

# Memorandum

**To:** ISO Board of Governors

**From:** Nancy Saracino, Vice President, General Counsel & Chief Administrative Officer

**Date:** December 8, 2011

**Re:** **Briefing on Issuance of 2011 SSAE 16 Audit and Scope of 2012 SSAE 16 Audit**

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

## EXECUTIVE SUMMARY

On December 7, 2011, the California Independent System Operator Corporation issued its *SSAE 16 Type 2 Audit* (SSAE 16) for the period from November 1, 2010 to October 31, 2011 and provided it to the ISO Board of Governors, Management and market participants. The SSAE 16 assures market participants 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. Therefore, the control environment was operating effectively during the 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 SSAE 16 replaces the previous standards referred to as SAS 70. The ISO is defined as a service organization with respect to our market participants. In the SSAE 16, independent auditor PricewaterhouseCoopers audits the effectiveness of the ISO bid-to-bill process internal controls. 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 SSAE 16 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. New to the report this year is an assertion by management that the control environment is effectively designed and operated effectively during the period. There is 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 12 control objectives. The auditors testing and their

results are reported on the key internal control activities, of which there are 71. Although 2 exceptions were noted, they were determined to be isolated and had no impact on the effectiveness of the controls. The SSAE 16 is a comprehensive report covering our control environment. It does, however, exclude certain activities that are not subject to this control structure - such as the quality of meter data received from the market or the control room decision making processes.

The ISO control environment reflects the overall viewpoint, awareness, commitment and actions of the Board, Management, and other market participants. Management constantly reviews activities underlying the bid-to-bill process for improvement opportunities, with process improvement as one of our top priorities.

At the December Board meeting, PricewaterhouseCoopers will brief the Board on the SSAE 16 audit report and their audit plan for 2012.