



Memorandum

To: Audit Committee of the ISO Board of Governors
From: Ryan Seghesio, Chief Financial Officer and Treasurer
Date: December 10, 2015
Re: **Briefing on issuance of 2015 market controls audit and scope of 2016 market controls audit**

This memorandum does not require Committee action.

EXECUTIVE SUMMARY

On December 4, 2015, the California ISO issued its market controls audit report (otherwise known as the *SSAE 16 Type 2 Audit*) for the period from October 1, 2014 to September 30, 2015 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 one exception was noted, it was 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 its market participants because 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 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-two 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 an exception was noted for one control activity, based on assessment of the facts and circumstances, it had no impact on the effectiveness of the controls.

- The 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 eleven different control activities that support this objective.

The control activity with the exception was 1.8: For 1 of 4 sampled database releases, signature evidence of verification for two of forty-nine (49) GeoSpatial database markups within one database release did not exist.

CONCLUSION

The SSAE 16 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.