

# Memorandum

**To:** Audit Committee of the ISO Board of Governors  
**From:** Ryan Seghesio, Chief Financial Officer & Treasurer  
**Date:** December 12, 2013  
**Re:** **Acceptance of Audit of the California ISO Retiree Medical Plan Financial Statements**

---

***This memorandum requires Committee action.***

## EXECUTIVE SUMMARY

Moss Adams LLP was engaged to audit the financial statements and supplementary information of the *California ISO Retiree Medical Plan* for the three-year period ending December 31, 2012. The audit of these statements was completed on December 10, 2013, and the statements are attached for Audit Committee review. Similar to the audit of the ISO's other retirement plan, the 401(k), the Department of Labor rules allow the independent accountant to issue a "disclaimer of opinion", as they rely on certified financial data from the trustee of the plan. Moss Adams LLP's opinion concludes that the financial statements and supplemental schedules are presented in compliance with the Department of Labor's rules and regulations for reporting and disclosure under the Employee Retirement Income Security Act of 1974 (ERISA).

Management recommends the following motion:

***MOVED, that the Audit Committee of the ISO Board of Governors accepts the financial statements and supplementary information of the California ISO Retiree Medical Plan for the years ended December 31, 2012, 2011, and 2010, as audited by Moss Adams LLP Certified Public Accountants, and as attached to the memorandum dated December 12, 2013.***

## DISCUSSION AND ANALYSIS

### *Reason for audit*

The ERISA requires plan sponsors of certain plans to annually file an information return with the IRS after an audit has been completed by an independent accountant. Presently, the ISO's Retiree Medical Plan has fewer than 100 participants eligible to be in the plan. Therefore, the ISO is currently exempt from an annual audit of the financial statements by an independent accountant. However, as a matter of good governance, Management has elected to have the financial statements audited once every three years to ensure accurate administration of the plan. The audit was last completed for the three year period ending December 31, 2009.

### *Auditor recommendations:*

**RECOMMENDATION:      The Company should maintain and reconcile supporting records for individual retirees regarding their election, enrollment, and premiums paid to the Plan.**

During our testing, it was noted that a retiree had elected an HMO premium rate and reimbursed the Company their portion of the premium; however, upon review of provider invoices, it was noted this individual was shown as being enrolled in the PPO plan. Therefore, the Plan Sponsor was paying for a higher premium than the Company was billing the participant for coverage.

We recommend the Company reconcile premiums billed on the provider invoices to the elections made by participants.

### *Management response:*

On a monthly basis all benefit invoices; including invoices related to retirees, are audited and validated for accuracy. This practice has been in place for over eight years. For active employees, benefit plan invoices are audited to the Human Resources benefit system and to the payroll system. This process ensures that the records of the benefit provider, Human Resources system and payroll system are aligned and accurate. Since retiree records are not maintained on the Human Resources or payroll systems, the recordkeeping and audit process is manual. Even though provider invoices are reviewed, this instance was somewhat unusual in that the retiree made a benefit plan change upon becoming a retiree. Even though the provider received the new plan enrollment request, it did not make the change and left the retiree in the same benefit plan that the retiree had elected as an active employee.

Going forward, to prevent this from happening again, at the beginning of each year Human Resources and Accounting will review and approve the retiree benefit election documents to the retiree control worksheet and then to the internal retiree billing system records

maintained by Accounting. Any changes during the year to the control worksheet will also be reviewed by Human Resources and Accounting as they occur. This will ensure that retiree benefit enrollments and records are aligned and in agreement with the billing process. In addition, the benefit staff responsible for the provider invoice review will verify the monthly provider retiree invoices directly to the retiree control worksheet for accuracy.

## **CONCLUSION**

Moss Adams has completed the audit of the financial statements of the California ISO Retiree Medical Plan for the years ended December 31, 2012, 2011, and 2010. Their opinion concludes that the financial statements and supplemental schedules are presented in compliance with the Department of Labor's rules and regulations for reporting and disclosure under ERISA. While this audit is currently done on a voluntary basis by the ISO every three years, it will become a mandatory annual audit once the number of participants is 100 or more.