



**The Finance & Audit (F&A) Committee is
expected to consider
F&A Committee Agenda Item 7:
*Recommendation regarding Acceptance of
2013 Service Organization Control (SSAE 16)
Audit Report*
at its meeting on November 18, 2013.**

**The Board of Directors is expected to hear the
F&A Committee's recommendation on this matter
as part of the F&A Committee Report at
the Board meeting on November 19, 2013.**

**Attached are the Committee and Board materials
in relation to these agenda items.**



Item 7: Recommendation regarding Acceptance of 2013 Service Organization Control (SSAE 16) Audit Report

Allison Atherton

ERCOT Business Process Controls and Risk Manager

Finance & Audit Committee Meeting

ERCOT Public

November 18, 2013

2013 Service Organization Control Audit Report Acceptance

- **Statement on Standards for Attestation Engagements No. 16 (SSAE16) is the AICPA audit standard for reporting on controls at service organizations. ERCOT’s SSAE16 audit covers the controls surrounding the settlement operations.**
- **The F&A Committee Charter specifies that “based on its review and discussions with management and the independent auditor, the Committee shall provide a recommendation to the Board whether the Company’s SSAE16 audit report should be accepted.”**
- **The confidential draft SSAE16 audit report for the twelve (12) months ending September 30, 2013 (i.e., the 2013 Service Organization Control Audit Report) is available for the F&A Committee’s consideration for recommendation to the Board. The confidential draft is provided to the F&A Committee with its Executive Session materials (Agenda Item ES 3.1).**

Request for Recommendation to the Board

- **With regard to the draft 2013 Service Organization Control Audit Report:**
 - It is expected to be issued with an unqualified opinion.
 - There were four (4) control testing exceptions.
- **Testing exceptions relate to:**
 - Retail EDI Processing—Error notification messages were not generated on December 3, 2012 due to hardware outage.
 - Meter Data Acquisition and Validation EPS—A data entry error resulted in a report not being generated on one sample date. Review by ICMP determined that the activity is a process as opposed to a control and will be removed as a control, without impact to Market operations, in 2014.
 - Meter Data Aggregation Unaccounted Energy—Analyses were not generated on December 3, 2012 due to hardware outage.
 - Computer Operations—Failure to perform off-site production back-up tape storage for one week sampled.

Request for Recommendation to the Board (continued)

- **ERCOT staff requests the F&A Committee recommend that the Board of Directors accept the 2013 Service Organization Control Audit Report.**
- **The Board meeting materials for this topic are hereby provided for the F&A Committee's consideration. Please refer to the F&A Committee Report of the November 19, 2013 Board agenda (Board Agenda Item 8.1) for the Board decision template. Due to the confidentiality of the draft 2013 Service Organization Control Audit Report, it is available solely for the F&A Committee's electronic viewing under F&A Agenda Item ES 3.1 and the Board's electronic viewing under Board Agenda Item ES 9.1.**

<Vote>



Date: November 12, 2013
To: Board of Directors
From: Bill Magness, Vice President, General Counsel and Corporate Secretary
Subject: Acceptance of 2013 Service Organization Control (SSAE 16) Audit Report

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: November 19, 2013

Item No.: 8.1

Issue:

Acceptance of the 2013 Service Organization Control Audit Report.

Background/History:

Per section 1.4.3.1 (1) of the ERCOT Nodal Protocols (entitled “Audits to be Performed”), “At least annually, an Appointed Firm shall perform an audit of ERCOT based on Statement on Standards for Attestation Engagements, No. 16 (SSAE 16).”

Subsequent to approval by the Finance and Audit (F&A) Committee of the Board on November 12, 2012, BrightLine Certified Public Accountants & Associates Inc. (BrightLine), the Independent Service Auditor, was engaged by ERCOT to perform the Service Organization Control audit [currently known as SSAE 16 audit and formerly known as Statement on Auditing Standards No. 70 (SAS 70) audit] for 2013.

BrightLine’s opinion on the SSAE 16 audit for the period from October 1, 2012 to September 30, 2013 is unqualified. There were four testing exceptions.

On November 18, 2013, BrightLine will meet with the F&A Committee to review the proposed SSAE 16 Audit Report for the twelve-month period ended September 30, 2013 (also known as the 2013 Service Organization Control Audit Report). Given the unqualified opinion, the 2013 Service Organization Control Audit Report is expected to be recommended by the Committee to the Board for acceptance.

Due to the confidentiality of the draft 2013 Service Organization Control Report, it is available solely for the Board’s electronic viewing in the Board’s Executive Session meeting materials under Agenda Item ES 9.1.

Key Factors Influencing Issue:

1. ERCOT protocol 1.4.3.1 (1) requires an annual SSAE 16 audit be performed;
2. Certain external organizations, including Market Participants, utilize the SSAE 16 Audit Report as an assurance of the suitability of ERCOT internal controls in connection with certain Sarbanes-Oxley reporting requirements;
3. Because most Market Participants’ fiscal years end December 31st, acceptance of the SSAE 16 Audit Report in a timely manner will allow the Report to be utilized in connection with preparation of their year-end financial statements.



Conclusion/Recommendation:

ERCOT staff recommends acceptance of the 2013 Service Organization Control Audit Report by the Board. The F&A Committee will be considering recommendation of acceptance of this Report at its November 18, 2013 meeting.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, Section 1.4.3.1(1) of the ERCOT Nodal Protocols (entitled “Audits to be Performed”) requires that at least annually, an Appointed Firm shall perform an audit of Electric Reliability Council of Texas, Inc. (ERCOT) based on Statement on Standards for Attestation Engagements, No. 16 (SSAE 16);

WHEREAS, on November 12, 2012, the Finance and Audit (F&A) Committee of the ERCOT Board of Directors (Board) approved the selection of BrightLine Certified Public Accountants & Associates Inc. (BrightLine), as the Independent Service Auditor, to perform Service Organization Control audit [currently known as SSAE 16 audit and formerly known as Statement on Auditing Standards No. 70 (SAS 70) audit] for 2013;

WHEREAS, BrightLine’s opinion on the SSAE 16 audit for the period from October 1, 2012 to September 30, 2013 is unqualified;

WHEREAS, after due consideration of the alternatives, the F&A Committee has recommended that the Board accept the SSAE 16 audit report for the twelve month period ended September 30, 2013 (also known as the 2013 Service Organization Control Audit Report), as presented by BrightLine at its meeting on November 18, 2013; and

WHEREAS, the Board deems it desirable and in the best interest of ERCOT to accept the F&A Committee’s recommendation to accept the 2013 Service Organization Control Audit Report;

THEREFORE, BE IT RESOLVED, that the 2013 Service Organization Control Audit Report is hereby accepted.

CORPORATE SECRETARY’S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its November 19, 2013 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of November, 2013.

Vickie G. Leady
Assistant Corporate Secretary