

# Memorandum

**To:** ISO Board of Governors

**From:** Ryan Seghesio, Chief Financial Officer & Treasurer

**Date:** October 31, 2013

**Re:** **Decision on Modifications to Audit Committee Charter**

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***This memorandum requires Board action.***

## EXECUTIVE SUMMARY

Management proposes modifications to the Audit Committee Charter to address changes to the review process for engagement letters by which the ISO procures independent auditor services. The changes are to further align the ISO processes with the spirit of the Sarbanes-Oxley requirements that govern publicly traded companies.

In general, the proposed changes will require that the Audit Committee preapprove all engagement letters for audit and non-audit services from independent accounting firms. The engagement letter from the independent accounting firm covers the scope of the services to be provided as well as the proposed fees. Consistent with the Sarbanes-Oxley Act, a de minimis rule will exempt certain non-audit services and amendments for smaller scale services.

The changes will require that the engagement letters for the regularly scheduled audits that the ISO currently performs be preapproved by the Audit Committee. Those audits are the following:

- Financial statements
- SSAE 16 market controls
- Operations
- Retirement Savings Plan
- Retiree Medical Plan (conducted every three years)

The de minimis rule will exempt non-audit services, namely, engagements with audit firms for which no audit opinion is produced, that do not exceed \$50,000 in total fees. In addition, amendments to preapproved audit engagement letters that result in additional fees of less than \$50,000 and inconsequential changes to the scope of the audit will also be exempt from Audit Committee preapproval. While preapproval is not required,

all engagements and amendments exempt under the de minimis rule will be reported to the Audit Committee promptly after execution. The regularly scheduled services that fall in this category include:

- Code of Conduct agreed upon procedures review
- Annual tax filing services

Management recommends the following motion:

***MOVED, that the ISO Board of Governors approves the modifications to the Charter of the Audit Committee as attached to the memorandum dated October 31, 2013.***