
		3	Non-Compliance
	Appendix 4D	4-9	Generally Conforms
1-10		Generally Conforms	
11		Process Improvement	
	12-13	Generally Conforms	
<b>ORCP</b>	501	1-2	Generally Conforms
		3	Process Improvement
	502	1	Generally Conforms
		2	Process Improvement
	503	1-3	Generally Conforms
	504	1-2	Generally Conforms
	505	All	Process Improvement
	506	1-4	Generally Conforms
	507	1-9	Generally Conforms
	508	1-9	Generally Conforms
Appendix 5A	All	Generally Conforms	
Appendix 5B	All	Generally Conforms	

	Area of non-compliance
	Process improvement opportunities

## Appendix D: Summary Description of Testing Procedures by ROP Section

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This appendix includes a summary description of the testing procedures performed for each section of the ROP during the review by the independent auditor. Please see “CMEP and ORCP Detailed Observations” for observations and recommendations. Detailed recommendations are designed with specific and actionable activities to enhance overall compliance with the in-scope sections of the ROP.

### 401: Scope of the NERC CMEP

#### Compliance

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, and inspected CMEP documents, including delegation agreements. The independent auditor inspected or observed evidence of related processes, and sampled to perform tests of details where necessary.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

#### Process Improvements

None noted.

### 402: NERC Oversight of the Regional Entity CMEPs

#### Compliance

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, and inspected RE CMEP documents, and NERC’s oversight plan. The independent auditor inspected or observed evidence of related processes, and sampled to perform tests of details where necessary.

Through review of the eight RE delegation agreements, the independent auditor noted that NERC requires each RE to submit for review and approval an annual RE CMEP Implementation Plan. During observation of RE Implementation Plans and discussion with NERC, the independent auditor noted that NERC reviews the Implementation Plan and accepts it once the plan meets NERC requirements and the requirements of the delegation agreement.

The 2009 independent review recommended that NERC revise its training process to more clearly identify the specific training requirements for compliance auditors and participants in certification evaluations. The review also recommended the training process include a defined training schedule. While NERC holds training sessions during the year, the 2013 independent review noted there was no formal process in place to notify these individuals of the training opportunities and requirements. While NERC generally addressed these recommendations, including implementing a LMS for the REs to track attendance, NERC does not oversee RE training activities to ensure those who require training per the ROP receive that training. See “Process Improvements” below for a related observation.

Based on the results of procedures performed, the independent auditor noted one instance of non-compliance with the ROP. Please see “Appendix 4A Audits” of the “CMEP and ORCP Detailed Observations” section above for the observation and recommendation.

#### Process Improvements

Based on the results of procedures performed, the independent auditor noted two opportunities for process improvement. Please see “Data Management” of the “CMEP and ORCP Detailed Observations” section above for the observation and recommendation.



## 403: Required Attributes of Regional Entity CMEPs

### Compliance

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, and inspected RE CMEP Implementation Plan documents. The independent auditor inspected or observed evidence of related processes, and sampled to perform test of details where necessary.

NERC conducted a variety of RE and registered entity monitoring activities during the period of this independent review. Throughout the period NERC demonstrated a consistent focus in evolving and improving monitoring of RE CMEP activities. In addition to reviewing each of the RE delegation agreements and RE CMEP implementation plans, the independent auditor also reviewed Agreed Upon Procedures (AUP) audits for five of the REs and the AUP spot checks for the remaining three REs. The independent auditor noted that NERC actively monitored RE progress in remediating the AUP and AUP spot check findings and also implemented the KRSSC process to evaluate the consistency of select reliability standards (PRC-005 and EOP-005) across the eight REs. Through review of NERC's Implementation Plans for 2013 through 2015, NERC maintained and updated its Implementation Plan annually. Further, the independent auditor reviewed the listing of BAs, TOPs and RCs on NERC's website and noted that an audit was performed at least once every three years.

Note, as some of these audits were not publicly posted at the time of the independent auditor's review, the independent auditor observed the confidential audits in order to confirm that compliance audits for BAs, TOPs and RCs are performed at least once every three years.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### Process Improvements

None noted.

## 404: NERC Monitoring of Compliance for Regional Entities or Bulk Power Owners, Operator or Users

### Compliance

During the period of this independent review, NERC conducted a variety of RE monitoring activities. Through inquiry of NERC's Senior Director of Compliance Operations and review of evidence supporting NERC's observation of the RE audits of registered entities, the independent auditor noted that NERC conducts oversight of the RE's monitoring of the registered entities. The 2012 Audit Observation Reports observed by the independent auditor included evidence that NERC monitors the RE's audits for sufficient audit documentation retention, sampling method, audit period identification, and audit conclusions. In addition, the independent auditor also reviewed evidence that demonstrated NERC's procedures to review all anonymous Complaints and determine whether each complaint may be associated with the reliability of the BPS and should be processed for additional enforcement procedures.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### Process Improvements

None noted.

## **405: Monitoring of Reliability Standards and Other Requirements Applicable to NERC**

### **Compliance**

Through inquiry with NERC staff (refer to Appendix A for a list of individuals interviewed), the independent auditor noted that the CCC is responsible for conducting a periodic self-certification process with NERC staff to confirm compliance with the ROP. Through review of CCC monitoring procedures and NERC self-certification activities, the independent auditor noted that independent monitoring is performed to determine whether NERC complies with ROP requirements.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **406: Independent Audits of the NERC CMEP**

### **Compliance**

To conform to NERC's ROP requirement for an independent review of its CMEP program at least once every three years, this independent review of the CMEP evidences NERC's compliance with this requirement as of 2015. Based on inquiry with NERC staff supporting the CMEP processes (see Appendix A) and review of internal NERC documents for testing (see Appendix B), a review has been performed and the independent auditor has documented areas of compliance to the ROP, areas of non-compliance with the ROP, and areas of process improvement within this report. Refer to detailed observations in Section 400 for testing procedures and results.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **407: Penalties, Sanctions, and Remedial Actions**

### **Compliance**

Through review of RE and NERC documentation supporting the enforcement process, including settlement agreements, mitigation plans, Find, Fix, Track, and Reports (FFTs), Spreadsheet Notices of Penalties (SNOPs), Notices of Penalties (NOPs), and dismissal notifications, the independent auditor noted that NERC devotes significant effort in reviewing the RE's enforcement results.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **408: Review of NERC Decisions**

### **Compliance**

The independent auditor reviewed the NERC Compliance Enforcement Manual<sup>3</sup> and noted that the manual

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<sup>3</sup> NERC Compliance Enforcement Manual, NPP-CEM-100.R4 (July 27, 2015).

describes the process for a registered entity or RE to challenge a finding of non-compliance to the reliability standards or a CMEP audit finding. Per inquiry with NERC staff (see Appendix A), only one appeal of this nature occurred during the period. The independent auditor inspected the appeal and determined NERC complied with the ROP, including but not limited to compliance with the response time period mandated in the ROP.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **409: Appeals from Final Decisions of Regional Entity Hearing Bodies**

### **Compliance**

The independent auditor reviewed the NERC Compliance and Enforcement Manual and noted that the manual describes the process for a registered entity or RE to challenge a finding of non-compliance to the Reliability Standards or a CMEP audit finding. The manual describes the process for submitting a notice of appeal as well as the decision on the appeal from the Compliance Committee of the NERC Board of Trustees. Per inquiry with NERC staff (see Appendix A), only one appeal of this nature occurred during the period, 2013 – 2015. The independent auditor inspected the appeal and determined NERC complied with the ROP.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **410: Hold Harmless**

### **Compliance**

The independent auditor reviewed the NERC Compliance and Enforcement Manual and noted that the manual describes the process for a registered entity or RE to challenge a finding of non-compliance to the reliability standards or a CMEP audit finding, as stated in ROP section 409. The manual also describes the “hold harmless” clause where any party assisting in the challenge or appeals process shall be held harmless against the consequences of or any action or inaction of the agreement reached on the appeal. Per inquiry with NERC staff (see Appendix A), only one appeal of this nature occurred during the period, 2013 - 2015. The independent auditor inspected the appeal and determined NERC complied with the ROP.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **413: Review and Processing of RE Hearing Body Final Decisions that Are Not Appealed**

### **Compliance**

The independent auditor reviewed a population of RE Hearing Body final decisions and noted only one appeal of this nature occurred during the period, 2013-2015. The independent auditor inspected the appeal and determined NERC complied with the ROP.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **414: Appeals of Decisions of Regional Entity Hearing Bodies Granting or Denying Motions to Intervene in RE Hearing Body Proceedings**

### **Compliance**

The independent auditor reviewed a population of RE Hearing Body final decisions and noted only one appeal of this nature occurred during the period, 2013-2015. The independent auditor inspected the appeal and determined NERC notified all appropriate parties as mandated by the ROP.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **Appendix 4A: Audit of Regional Entity Compliance Programs**

### **Compliance**

Based on the results of procedures performed, the independent auditor noted one instance of non-compliance with the ROP. Please see “Appendix 4A Audits” of the “CMEP and ORCP Detailed Observations” section above for the observation and recommendation.

### **Process Improvements**

None noted.

## **Appendix 4B: Compliance Monitoring and Enforcement Program**

### **Compliance**

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, and inspected Enforcement documents, including NERC’s Sanction Guidelines and Violation Risk Factors (VRF) and Violation Severity Level (VSL) Matrices. The independent auditor inspected or observed evidence of Enforcement-related processes, and sampled enforcement actions to perform tests of details where necessary. The independent auditor notes that Sanction Guidelines and related processes support a process where NERC evaluates penalties, sanctions, and remedial action directives imposed by REs for consistency, similarity in degree and type for violations constituting comparable levels of threat to the reliability of the BPS, and aggravating and mitigating factors.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvement**

None noted.

## Appendix 4C: Compliance Monitoring and Enforcement Program

### Compliance

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, and inspected CMEP documents, including the NERC Electric Reliability Organization (ERO) Enterprise and RE CMEP Implementation Plans, annual audit plans, and populations of complaints, violations, settlements, and mitigation plans. The independent auditor inspected or observed evidence of related processes, and sampled Implementation Plans, complaints, violations, settlements, and mitigation plans to perform tests of details where necessary.

Based on the results of procedures performed, the independent auditor noted one instance of non-compliance with the ROP. Please see “Confidentiality” of the “CMEP and ORCP Detailed Observations” section above for the observation and recommendation.

### Process Improvements

None noted.

## Appendix 4D: Procedure for Requesting and Receiving Technical Feasibility Exceptions (TFEs) to NERC Critical Infrastructure Protection (CIP) Standards

### Compliance

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, including the process to review and approve TFEs. The independent auditor inspected TFE documents, including submitted TFE requests, activities of the committee charged with reviewing TFE requests and Material Change Reports, and the annual TFE informational submission to FERC, and sampled to perform tests of details where necessary. The independent auditor noted the TFE process includes components to ensure consistency in the review, approval and disapproval of TFE requests and Material Change Reports among the REs with different types of covered assets that are subject to the same Applicable Requirement.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### Process Improvements

Based on the results of procedures performed, the independent auditor noted two related opportunities for process improvement. Please see “Technical Feasibility Exceptions (TFEs)” of the “CMEP and ORCP Detailed Observations” section above for the observations and recommendations.

## 501: Scope of the ORCP

### Compliance

The independent auditor reviewed a population of registered entities added to the NERC Compliance Registry (NCR) between 2013 – 2015, and noted that the users, owners, and operators of the BPS were registered and certified in accordance with the registration and certification processes, as defined in the ROP, including notifications sent to the registered entities upon registration and certification.

Per inquiry with NERC staff (see Appendix A), and review of section 501 of the ROP, the independent auditor noted that the purpose of the ORCP is to clearly identify those entities that are responsible for compliance with the FERC approved Reliability Standards. These entities are to be identified by NERC and the REs and registered within the NCR for the appropriate function they perform (e.g. RC, BA, TOP).

To address two instances of non-compliance from the 2012 independent review, the independent auditor

observed evidence that NERC's ORCP group performed oversight visits with each RE to monitor the RE's implementation of ORCP requirements, and to validate that all Transmission Facilities are mapped to one and only one Transmission Planner (TP), Planning Authority (PA), and Transmission Operator (TOP).

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

Based on the results of procedures performed, the independent auditor noted one related opportunity for process improvement. Please see "Program Materials" of the "CMEP and ORCP Detailed Observations" section above for the observations and recommendations.

## **502: ORCP Requirements**

### **Compliance**

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, and inspected NERC ORCP documents. The independent auditor inspected or observed evidence of related processes, and sampled to perform tests of details where necessary.

Through inquiry of NERC staff (see Appendix A) and review of the registered entities added to the NCR between the years of 2013 - 2015, the independent auditor noted sufficient evidence of the registered entities' registration and certification program requirements. In addition, the independent auditor reviewed ORCP policies and procedures, and noted that documented policies and procedures exist for the ORCP process. See "Process Improvements" below for a related observation.

The 2009 independent review recommended that NERC revise its training process to more clearly identify the specific training requirements for compliance auditors and participants in certification evaluations. The review also recommended the training process include a defined training schedule. While NERC holds training sessions during the year, the 2013 independent review noted there was no formal process in place to notify these individuals of the training opportunities and requirements. While NERC generally addressed these recommendations, including implementing a LMS for the REs to track attendance, NERC does not oversee RE training activities to ensure those who require training per the ROP receive that training. See "Process Improvements" below for a related observation.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

Based on the results of procedures performed, the independent auditor noted two related opportunities for process improvement. Please see "Data Management" of the "CMEP and ORCP Detailed Observations" section above for the observations and recommendations.

## **503: Regional Entity Implementation of ORCP Requirements**

### **Compliance**

Through review of each RE's Implementation Plans, the independent auditor noted each RE's Plan included key CMEP activities and initiatives, and compliance enforcement initiatives. Further, within each of the RE Implementation Plans, the independent auditor noted evidence of enhancement programs, reporting, analysis & tracking tools, CMEP transparency elements, outreach efforts, spot check dates, audit schedules, training, and registration tasks. The independent auditor also noted that the implementation plans stated that they are in accordance with NERC's ROP.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **504: Appeals**

### **Compliance**

Based on inquiry with the NERC process owners and review of the appeals posted publicly to NERC's website, no Registration or Certification appeals occurred during the scope period.

### **Process Improvements**

None noted.

## **505: Program Maintenance**

### **Compliance**

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, and inspected NERC ORCP documents. The independent auditor inspected or observed evidence of related processes, and sampled to perform test of details where necessary.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

Based on the results of procedures performed, the independent auditor noted one related opportunity for process improvement. Please see "Program Materials" of the "CMEP and ORCP Detailed Observations" section above for the observations and recommendations.

## **506: Independent Audit of NERC ORCP**

### **Compliance**

To conform to NERC's ROP requirement for an independent review of its ORCP program at least once every three years, this independent review of the ORCP evidences NERC's compliance with this requirement as of 2015. Based on inquiry with NERC staff supporting the ORCP processes (see Appendix A) and review of internal NERC documents for testing (see Appendix B), a review has been performed and the independent auditor has documented areas of compliance to the ROP, areas of non-compliance with the ROP, and areas of process improvement within this report. Refer to detailed observations in Section 500 for testing procedures and results.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **507: Provisions Relating to Joint Registration Organizations (JRO)**

### **Compliance**

The independent auditor reviewed the JRO registry listing on NERC's website and noted that the JRO entities have assumed the compliance responsibilities for themselves and their members.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **508: Provisions Relating to Coordinated Functional Registration (CFR)**

### **Compliance**

The independent auditor reviewed the CFR registry listing on NERC's website and noted that the Reliability Standards or Requirements/sub-requirements for each function were appropriately included.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvements**

None noted.

## **Appendix 5A: Organization Registration and Certification Manual**

### **Compliance**

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, and inspected ORCP documents, including Registration and Certification program documentation, and the NCR. The independent auditor inspected or observed evidence of related processes, and sampled to perform tests of details where necessary.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvement**

None noted.

## **Appendix 5B: Statement of Compliance Registry Criteria**

### **Compliance**

The independent auditor inquired with the NERC process owners to gain an understanding of the related processes, and inspected ORCP documents, including Registration and Certification program documentation, and the NCR. The independent auditor inspected or observed evidence of related processes, and sampled to perform tests of details where necessary.

Based on the results of procedures performed, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **Process Improvement**

None noted.



## Appendix E: Participants

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The table below lists the participants in the Independent Review.

Participants	
Group	Participant Name
NERC Internal Audit and Corporate Risk Management	Mechelle Thomas
	Matthew Gibbons
	Phuc Nguyen
CCC Observers	Patti Metro, CCC Chair
	Jennifer Flandermeyer, CCC Vice Chair
	Michael Deloach
	Ben Engelby
	Lisa Milanes
	Rick Terrill