

# MARKET PARTICIPANT AUDIT ADVISORY SUBCOMMITTEE MEETING

August 17, 2005

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LOCATION: NYISO, Albany, NY

## Meeting Minutes

### *Attendees' Names*

### *Representing*

#### MPAAS Members

Robert Farrell (Chair)	LIPA
Walter Werther (Vice Chair)	KeySpan
Arthur Brennan	NYPA
John Ventura	Con Ed
Daniel Zeppetello	National Grid

#### MPAAS Guests

Rich DeJong (Telephone)	Energy East
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#### NYISO Staff

Marc Rubin  
Leigh Bullock  
Brad Kranz  
Andy Ragogna

(Prior to the MPAAS meeting, MPAAS members participated in the NYISO's Risk Assessment, utilized to prepare the 2006 Internal Audit Plan.)

Mr. Farrell, of LIPA, called the meeting to order.

### **I. Approval of Minutes from June 16, 2005**

The minutes from the June 16, 2005 MPAAS meeting were approved with revisions and will be posted on the NYISO website.

### **II. Action Items**

Mr. Marc Rubin reviewed the action items from the July 16, 2005 MPAAS meeting.

Action item #:

1. TCC issues: Mr. Rubin confirmed that the TCC issues are on the BIG list.
2. Multiple billing lists: Mr. Rubin explained that there are two versions of this list; an internal list that encompasses all issues and a public list that excludes internal projects.

3. KPMG: Mr. Rubin reported that KPMG has not yet attended a Billing Workshop; they have been invited to the next one and have expressed an interest in attending.
4. Ernst & Young Contract (Article 10 review): Mr. Rubin confirmed that the wording was sent to him and Liz Grisaru and they have reviewed it.
5. Briefing on Bearing Point: Mr. Rubin explained that because this briefing was considered a consultation to NYISO Management to improve the TCC control process, and was not an audit, it was not deemed appropriate to have Bearing Point come to an MPAAS meeting with their observations. Mr. Ventura stated that this was a process to improve controls, and the NYISO should be willing to share Bearing Point's observations on controls on the process. Mr. Rubin noted that Bearing Point's work did not come under the governance definition. Mr. Brennan asked if it could be assumed that whatever Bearing Point suggested is being implemented or taken into consideration. Rubin replied, yes, everything they did was reviewed/taken into consideration, and most were implemented. The MPAAS expressed dissatisfaction that this information would not be shared with them.
6. Facility Contract: Mr. Ragogna provided an overview of the status of new building.
7. TCC settlement Issue: Mr. Rubin confirmed that the NYISO Board of Directors was advised that the TCC errors did include elements other than the 912 MW error in late January 2005.
8. KPMG: the request to have KPMG come before the MPAAS was considered, and the MPAAS was briefed by KPMG on July 28, 2005 on the SAS 70 work.
9. System Blackout Event restoration: Mr. Rubin reported that all commitments had at least been started; some were already finalized.
10. D&T review of officers' expenses: Mr. Rubin reported that D&T does not look at every Officer's expense report; instead, they sample the expense reports. Mr. Farrell expressed concern regarding the sample, stating that all officer expenses should be looked at.
11. MPAAS meeting to discuss IA/ERM risk assessment process: this request was completed just prior to the meeting.

### **III. SAS 70**

Mr. Rubin provided a status update on the SAS 70 Audit. KPMG is moving forward, and has been performing testing and will be back to finish the testing. At the June MPAAS meeting, members had asked if billing issues/risk assessments could be discussed at an upcoming BAWG (Billing and Accounting Working Group) meeting with KPMG. Mr. Rubin reported that this request had been raised to the NYISO Board's Audit and Compliance Committee, which felt that the appropriate forum for this discussion was the MPAAS, rather than having KPMG go before the BAWG. Mr. Rubin added that that arrangements can be made for KPMG to meet with the MPAAS again and additional subject matter experts (e.g., BAWG representatives) could be invited to attend. MPAAS members did not agree with this decision and stated that they would prefer that KPMG meet, even informally, with the BAWG chair.

The MPAAS expressed concern that the KPMG SAS 70 auditors have never consulted with the BAWG and therefore did not have a clear understanding of the billing issues. It is the MPAAS's opinion that the auditors should be talking to BAWG representatives, who are the central point of focus regarding billing issues. Mr. Rubin noted that the auditors could speak with any Market Participant representatives; however, the appropriate forum would be at an MPAAS meeting.

Mr. Ragogna asked the MPAAS if they had an issue with BAWG representatives attending an MPAAS meeting. Mr. Ventura replied that he felt that a BAWG meeting would be a more appropriate forum, and reiterated his opinion that the subject matter experts dealing with billing issues should be consulted and involved in the process, in order to plan a well thought out audit plan. Mr. Ragogna pointed out that there are NYISO representatives at every BAWG meeting, who are well informed of the issues and able to provide input to KPMG. The MPAAS stated to Mr. Ragogna that while the BAWG had raised the issue of the high TCC shortfall issues for several years, the NYISO representatives at BAWG did not initiate appropriate inquiries to find the reasons: ultimately the overselling of the 912 MW. They also said that reliance on the NYISO's representation at the BAWG to adequately represent potential internal control issues to the KPMG was inadequate.

MPAAS members felt they should have been informed sooner of the decision to not have KPMG meet separately with the BAWG. Mr. Ragogna suggested that the MPAAS schedule a special meeting with BAWG members to discuss billing issues and potential audit areas.

The MPAAS concluded that they will look into scheduling a meeting, possibly via conference call, with BAWG members. Additionally, Mr. Farrell advised that he would send Mr. Rubin BAWG billing issues to be provided to KPMG for their consideration in the SAS 70 testing plans. Mr. Farrell asked each MPAAS member to provide input from their BAWG representatives. The input will be reviewed with the BAWG Chair prior to it being sent to Mr. Rubin.

#### **IV. Article 10**

Mr. Ventura reported that the last open item involved the language in paragraph 13 of the Confidentiality Agreement. The original wording was considered unacceptable to the MPAAS, as they believed it could possibly allow information to be intentionally withheld. Mr. Ventura reported that he had worked with Ms. Grisaru, the NYISO attorney, on new language, which was sent to Mr. Rubin and MPAAS and deemed acceptable by all. Mr. Rubin informed the group that the NYISO is going through a final review; and once signed by the NYISO CEO, it will be posted and official. Mr. Ventura requested a deadline of September 30<sup>th</sup> for this to be posted, and Mr. Rubin indicated that he believed it could be done by then.

#### **V. Update on 2005 Audit Plan**

Mr. Rubin provided an update on the 2005 Internal Audit Plan. Several reviews in the Plan were completed, and some changes were made affecting the schedule. Extra emphasis had been put on fraud work. Mr. Rubin noted that IA was making significant progress on the Plan.

Mr. Rubin reported that the NYISO Board's Audit & Compliance Committee (A&C) is continually looking at what is appropriate with regard to the responsibilities under the shared governance and as a result, the Board has refined the current protocols concerning MPAAS access to internal controls and modifications. Mr. Rubin reviewed the types of review issues that would be shared in detail with the MPAAS (as COSO-based briefings), which includes issues related to billing accuracy, financial reporting, Tariff/Agreement/Regulatory non-compliance noted, SAS 70-related items, Sarbanes-Oxley-related items, and insurance liability items. Mr. Rubin described the issues that will be withheld (in detail, but will be summarized) from the MPAAS as "management issues".

MPAAS members expressed the opinion that this change was unacceptable. Mr. Brennan stated that after many years of discussion there was agreement that billing audits would be shared with MPAAS, and the A&C had concurred on this in February 2005. Mr. Ventura stated that there has been a 5-year struggle to get to a point that the process relative to audit briefings met the expectations of the MPAAS Charter. Mr. Ventura stated that if the NYISO is conducting a billing audit, all information pertaining to the audit should be shared with the MPAAS. He added that the Audit & Compliance Committee's decision to limit information to the MPAAS was based on a vague determination of what does and doesn't fall under governance. Mr. Ventura stated that with this unilateral decision the A&C Committee has eliminated the progress towards transparency that has been made over the last several years, and because the NYISO will decide which components of billing audits are management issues, operational improvements, or effectiveness/efficiency findings and recommendations, the MPAAS won't have any assurance that the full implication of the audit on billing internal controls is being communicated to them. He asked who is making the decisions on what can and can't be conveyed to MPAAS. Mr. Ventura felt this change was a violation of the February 2005 verbal agreement with the A&C Committee. Mr. Ragogna and Mr. Rubin will take the concerns back to the Board.

Mr. Ragogna informed the MPAAS that they have the opportunity to address this issue at the Board of Directors (BOD) Liaison meeting with MPs. He added that the Board is constantly reviewing all audit activity, including information sharing with MPAAS. MPAAS members repeated that they would like to see all aspects of billing audits.

Mr. Brennan asked why certain information is not being shared with the MPAAS. He asked for a definition of what is governance-related, and this was provided by Mr. Rubin. The general opinion from MPAAS was that these changes should have been discussed with them prior to the final decision by the Audit & Compliance Committee. The MPAAS did not agree that this change or the method of handling it was acceptable and will raise their concerns at a future Management Committee meeting.

The MPAAS recessed for an Executive Session.

(The MPAAS meeting was recessed for a TCC audit status meeting.)

## **VI. Audit Briefings**

Mr. Rubin provided an overview of the Audit briefings, reviewing the following IA audits –

- COSO-based briefings:
  - 4-45 – E-Tagging – Post-Implementation
  - 4-51 – IT – Security – NT/Windows
  - 4-52 – IT – Security – UNIX
  - 5-17 – Meter Accuracy
  - 5-22 – Day-Ahead Margin Assurance Payment
- Summary briefings:
  - 4-43 – Legal – COSO Alignment
  - 5-08 – IT – Oracle Financials
  - 5-16 – ICAP – Project Process
  - 5-19 – TCC Validation (overview)
  - 5-30 – Gas Card

### **VIII. Other Business**

SMD2 implementation: no update. A BAWG representative will be attending future MPAAS meetings to provide information on this project.

TCC automation: internal work has been started on this. Mr. Rubin noted that the first IA project process scorecard would be issued this week. Mr. Brennan felt that at some point auditors should be brought back to look at residual adjustments.

ICAP Automation: this project is on target for deployment during September.

New NYISO Building was discussed.

### **IX. Next Meeting**

The next MPAAS meeting will be held on October 20, 2005 at the NYISO, Albany.

In addition a teleconference meeting to update the group on the TCC audit engagement will be scheduled on Wednesday, Sept. 14<sup>th</sup> at 10:00 am. Additional information on this meeting will be provided to the MPAAS.

### **Action Items**

1. Mr. Farrell will send Mr. Rubin a list of BAWG issues to be forwarded to KPMG for their consideration in the SAS 70 testing plans.
2. The Article 10 process should be completed and posted by September 30, 2005.
3. Mr. Rubin and Mr. Ragogna will convey to the A&C Committee the MPAAS' complete dissatisfaction with the changes to the briefing protocol.