



# Memorandum

**To:** Audit Committee of the ISO Board of Governors

**From:** Roger Collanton, Vice President, General Counsel & Chief Compliance Officer

**Date:** May 7, 2015

**Re:** **Acceptance of Code of Conduct Certification Process Report for 2014**

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

PricewaterhouseCoopers LLP completed its review of the California ISO's code of conduct certification procedures for 2014, for ISO employees, substantially full-time contractors and members of the Board of Governors. PwC issued its report on March 19, 2015.

The tariff requires that an independent accounting firm conduct an annual review of the code of conduct certification process. Furthermore, during the ISO's 2011 FERC audit, which included in its scope the ISO's compliance with independence requirements, FERC recommended that the ISO design better controls for monitoring potential conflicts of interest, including improved disclosure forms, procedures for spot-checking for potential conflicts of interest, and more effective internal auditing of the process. Management worked with PwC to implement FERC's recommendations, starting with the 2011 code of conduct review and continuing to the current 2014 review.

The FERC recommendations are reflected within the scope of the attached Code of Conduct Certification Process Report for 2014, issued by PwC, which also satisfies the tariff requirement. In particular, the scope of the 2014 review included the following:

- Inspected conflict of interest forms for signature and written disclosure of any conflicts;
- Performed independent confirmation of a sample group of employees' responses to conflict of interest form to determine if any exceptions were noted by the employee;
- Confirmed the status of "completed" for all employee required training, including training on the Code of Conduct;

- Confirmed that the Legal department conducted an assessment of all disclosed conflicts.

PwC performed these procedures with only two minor exceptions. Specifically, the ISO's internal analysis of the annual Code of Conduct disclosure forms did not include two potential conflicts of interest that were indicated on two separate employees' Conflicts of Interest Disclosure forms. In addition, the internal analysis did not include a conflict of interest that was identified by the Charles Schwab Corporation on its quarterly analysis of employees invested in prohibited investments in their retirement accounts. Once these oversights were brought to Management's attention, the analysis was promptly corrected. Also, Management confirmed that the conflicts at issue had been timely and properly handled, and that the reason for the exception was an administrative record keeping error. Based on these exceptions, Management has already implemented changes to the administrative record-keeping process, and is considering further changes to automate the process to avoid the reoccurrence of similar errors.

Management presents the report for the Committee's acknowledgement, with the following motion:

***Moved, that the Audit Committee of the ISO Board of Governors accepts the Code of Conduct Certification Process Report issued on March 19, 2015 by PricewaterhouseCoopers LLP for the testing of the ISO's code of conduct certification procedures for 2014, as attached to the memorandum dated May 7, 2015.***

Management appreciates the efforts and cooperation provided by PwC during this review process, and looks forward to enhancing its Code of Conduct processes to help eliminated exceptions going forward.