

Memorandum

To: Audit Committee of the ISO Board of Governors

From: Ryan Seghesio, Chief Financial Officer & Treasurer

Date: December 10, 2014

Re: Briefing on issuance of 2014 SSAE 16 audit and scope of 2015 SSAE 16 audit

This memorandum does not require Committee action.

EXECUTIVE SUMMARY

On December 5, 2014, the California Independent System Operator Corporation issued its *SSAE 16 Type 2 Audit* (SSAE 16) for the period from October 1, 2013 to September 30, 2014 and provided it to the ISO Board of Governors, Management and market participants. The SSAE 16 audit assures market participants the ISO has sufficient internal controls over the processes and procedures of market participant charges and credits, which account for market and congestion revenue rights charges and credits, grid management charges, Federal Energy Regulatory Commission fees, transmission access charges and refunds, and reliability must-run billings.

The auditor's opinion essentially states that the internal control structure is effectively designed to provide adequate controls and that, based on their testing, the controls are in fact operating as designed. Although two exceptions were noted, they were determined to be mitigated by other control activities and had no impact on the effectiveness of the controls. Therefore, the control environment was operating effectively during the audit period.

BACKGROUND

The term *SSAE 16* derives from the auditing profession's Statement on Standards for Attestation Engagements No. 16, *Reports on the Processing of Transactions by Service Organizations*. The ISO is defined as a service organization with respect to our market participants, as market participants utilize the financial information produced by the ISO market billing systems in their own financial systems. In the SSAE 16, the ISO's independent auditor, PricewaterhouseCoopers, audits the effectiveness of the internal controls related to the ISO bid-to-bill process. Many ISO market participants have shares that trade on major exchanges governed by the Securities and Exchange Commission. They are subject to the *Sarbanes-Oxley Act*, which requires them to certify the sufficiency of their own internal controls. The ISO's SSAE 16 report allows them to comply with these reporting requirements for participating in the ISO market.

The ISO's SSAE 16 report follows the standard reporting structure for internal control reports. The report contains an assertion by Management that the control environment is effectively designed and it operated effectively during the period. The report also contains a description of the high-

level organizational control environment and a structured presentation of each of our key internal control activities that are organized around twelve control objectives. There are sixty-one key control activities supporting the control objectives which contain the auditors' testing and their results. An exception in an activity can be noted by an auditor and, if not otherwise mitigated by other control activities, can lead to a qualification of the control objective.

Although exceptions were noted for two control activities, upon expanded testing they were determined to be isolated instances and had no impact on the effectiveness of the controls. The exceptions were in activities under two different control objectives.

The first control objective with an exception in one of its activities was control objective 1, which states that controls provide reasonable assurance that authorized changes to standing data used in market settlements are processed accurately and completely. There are seven different control activities that support this objective. The control activity with an exception was:

- Control Activity 1.5: For outage points used in the full network model, a Network Model Analyst Operating Engineer, Outage Coordinator or secondary Real-time Operator reviews the ISO Outage Modeling Tool to confirm that all outage points in the energy management system were entered into the ISO Outage Modeling Tool accurately and completely. The person confirming must be different than the person who entered the outage points. Any differences are investigated and resolved.
- An exception condition was identified for 1 out of 25 sample outages tested for control activity 1.5. The outage inspected was both modeled (scheduled) and reviewed (confirmed) by the same individual. An additional 25 sample outages were tested with no other exceptions noted.

The second control objective with an exception in one of its activities was control objective 7. As stated in the report, the controls for this objective provide reasonable assurance that charge components for energy and capacity quantities and prices are calculated accurately and completely. There are eight different control activities that support this objective. The control activity with an exception was:

- Control activity 7.6: For verbal exceptional dispatches manually logged in SLIC by operators, a Market Quality System Analyst reviews the log for completeness and accuracy, processes the corrections required in the market quality system, and updates the process tracking sheet as evidence of completion.
- An exception condition was identified for 1 out of 25 sample SLIC logs tested for control activity 7.6. The SLIC log correction did not match the post correction MQS data. An additional 25 sample SLIC logs were tested with no other exceptions noted.

CONCLUSION

The SSAE 16 is a comprehensive report covering our control environment. It does, however, exclude certain activities that are not subject to this control structure, such as the quality of meter data received from market participants and control room decision-making processes.

The ISO control environment reflects the overall viewpoint, awareness, commitment and actions of the Board, Management, and market participants. Management constantly reviews activities underlying the bid-to-bill process for improvement opportunities, with process improvement as one of our top priorities.