Report to the Board of Governors on the Status of the 2006 SAS 70 Audit

CALIFORNIA ISO
California Independent System Operator

Board of Governors Meeting

January 25, 2007
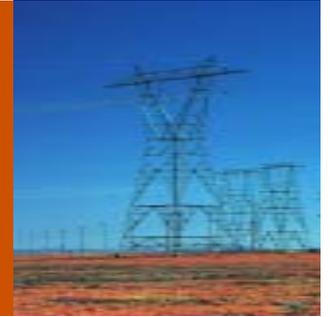
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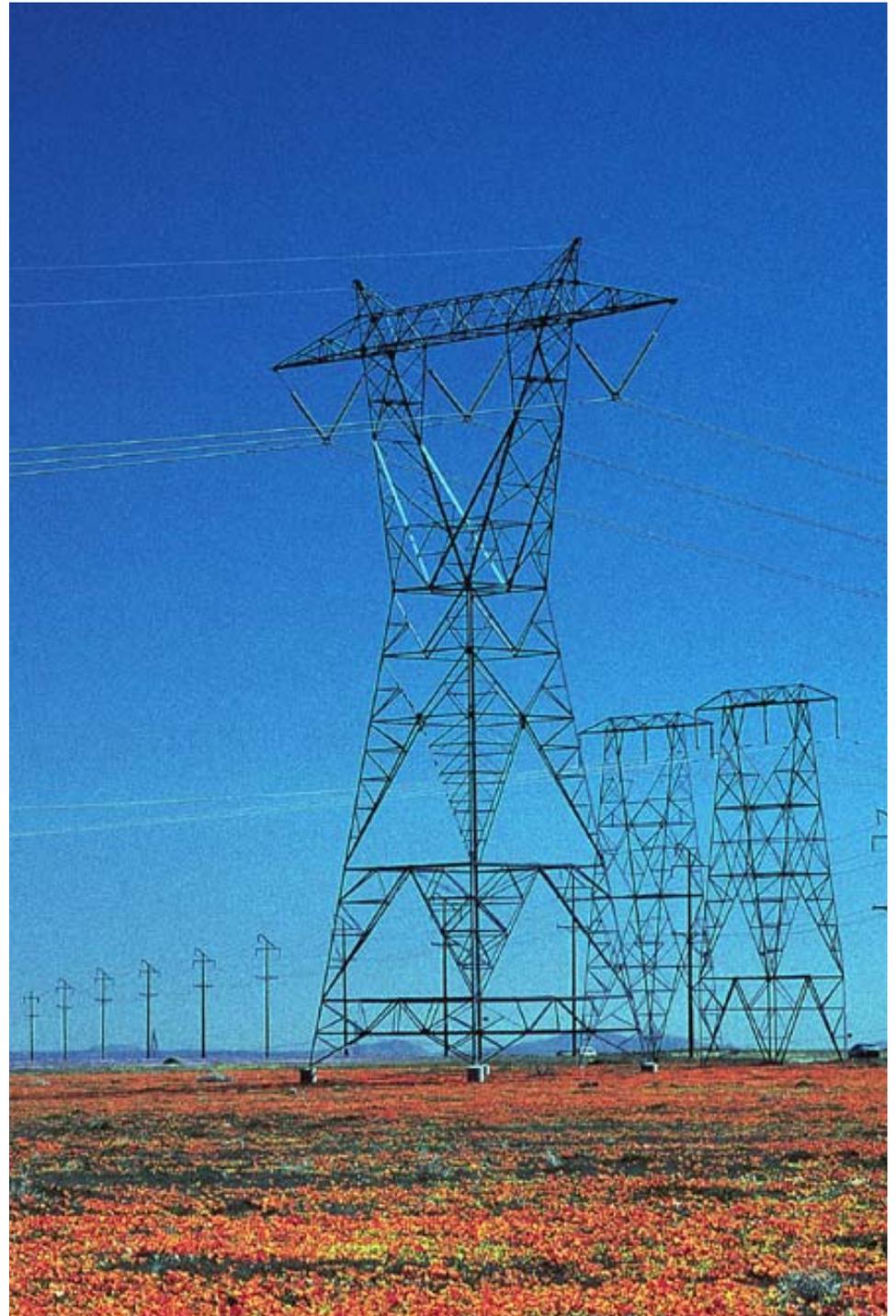
Agenda

➢ SAS 70 Background and Scope

➢ Results of Audit

➢ Closing Thoughts

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 internal controls – 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
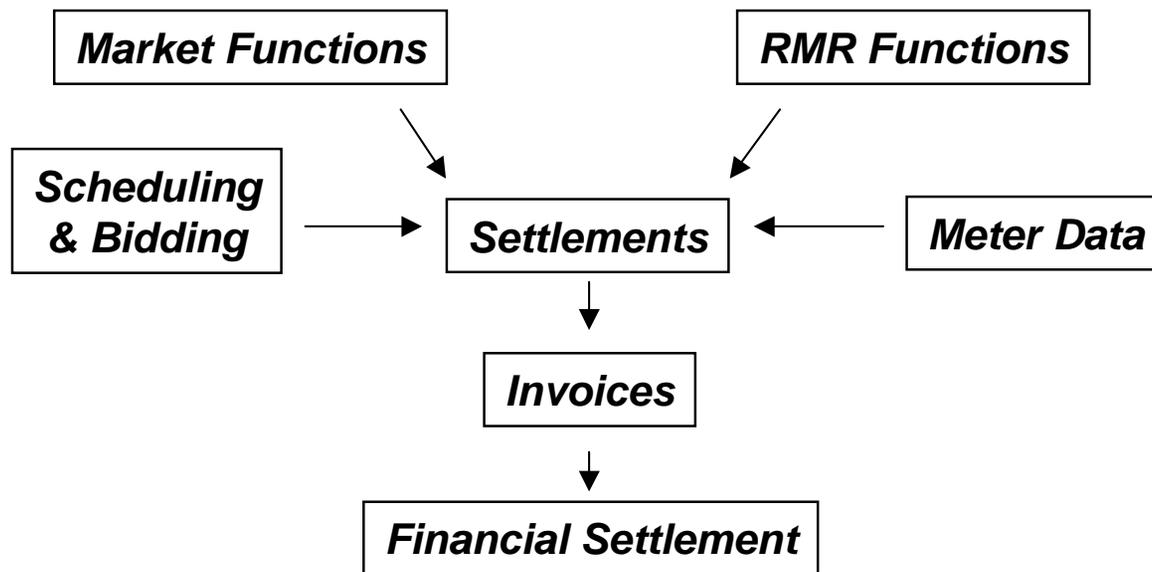
SAS 70 Background
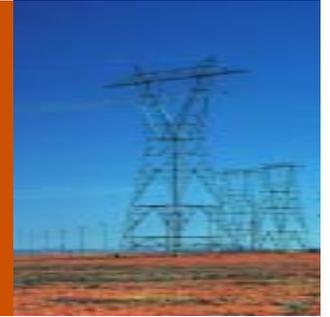
➢ This is the 3rd Type II SAS 70 Report for the ISO

➢ SAS 70 period covered - November 1, 2005 to October 31, 2006

➢ Similar scope and content to prior year except

  ➢ Scope of control objectives related to RMR have been modified to address only that billing amounts invoiced by RMR owners have been accurately and completely billed to the market by the ISO

  ➢ Other less significant control objective changes (mostly consolidation of similar objectives) – no resulting change in overall scope

SAS 70 Scope

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

➢ Total of 28 Control Objectives in Scope

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

  ➢ 14 Objectives in Business Processes (Specific to Charge Types – for example, Ancillary Services and RT Dispatch)

  ➢ 6 Objectives in IT Processes (IT Security, Change Management, Development and Implementation)

➢ Processes not included in scope of report

  ➢ Control room decisions
  ➢ Non-active (or low activity) charge types
  ➢ Inter-zonal congestion

Overview of Processes included in SAS 70

Market Functions

RMR Functions

Scheduling & Bidding → Settlements ← Meter Data

Settlements → Invoices → Financial Settlement

Infrastructure: IT Security, Change Management, Computer Operations

Results of Audit

➢ PwC opinion and report issued December 14, 2006

➢ The project was completed on-time and on-budget

➢ The opinion is unqualified

➢ Results compared to prior years - Improved from last report (opinion qualified for 2 objectives)

Closing Thoughts
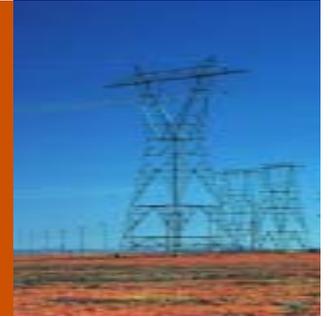
- ➢ ISO Staff have been extremely supportive of the SAS 70 Audit

- ➢ The next SAS 70 period already began on November 1, 2006

- ➢ Planned MRTU changes will not impact the 2007 SAS 70; however impacts on controls should be comprehensively assessed well in advance of January 2008 implementation

- ➢ Questions