Report to the Board of Governors on the 2008 SAS 70 Audit

California ISO
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Audit Committee Meeting

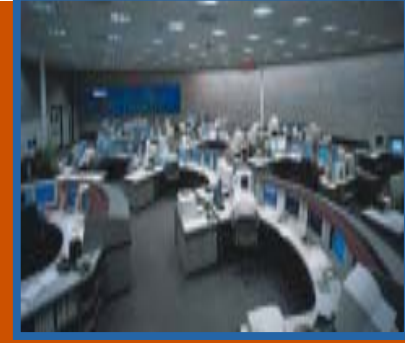General Session

February 10-11, 2009

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Agenda

➢ SAS 70 Background

➢ Results of Audit

➢ Scope of Audit

➢ Closing Thoughts

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SAS 70 Background

➢ Purpose of report

  ➢ To report on the ISO's internal controls relating primarily to its market operations and settlements activities

➢ Expected use of report

  ➢ Assurance to market participants who rely on the ISO's processing - the report is required by some market participants and their auditors to comply with Sarbanes-Oxley (404 Attest)

➢ Form of report

  ➢ AICPA Statement on Auditing Standards (SAS) No. 70: Reports on the Processing of Transactions by Service Organizations

SAS 70 Background
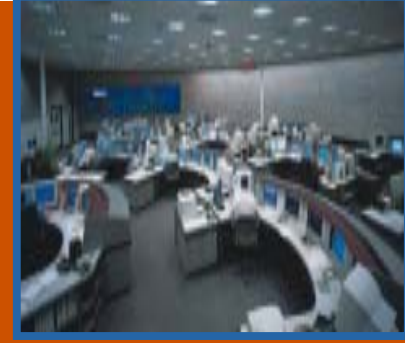
➢ This is a recurring annual audit function for the ISO – consistent with peer organizations throughout the country

➢ SAS 70 period covered - November 1, 2007 to October 31, 2008

➢ Similar scope and content to prior year except:

  ➢ Additional control objectives related to new market change types

  ➢ Removal of Systems Development Life Cycle objective - there were no ISO activities in the current year that would have utilized the controls (MRTU has passed the point the in scope controls would be relevant)

Results of Audit
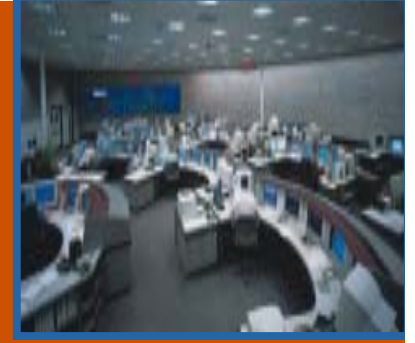
➢ PwC opinion and report issued December 19, 2008

➢ The opinion is qualified related to 1 control objective

  ➢ Qualification for limited time during the audit period

    ➢ Control Objective 23 – Logical Security (November 1, 2007 – June 1, 2008)

    ➢ As described in Section 5 of the report – the ISO has determined there was no affect on the financial settlements during the period

  ➢ Opinion is not qualified as of the audit period end (October 31, 2008)

  ➢ Other exceptions identified and disclosed in the report – did not impact the opinion

    ➢ Control Objective 22 – Change Management

Scope of Audit
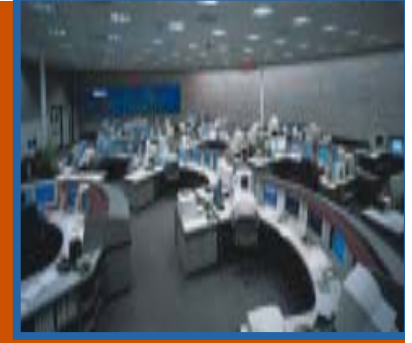
➢ Report on the ISO's internal controls – generally coverage from "bid to bill"

➢ Total of 24 Control Objectives in Scope

  ➢ 8 Objectives in Global Processes (Scheduling and Bidding, Metering, Settlements and Invoicing, and Monthly Cash Clearing)

  ➢ 11 Objectives in Business Processes Specific to Charge Types (for example RT Dispatch & RMR)

  ➢ 5 Objectives in IT Processes (IT Security, Logical Security, Change Management)

➢ Processes not included in scope of report

  ➢ Control room decisions and RMR operational judgments and decisions

  ➢ Non-active (or low activity) charge types

  ➢ Inter-zonal congestion quantities

Closing Thoughts

➢ ISO Staff have been extremely supportive of the SAS 70 Audit and related projects

    ➢ Demonstrated a high level of ownership,

    ➢ While operating under strained conditions (MRTU development)

➢ Questions

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