



# Memorandum

**To:** Audit Committee of the ISO Board of Governors  
**From:** Ryan Seghesio, Chief Financial Officer and Treasurer  
**Date:** December 7, 2016  
**Re:** **Briefing on issuance of 2016 market controls audit and scope of 2017 market controls audit**

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***This memorandum does not require Committee action.***

## EXECUTIVE SUMMARY

On December 5, 2016, the California ISO issued its market controls audit report (otherwise known as the *SSAE 16 Type 2 Audit*) for the period from October 1, 2015 to September 30, 2016 and provided it to the ISO Board of Governors, Management and market participants. The market controls audit assures market participants that 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, management assessments determined impact was mitigated by other control activities and there was no impact on the effectiveness of the controls. Therefore, the control environment was operating effectively during the audit period.

Furthermore, the 2017 market controls audit cycle began on October 1, 2016. PricewaterhouseCoopers (PwC) will brief the Committee on the planned scope of next year's audit.

## 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 its market participants because market participants utilize the financial information produced by the ISO market billing systems in their own financial systems. As part of the market controls audit, the ISO's independent auditor, PwC, audits the effectiveness of the internal controls related to the ISO bid-to-bill process. Many ISO market participants are publicly traded companies 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 market controls audit report allows them to comply with these reporting requirements for participating in the ISO market.

The market controls audit 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 that 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 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 two exceptions were noted for one control objective, based on assessment of the facts and circumstances, these had no impact on the effectiveness of the controls.

- The control objective with an exception in two 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 eight different control activities that support this objective.

The first control activity with an exception was 1.1: One (1) out of a sample of 45 change requests selected for testing was inadvertently approved by an unauthorized individual. Subsequently, an additional sample of 45 change requests was subsequently selected for testing and no other exceptions were noted. Management reviewed this one occurrence and found it to be an isolated case resulting from the unique access privileges of the individual. The change request in question was reviewed for accuracy and completeness prior to implementation as required by the control and there was no subsequent impact on the standing data or the settlement outcome.

The second control activity with an exception was 1.8: For two (2) of a selection of 60 sampled GeoSpatial Database markups, signature evidence of verification review was not available. Management verified that the two markups in question were validated and processed in accordance with the requirements and the issue of the missing verification signatures were oversights.

## **CONCLUSION**

The market controls audit report is a comprehensive report covering the ISO's control environment. The report excludes 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.