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Procedure for Conducting On-Site Compliance Audits

CP-02

Rev. 9

*The NERC Rules of Procedure and the Regional
Delegation Agreement are the overriding
documents that govern the implementation of
the CMEP.*

Owner

Assistant Vice President, Compliance

Effective Date

December xx, 2019

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Review and Re-Approval Requirements

This document will be reviewed every two years from the effective date, or as appropriate for possible revision. The existing or revised document will be re-approved by the NPCC Compliance Committee, distributed to staff and committees / working groups, as applicable, and will be posted to the NPCC website for Registered Entity reference.

1. Introduction

- 1.1. All Registered Entities within the NPCC Region are subject to Audits and Spot Checks for compliance with all reliability standards applicable to the identified functions performed by the Registered Entity. NPCC has developed and implemented this procedure for conducting On-Site Compliance Audits of its Registered Entities. The goal of this procedure, including the use of the NERC Compliance Process Directives and Bulletins, is to ensure consistency and objectivity in assessing all On-Site Compliance Audits.
- 1.2. The terminology used herein is as defined by the NERC Rules of Procedure, NERC Glossary of Terms, and NPCC Glossary.

2. Audit Schedule

- 2.1. NPCC will schedule On-Site audits as required in the NERC Rules of Procedure. By October 1st of each calendar year, the NPCC Compliance staff will post the entities scheduled for an On-Site audit in the next calendar year on the NPCC website. On-Site audits of the Reliability Coordinator (RC), Balancing Authority (BA), and Transmission Operator (TOP) functions is generally based on a rolling three (3) year cycle. The type and frequency of compliance monitoring for all of the other functions are determined using Risk Based concepts.
- 2.2. Each Registered Entity that will have an On-Site Audit for that calendar year will be notified in accordance with Section 5 - Audit Process.
- 2.3. The On-Site compliance audit schedule may change based on the availability of the audit team, availability of audited entity's Subject Matter Experts, or other circumstances at the request of the Registered Entity, e.g., scheduled outage, unforeseen emergencies, etc. The originally scheduled audit for BA, RC, or TOP may also be changed to accommodate a Certification Review of qualifying events prior to "go-live" dates for the qualifying change.
- 2.4. The audit schedule will be posted on the NPCC public website under Compliance, Documents, Audit Schedule.

3. Audit Scope

- 3.1. An audit scope will be identified by the NPCC Entity Risk Assessment (ERA) group using NERC risk based concepts to perform Inherent Risk Assessments (IRA) and, in some cases, voluntary evaluations of internal controls that occur before the engagement. The Director, Compliance Monitoring and Manager, Compliance will review the recommendations of the ERA group, and determine the final scope.
- 3.2. The start date for the audit period will be the latter of the entity's registration date, or the day after the audit period end date of the previous Compliance Monitoring engagement for each audited Registered Function. The end date for the audit period will be the date that the Audit Notification Letter is provided to the Registered Entity by NPCC. If the data retention requirements of a reliability standard do not cover the full period of the On-Site audit, the audit will only be applicable to the data retention period specified in the reliability standard. The audit period start date for individual Requirements may have a different start date based on other Compliance Monitoring activities.

4. Audit Team Participants

- 4.1. A member of NPCC staff will serve as the Audit Team Lead (ATL). All participating auditors must have completed the NERC Audit Training and remain current in all required auditor qualification training.
- 4.2. At NERC's discretion, a NERC staff member may participate as an observer on any Regional Entity Audit Team at any time. In addition, any applicable ERO Governmental Authority may participate on an audit team as an observer on any Regional Entity audit within its jurisdiction. The NPCC Director, Compliance Monitoring or Manager, Compliance shall ensure that NERC, FERC, or Canadian Provincial Regulatory observers meet the applicable sections of the NERC Rules of Procedure to qualify as Audit Observers.
- 4.3. Conflicts of Interest
 - 4.3.1. NPCC will review the make-up of the audit team to avoid conflict of interest situations. A Registered Entity may object to an Audit Team member on the grounds of a Conflict of Interest or any other perceived circumstance that could interfere with the team member's impartial performance of his or her duties. This objection must be provided in writing to the NPCC Director, Compliance Monitoring or Manager, Compliance no later than 15 days prior to the submittal of the RSAWs. The NPCC Director, Compliance Monitoring will make the final determination on whether the team member will participate in the audit.
 - 4.3.2. The NPCC Director, Compliance Monitoring or Manager, Compliance will review proposed Audit Observers for conflicts of interest and bring them to the attention of NERC or the Regulatory body.
- 4.4. Confidentiality
 - 4.4.1. All Audit Team members must sign the "Northeast Power Coordinating Council Confidentiality Agreement" prior to reviewing any audit materials. It is the responsibility of the NPCC Compliance staff to ensure that Confidentiality Agreements are properly executed prior to any Audit Team member receiving any audit materials. Prior to the audit, copies of the executed Confidentiality Agreements will be provided to the Registered Entity.
 - 4.4.2. Audit Team members should not discuss aspects of the audit with anyone other than Audit Team members or NPCC executives. Once the Final Audit Reports are published, Audit Team members will securely dispose of all audit materials collected prior to and during the audit. The NPCC Compliance staff will retain supporting audit materials in accordance with NERC requirements.
 - 4.4.3. Information deemed by NPCC or the Registered Entity as Critical Energy Infrastructure Information (CEII) or other confidential information as defined in NERC's Rules of Procedure Section 1501 shall be redacted from any public reports.
 - 4.4.4. The Registered Entity will have the option to retain confidential and/or secure information within their control. This information can be shared at face-to-face meetings with Audit Team members, but will not be released to the auditors' control. This is consistent with NERC's Rules of Procedure Section 1500.

4.5. NERC Compliance Audit Directives, Bulletins, and Tools

- 4.5.1. NERC Compliance staff has developed Compliance Audit Directives, CMEP Practice Guides and Implementation Guidance, and other tools for all Regional Entities to use in performing Compliance Audits. Their purpose is to provide consistency and objectivity in assessing each Compliance Audit.
- 4.5.2. The Tools [NERC or NPCC Reliability Standard Audit Worksheets (RSAWs)] are based on the specific reliability standards to be reviewed during the audit.

5. Audit Process

- 5.1. NPCC will perform the following actions prior to the On-Site Audit visit:
 - 5.1.1. NPCC Compliance staff will send the “Northeast Power Coordinating Council Code of Conduct,” NERC Confidentiality Agreement for NERC Compliance Monitoring Team, and Non-Disclosure Agreement to all Audit Team members. Audit Team members sign and return agreements.
 - 5.1.2. NPCC Compliance staff notifies the Registered Entity of the audit at least 120 days prior to the on-site visit via an Audit Notification Letter (ANL) that will include, but is not limited to, the Audit Team members’ biographical and non-disclosure information, the Pre-Audit material, the Request for Compliance Data and Documentation, the Standards and specific requirements being audited and a link to the NERC or NPCC RSAWs.
 - 5.1.3. The beginning of the On-site Audit will be the date of the data submittal, as identified in the ANL.
 - 5.1.4. NPCC shall request that the Registered Entity complete and return the Pre-Audit material at least 90 days prior to the on-site visit and all other requested documentation to NPCC at least 30 days prior to the on-site visit. NPCC will confirm the receipt of the material with the Registered Entity.
 - 5.1.5. The ATL will make an initial call to the Registered Entity’s Primary Compliance Contact within 10 business days of the notification package transmittal. The call will serve as an introduction and an opportunity to verify that the entity has received the notification package and to answer any questions regarding the pre-audit survey and data submittals.
 - 5.1.6. NPCC Compliance staff distributes completed Pre-Audit material and documentation to the Audit Team.
 - 5.1.7. The Audit Team reviews the completed Pre-Audit material and supporting documentation and formulates any additional questions for the Registered Entity. The Audit Team will also review the following submissions from the Registered Entity:
 - 5.1.7.1. Self-Certification Submittals
 - 5.1.7.2. Review of any outstanding Compliance Violations and / or Mitigation Plans that the Registered Entity might have with NPCC and NERC
 - 5.1.7.3. Review of supporting documentation

- 5.1.8. During the week before the On-Site audit, the NPCC ATL may schedule a call with the Registered Entity and the Audit Team members to review logistics, the general audit process, and answer any questions.
- 5.1.9. Discovery of a Potential Non-Compliance (PNC) after receipt of the ANL
 - 5.1.9.1. NPCC will provide instruction in the ANL to address the situation where the entity discovers a Potential Non-Compliance (PNC) after receiving notice of an On-Site Audit. It will be recommended that the Registered Entity utilize the normal Compliance Portal Self-Report template.
 - 5.1.9.2. If the self-report concerns a Requirement that is covered by the scope of the audit, in addition to the Compliance Portal Self-Report, the Registered Entity is to immediately notify the ATL of the PNC and supply any/all evidence surrounding the PNC with the certified data submittal for the Audit Team's review. In addition, the ATL may supply the Registered Entity with a form to be completed containing pertinent information on any/all such potential non-compliance issues.
 - 5.1.9.3. After the certified data submittal, self-reports into the Compliance Portal of an in-scope requirement are no longer permitted, as they are now considered audit findings. The Registered Entity is to immediately notify the ATL of the PNC and supply any/all evidence surrounding the PNC for the Audit Team's review.
 - 5.1.9.4. NPCC will recommend that the Registered Entity begin performing and documenting any mitigating actions for the PNC.
 - 5.1.9.5. Any PNC that is associated with a Requirement that is not in scope for the audit will be processed by NPCC Enforcement. If the Registered Entity is approved for self-logging, the entity may self-log an eligible PNC that is not in scope.
- 5.2. NPCC will perform the following actions during the On-Site Audit visit:
 - 5.2.1. Hold an opening meeting with the entity that includes:
 - 5.2.1.1. Introduction of Audit Team members
 - 5.2.1.2. How the audit will be conducted
 - 5.2.1.3. How confidential information will be handled
 - 5.2.1.4. Data access required by the Audit Team
 - 5.2.1.5. Notification that the entity will have the opportunity to provide feedback on the audit process at its conclusion.
 - 5.2.2. Conduct interviews and consultations for clarification of the material with appropriate front line personnel and associated subject matter experts (e.g., System Operator, IT Staff, Planning Staff, etc.).
 - 5.2.3. Interact with the Registered Entity to ensure completion of all appropriate RSAWs by the audit team for the reliability standards that are being audited.
 - 5.2.3.1. Supporting evidence cannot be submitted by the Registered Entity later than the end date of the On-Site Audit.

- 5.2.3.2. Review the status of any ongoing Compliance Violations/Issues or Mitigation Plans.
- 5.2.4. Conduct an exit presentation prior to leaving an On-Site audit that will:
 - 5.2.4.1. Summarize the audit team's conclusions including any concerns of improper registration discovered during the audit, potential noncompliance with supporting information, other areas of concern, recommendations, and the expected timeline for review and issuance of the audit reports.
 - 5.2.4.2. Allow for feedback from the Registered Entity on any errors, facts, omissions, or other information key to the audit team's determination of potential noncompliances.
- 5.3. NPCC will perform the following actions after the On-Site Audit visit:
 - 5.3.1. The Audit Team will provide NPCC Enforcement staff with any PNC's identified during the On-Site Audit and the details supporting the finding. The Auditor may provide NPCC Enforcement staff with the basis for Find Fix Track (FFT) treatment of any PNCs which may qualify for FFT treatment.
 - 5.3.2. The ATL will develop a first draft of both a public audit report and a non-public audit report that will be circulated to the Audit Team members for review within two (2) weeks following the On-Site Audit. In accordance with NERC guidance, no public report shall be published for CIP audits.
 - 5.3.3. Following the Audit Team's review, the first draft of the audit reports will be sent to the Registered Entity for review within thirty (30) days following the On-Site Audit. The draft audit reports will also be provided to NERC.
 - 5.3.4. The Registered Entity will have two (2) weeks to submit comments back to the ATL.
 - 5.3.5. Registered Entity comments will be taken under consideration by the ATL.
 - 5.3.6. The NPCC Director, Compliance Monitoring or Manager, Compliance finalizes the audit reports within 60 days following the On-Site Audit and will provide the Final Audit Reports to the Registered Entity and NERC as applicable.
 - 5.3.7. The Final Audit Reports will reside on the NPCC secure servers for review by the NPCC Assistant Vice President of Compliance.
 - 5.3.8. Any PNC issues identified in the audit report will be processed by NPCC Enforcement as per the NERC Rules of Procedure.
 - 5.3.9. If the results of the audit and the final reports verify compliance to all standards and requirements audited, NPCC will provide the Final Audit Reports, in accordance with the appropriate jurisdictional requirements.
 - 5.3.10. The Final Public Report will not be made public until any unresolved compliance issues are fully settled.
 - 5.3.11. NPCC Compliance staff will retain supporting audit material in accordance with the appropriate jurisdictional requirements.

6. References

- 6.1. Delegation Agreement between NERC and NPCC
- 6.2. North American Electric Reliability Corporation Compliance Monitoring and Enforcement Program - Appendix 4C to the Rules of Procedure
- 6.3. NPCC CP-01, Implementation of the NPCC Compliance Monitoring and Enforcement Program (CMEP)
- 6.4. NERC Rules of Procedure Section 403.11-12
- 6.5. NERC Rules of Procedure Section 1501 and 1502
- 6.6. NERC Questionnaire/Reliability Standard Audit Worksheets (Q/RSAs)
- 6.7. NPCC CMEP Implementation Plan (latest version)
- 6.8. Nova Scotia May 9, 2010 MOU between NPCC, Nova Scotia Power and NERC
- 6.9. Ontario February 5, 2010 MOU between NPCC, Ontario IESO, and NERC
- 6.10. Quebec September 24, 2014 MOU between NPCC, the Regie, and NERC
- 6.11. Quebec QCMEP
- 6.12. New Brunswick August 10, 2016 MOU between NPCC, New Brunswick Energy Utility Board and NERC
- 6.13. New Brunswick CMEP

7. Summary of Changes

Revision	Reason for Change	Reviewed By	Date Approved by Compliance Committee
0	None – This procedure is the original issue.	Sal Buffamante	07/22/2008
1	Added to Section 2.” Compliance Audits of all other NPCC Registered Entities are based on a rolling six (6) year cycle and are usually conducted off-site.” Note: Deleted Added section 5.2.1 Added two bullet items to section 5.2.3 Modified section 5.2.4 Modified section 5.3.5	Sal Buffamante	06/10/2009
2	Section 3. now reads: “NERC Implementation Plans in the current year.” Section 4. now reads: “The Audit Team will consist of a minimum of five persons.” Section 4.1 added: “...former employees with a financial interest in the Registered Entity being audited...” Section 5.1.3 added: “...through the NPCC FTP site.” Section 5.1.4 added: (at the discretion of the Manager of Compliance Audits, either off-site or on-site, prior to the audit start date at the Registered Entity’s facility) Section 5.1.5 added bullet: Previous non-public audit reports Section 5.3.1 changed to three (3) weeks Section 5.3.2 changed to six (6) weeks	Sal Buffamante	02/28/2010
3	Section 1: Changed “Auditor Guide” to “Compliance Process Directives and Bulletins” Section 2: Incorporated previous statement 2.1 into Section 5. Added Section 2.2 and 2.3 regarding Audit Schedule Section 3: Refined definition of audit period. Section 4.2.1: Added NPCC executives to those who can review audit material. Section 4.3: Clarified “Auditor Guide” Section 5.1.2: provided more detail	Ben Eng	12/12/2011

Revision	Reason for Change	Reviewed By	Date Approved by Compliance Committee
	<p>Section 5.1.3: Preaudit Survey due 60 days prior to On-Site visit.</p> <p>Section 5.1.4: Added new action - Lead Auditor to contact audited entity within 10 business days of notification letter transmittal.</p> <p>Section 5.1.6: Removed bullet for “Monthly compliance reports”</p> <p>Section 5.3.1: Added sentence restricting CIP audit reports to be non-public only.</p> <p>Section 5.3.2: Changed “three weeks” to “thirty days”</p> <p>Section 5.3.4: Added new action – Audit Manager will provide list of PVs resulting from the audit to NPCC Enforcement staff.</p> <p>Section 5.3.6, 5.3.7 & 5.3.8: Changed “Compliance” to “Enforcement”</p> <p>Section 5.3.7: clarified “AVP of Compliance Audits and Investigations”</p> <p>Section 6: Changed “NERC Auditor Guide” to “NERC Compliance Process Directives and Bulletins” and updated references</p> <p>Section 7: Summary of Changes changed to tabulation format to be consistent with other CPs. Transposed Revision 0 and Revision 1 information into tabulation.</p>		
4	<p>Section 2: added the term “generally” for audit interval. Added Certification Reviews as factor in revising audit schedule.</p> <p>Section 3: added verbiage regarding new 2014 AML, risk based methodology for scoping, and audit period end date.</p> <p>Section 4: added verbiage regarding audit observers, and combined previous confidentiality agreements into one NPCC Confidentiality Agreement</p> <p>Section 5: added verbiage regarding FFT for PVs, changed “Alleged” to “Possible”, and instruction for potential self-reports after receipt of audit notification letter.</p> <p>Section 6: added/updated references</p>	Ben Eng	12/18/2013
5	<p>General reformatting of entire document. Section 3: Added reference to Risk Based Concepts (IRA, ICE, Risk Elements)</p>	Scott Nied	12/03/2015

Revision	Reason for Change	Reviewed By	Date Approved by Compliance Committee
6	Deleted reference to contract auditors. Corrected wording for auditor training.	Marie Kozub	09/21/2016
7	Changes to Personnel titles, date of audit notifications, process for self-identified possible non-compliance after receipt of audit notification.	John Muir	12/07/2017
8	Modify the Audit Period End Date for consistency with other Regions.	John Muir	09/26/2018
9	Section 3.1: Changed Internal Controls Evaluations (ICE) to evaluation of internal controls; Added Manager, Compliance to final scope review. Section 3.2: Added clarifying language for the audit period start date	Jacqueline Jimenez	