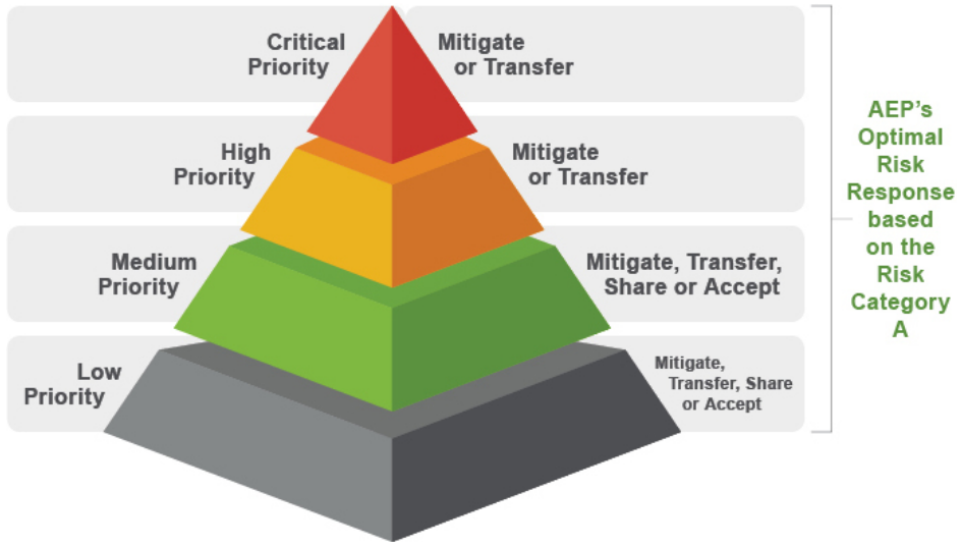# AEP NERC Control Program

Risk Framework, Internal Controls, Self Monitoring
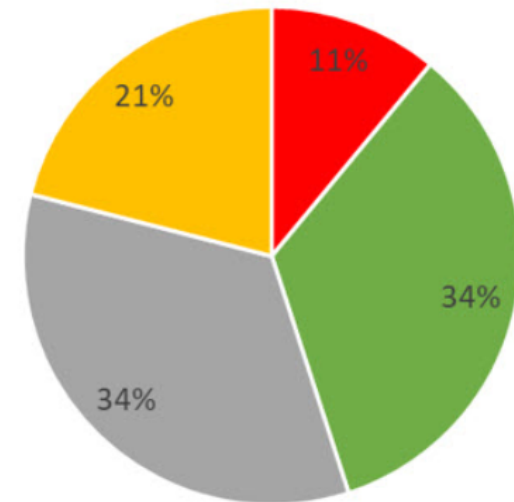


**Zach McCullough, Director Enterprise Reliability Assurance**

# Risk Assessment



**Optimized Risk Assessment and Strategic Plan to Address**



- AEP's 2020 NERC Risk Assessment evaluated 292 NERC Standard Requirements and categorized the results into four categories: Critical, High, Medium and Low.
- The **Responsible Leader** concept and associated **Risk Management Plans** focus on the identified areas of **Critical Risk**.

**RMPs address** ~ 71% of violations

# Responsible Leaders

**What are NERC Compliance expectations of the Responsible Leader?**

**Lead** efforts to improve the maturity of compliance policies, processes and procedures related to the NERC Standards assigned

**Advocate** for improvements that support alignment to program mission, vision and strategy

**Seek** needed **resources** via NERC Compliance Governing committees

**S**ponsor the development and implementation of the RMP

**Obtain approval** of CIP Senior Manager (CIP Standards only)

**Oversee** execution and implementation of the RMP recommendations

**Report** to the CIP Senior Manager or NERC Governing Committees (RCIT/RCST) as needed

**Engage** Assurance and ENRA team members for support and guidance

# The Controls Journey

**2016**
- AEP began to encourage the creation of Internal Controls
- AEP implemented the AEP's Risk and Compliance Solution (ARCS)

**2019**
- AEP recognized a need for more focus on Internal Controls
- Adopted an Internal Controls Framework
- Conducted Internal Controls Evaluations (ICEs) on 10 requirements

**2020**
- AEP continued to mature the Internal Control Framework
- Implemented recommendations from ICEs
- Financial incentive tied to Internal Controls implementation
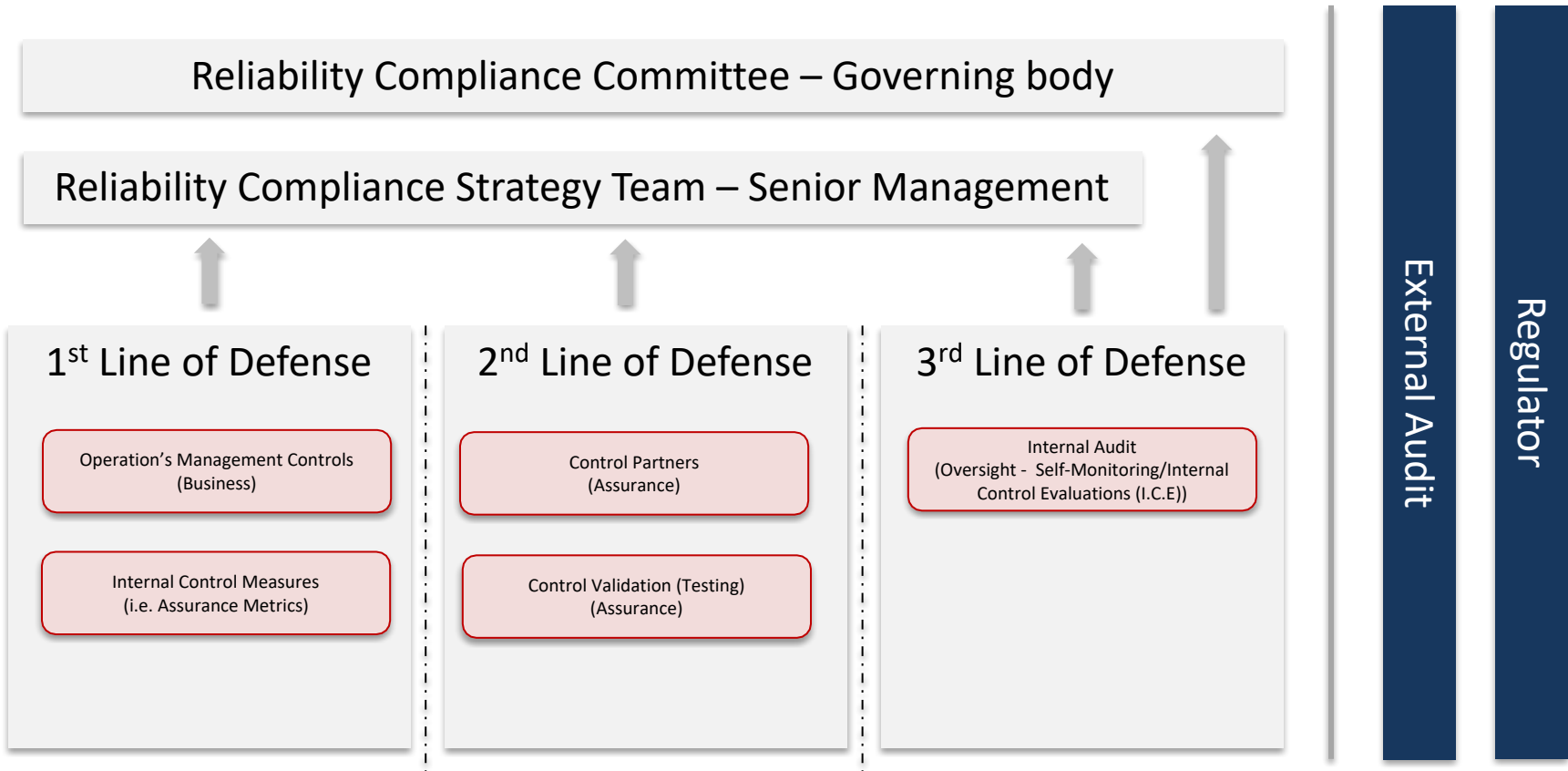- Revised Internal controls training

**2021 and beyond**
- Mature AEP's Internal Controls environment
- Implement and executive Internal Controls Validation process
- Financial incentive tied to Internal Controls effectiveness
- Embed Internal Control creation and evaluation into all compliance processes (i.e. Incident Management & Mitigation Plans)

# Internal Controls Framework

- AEP's Internal Controls Framework
  - Creates company-wide definition of Internal Control
  - Establishes roles and responsibilities
  - Establishes required attributes to facilitate tracking and evaluation

- Creates framework for oversight activities related to Internal Controls
  - Evaluation, Validation, and Monitor processes
  - Implementation of these will be a major program focus for 2021

# 3 Lines of Defense

Reliability Compliance Committee – Governing body

Reliability Compliance Strategy Team – Senior Management

## 1st Line of Defense

Operation's Management Controls
(Business)

Internal Control Measures
(i.e. Assurance Metrics)

## 2nd Line of Defense

Control Partners
(Assurance)

Control Validation (Testing)
(Assurance)

## 3rd Line of Defense

Internal Audit
(Oversight - Self-Monitoring/Internal
Control Evaluations (I.C.E))

External Audit

Regulator

# Internal Controls Management Process

**Prioritize**
- Oversight establishes the Control Framework, Guidance, and planning.
- Prioritize by risk areas and effort to implement.
- Assurance (2nd level of Defense) collaborate with the business to update their Risk and Control Procedure Documentation (Control Refresh).

**Implement**
- Identify and develop internal controls
- Implement recommendations to strengthen internal controls.
- Provide training as needed.

**Evaluate**
- Perform Control Validation
- Control Monitoring
- Internal Controls Evaluation
- Self Identified Issues
- Incident Management

**Remediate/Update**
- Remediation plans are drafted by the business and Control Partners
- Responsible Leaders are accountable for the internal control being updated/revised in order for the internal control to be deemed effective.
- Update control procedures in ARCS.
- Validate and monitor controls addressing risk adequately.

# Questions?