

**MINUTES OF THE REGULAR MEETING
OF THE
AUDIT COMMITTEE**

July 31, 2012

Table of Contents

<u>Subject</u>	<u>Page No.</u>	<u>Exhibit</u>
Introduction	2	
1. Adoption of the Proposed Meeting Agenda	3	
2. Approval of the Minutes of the Regular Meeting of March 27, 2012	4	
3. Internal Audit Activity Report – June 30, 2012	5	“3-A – 3-C”
4. Motion to Conduct an Executive Session	8	
5. Motion to Resume Meeting in Open Session	9	
6. Authorization to Engage with KPMG to Provide Consultation Services Associated with Participation in New York TransCo	10	
7. Next Meeting	11	
8. Closing	12	

Minutes of the regular meeting of the New York Power Authority's Audit Committee held at the Authority's offices at 123 Main Street, White Plains, New York at approximately 10:10 a.m.

The following Members of the Audit Committee were present:

Trustee Terrance P. Flynn, Chairperson
Trustee Eugene L. Nicandri
Trustee R. Wayne LeChase

Also in attendance were:

John R. Koelmel	Chairman
Gil Quiniones	President and Chief Executive Officer
Judith McCarthy	Executive Vice President and General Counsel
Donald Russak	Chief Financial Officer
Karen Delince	Corporate Secretary
William Nadeau	Senior Vice President and Chief Risk Officer
Thomas Concadoro	Vice President and Controller
Lesly Pardo	Vice President – Internal Audit
Dennis Eccleston	Chief Information Officer
Gary Schmid	Manager – Network Services
Lorna Johnson	Assistant Corporate Secretary
Sheila Baughman	Senior Secretary, Corporate Secretary's Office

Chairman Terrance P. Flynn presided over the meeting. Corporate Secretary Delince kept the Minutes.

Introduction

Chairman Terrance Flynn welcomed committee members Trustees Nicandri and LeChase, also Chairman Koemel and Authority senior staff to the meeting.

1. **Adoption of the Proposed Meeting Agenda**

By motion made and seconded the agenda for the meeting was adopted.

2. **Approval of the Minutes**

The Minutes of the Committee's Regular Meeting of March 27, 2012 were approved.

3. **Internal Audit Activity Report – June 30, 2012**

Mr. Lesly Pardo submitted the following report:

SUMMARY

“The Internal Audit Activity Report covers the performance of the Internal Audit Department for the period of January 1 through June 30, 2012.

“For the first six months of 2012, Internal Audit completed 16 audits; one special project and three audits were in progress. Based on the 2012 Internal Audit Plan, there are 21 audits remaining and these audits are scheduled to be completed in the last six months of 2012. Internal Audit issued 11 audit reports containing 28 recommendations to improve internal controls/operational efficiency. All issues and recommendations are being appropriately addressed by management.

“During the first six months of 2012, Internal Audit completed several other projects, including assistance to the Ethics Office in the investigation of Whistleblower Events and work on the Economic Development Job Commitment audits.

BACKGROUND

“The Internal Audit Department is an independent, objective and consulting function designed to add value by improving the Authority’s internal control structure and operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate, test and improve the effectiveness of internal controls, risk management and governance processes.

“The Audit Committee Charter states that the Committee is to provide direct oversight of the internal audit function and shall meet at least three times a year with the head of the Office of Internal Audit (“OIA”) for the purpose of reviewing audit activities, audit findings, management’s responses, remedial action plans, and providing the OIA an opportunity to discuss items and topics of relevance to the Audit Committee.

“The purpose of this report is to provide the Audit Committee the status of the 2012 Internal Audit Plan which was reviewed by the Committee at its meeting in February.

DISCUSSION

1. **Highlights as of June 30, 2012**

- Completed 16 audits and one special project including 12 financial/operational and four (4) information technology audits.
- Three (3) audits were in progress.
- Twenty-one (21) audits remaining based on 2012 Internal Audit Plan.
- Issued 11 audit reports containing 28 recommendations to improve internal controls/operational efficiency. Five reports currently under review.
- All issues and recommendations are being appropriately addressed by management and have either been implemented or are scheduled for implementation.
- No restrictions have been placed on Internal Audit’s work. Full cooperation is being received at all levels.
- There are no matters that need the Committee’s attention.

2. Audits Completed/In-Progress

- A. Exhibit “A” lists all audits in the 2012 Audit Plan and their current status. As of June 30, 2012, approximately 48% of the audits in the Audit Plan have been completed or are in progress. The following reports were issued in the first six months of 2012:

<u>Report</u>	<u>Date</u>
Generation Resource Management	02/28/2012
Mobile Device Security & Controls	02/28/2012
STL LEM	03/09/2012
SAP – Business Intelligence	03/09/2012
SENY Governmental Customers – LTA	04/16/2012
Hydro Revenues	04/18/2012
Health & Safety Program – Training	04/30/2012
Central Region O&M	05/30/2012
Headquarters ProCard	05/31/2012
B-G Finance & Administration	06/15/2012
Operational Planning	06/15/2012

Exhibit “B” provides a summary of audit reports issued, including audit objectives and findings and/or recommendations.

- B. Reports under Review with Management:

- Enterprise Risk Management
- NYISO Energy Settlements – LSE
- Information Security – SAP
- Navigant Consulting Contracts
- White Plains Office Data Center

- C. Audits in Progress:

- Flynn Outage Management
- Fleet Operations
- Astoria Energy II Project Agreement

3. Other Internal Audit Activities

- A. Investigation Support

During the first six months of 2012, Internal Audit assisted the Ethics Office in the investigation of Whistleblower Events.

- B. Economic Development Programs Job Commitment Audits

A sample of 35 hydropower customers (replacement and expansion) was selected for audit. The purpose of these audits is to verify the accuracy of job reports submitted by customers. These audits are being conducted by an outside consultant.

- C. Transmission Consulting Project

IA participated in a benchmarking study, along with Transmission Division personnel, to identify best practices in the management and monitoring of Right-of-Way Vegetation Program costs.

4. Internal Audit Plan – July through December 2012

There are 21 audits remaining in the 2012 Audit Plan, including 15 Financial/Operational and six (6) Information Technology audits; these audits are scheduled in the second half of 2012.

Exhibit “C” lists the audits and audit scope.”

4. **Motion to Conduct an Executive Session**

Mr. Chairman, I move that the Authority conduct an executive session pursuant to the Public Officers Law of the State of New York section §108 to discuss matters relating to contract negotiations. Upon motion made and seconded, an Executive Session was held.

5. **Motion to Resume Meeting in Open Session**

Mr. Chairman, I move to resume the meeting in Open Session. Upon motion made and seconded, the meeting resumed in Open Session.

6. **Authorization to Engage with KPMG to Provide Consultation Services Associated with Participation in New York TransCo**

Mr. Donald Russak provided highlights of staff's recommendation to the Committee. He said the Authority has been exploring potential participation in a joint venture with other transmission entities in the state which may result in the formation of New York TransCo. Authority staff is now requesting the Committee's approval to retain KPMG for non-audit related services, i.e., tax and consulting services, under the terms of the existing agreement with KPMG, as it relates to this endeavor.

The following resolution was unanimously adopted.

RESOLVED, That the Audit Committee hereby authorizes the engagement of KPMG LLC to provide tax and other consultation services to the Authority relating to its potential participation in creating a public-private transmission joint venture (New York TransCo or TransCo) under the existing contract with KPMG for independent accounting services.

7. **Next Meeting**

The next Regular Meeting of the Audit Committee will be held on **Thursday, September 20, 2012, to commence at approximately 9:30 a.m.**, at the New York Power Authority's Albany Office, unless otherwise designated by the Chairman with concurrence of the Committee Members.

July 31, 2012

Closing

On motion made and seconded, the meeting was adjourned by the Chairman at approximately 10:50 a.m.

A handwritten signature in cursive script, appearing to read "Karen Delince".

Karen Delince
Corporate Secretary

July 31, 2012

EXHIBITS

For

July 31, 2012

Meeting Minutes

2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/12
AUDIT PLAN UPDATE

Exhibit A

FINANCIAL

- SENY Government Services Program
- Salary Administration
- Generation Resource Management (CI)
- Hydro Revenues (CI)
- ReCharge NY Customer Revenues
- SENY Long-Term Agreement (CI)
- NYISO Energy Settlements – Load Serving Entities (CR)
- Public & Governmental Affairs Expenditures
- Astoria Energy II Project Agreement (IP)
- Fleet Operations/Corporate Plane (IP)
- Headquarters ProCard (CI)
- Purchasing/Warehousing CEC
- B-G Finance & Administration (CI)
- NYISO Installed Capacity
- NYISO Transmission Settlement

INFORMATION TECHNOLOGY

- Mobile Device Security and Controls (CI)
- SAP – General Ledger
- Electronic Record Management System
- Energy Management System
- Information Security – SAP (CR)
- SCADA System
- SAP Business Intelligence (CI)

INFORMATION TECHNOLOGY (Continued)

- IT Disaster Recovery Plan
- WPO Data Center (CR)
- SAP Business Planning Consolidation

OPERATIONAL/COMPLIANCE

- ReCharge NY Program Management
- Energy Services Operations
- Power Supply Operational Planning (CI)
- Public Authorities Law (PAL) Compliance
- Counterparty Credit
- St. Lawrence Life Extension (CI)
- Enterprise Risk Management (CR)
- Licensing Operations & Compliance
- SENY Outage Management (IP)
- Central Region O&M (CI)
- Safety Program (CI)
- Small Clean Power Plants O&M
- Configuration Management Program

OTHERS

- Transmission Consulting Project (CR)
- Vendor Contract Audits (IP)
- Assistance to KPMG
- Hydro Customer Job Commitment Audits (IP)

CI = Completed and Report Issued.

CR = Completed and Report under Review with Management.

IP = In-Progress.

2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/12
REPORT RECAP

Exhibit B

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Generation Resource Management	Review processes and controls over the bidding of NYPA generation resources in the NYISO markets. Verify compliance with established policies and procedures. Assess the effectiveness of management's monitoring and reporting process.	<ul style="list-style-type: none"> -Controls over the bidding of NYPA generation resources are effective. -The Energy Risk Assessment and Control Group should coordinate efforts with Generation Resource Management (GRM) to implement a process to evaluate GRM's bidding effectiveness. -Formal procedures should be established to address system and/or equipment failures. -A review of user access rights to the Trade Manager module should be performed on a quarterly basis.
St. Lawrence/FDR Power Project Life Extension and Modernization (LEM)	Evaluate the adequacy and effectiveness of project management/administrative controls. Ensure appropriateness of financial management activities including compliance with procurement, cost estimating, quality assurance and Accounting policies and procedures.	<ul style="list-style-type: none"> -Processes and controls over the St. Lawrence LEM Project are adequate and effective. -Administrative control procedures over Additional Work Requests and Additional Work Authorizations should be adhered to.
Mobile Devices Security and Controls	Test and evaluate the security and controls over mobile devices to determine if they are adequately protected from unauthorized access, use, disclosure or modifications, damage, or loss using best security practices.	<ul style="list-style-type: none"> -Internal controls over the Mobile Devices Security and Controls Program are effective. -Antivirus application was not installed or updated on some Apple based mobile devices such as MacBook, iPad, iPhone and Mac.

2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/12
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
SAP – Business Intelligence (BI)	Review, test and evaluate SAP BI application controls, documentation and procedures.	<ul style="list-style-type: none"> -Internal controls and procedures are adequate for the SAP BI application. -The reconciliation process between SAP BI and the NYISO invoice should be documented and maintained by Accounting personnel.
SENY Governmental Customers – Long Term Agreement (LTA)	Review processes and controls in the development of Annual Cost of Service and the reliability of financial and operating information used in connection with the LTA. Verify compliance with the various terms and conditions of the LTA. Review management reporting process for timeliness and accuracy.	<ul style="list-style-type: none"> -Controls over the administration of the SENY LTAs are working effectively. -The process for reviewing the Annual Cost of Service and the Monthly Actuals/Variance Report should be formally documented.
Health and Safety Program	Review processes and controls related to identifying required safety training as well as developing, delivering and tracking/monitoring required training. Review Health and Safety Program performance measures.	<ul style="list-style-type: none"> -Controls related to training and performance management are adequate and generally working effectively. -Clarify roles, responsibilities and expectations for Health and Safety training. -Human Resources should update and deliver annual Workplace Violence Training. -Procurement should ensure that all construction related contracts contain the standard health and safety language.

2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/11
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Hydro Revenues	Determine the adequacy and effectiveness of procedures and controls over Niagara/St. Lawrence revenues. Review procedures for billing of Municipal customers, Expansion and Replacement customers and Direct Service Industrial customers. Review processes related to Energy Accounting.	<ul style="list-style-type: none"> -Processes and related controls are adequate and working effectively. -A Variance Report detailing significant billing amounts that are out-of-range should be developed for supervisory review.
Headquarters ProCard	Verify compliance with the Procurement Credit Card Policy and review processes and controls over (1) ProCard purchases, (2) Approval of ProCard purchases, (3) Monitoring of ProCard purchases, and (4) Records Retention.	<ul style="list-style-type: none"> -Controls over the Credit Card Procurement System are adequate. -Most cardholders were complying with ProCard policy and procedures. A small number of cardholders' ProCard transactions were not in compliance with ProCard policy. -A small number of approving officials were not complying with their roles and responsibilities as outlined in the ProCard policy. -Compliance with ProCard procedures needs to be improved for real estate transactions.
Blenheim-Gilboa Finance & Administration and Human Resources	Review procedures, processes and controls over budget monitoring, accounts payable, payroll, processing of new hires, salary changes, and travel and living expenses. Verify compliance with established NYPA policies and procedures.	<ul style="list-style-type: none"> -Internal controls over B-G financial activities (accounts payable, payroll, travel expenses, budget, human resources) are working effectively. -An authorized signer's list for approving invoices should be maintained.

2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/11
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Central Region O&M	Evaluate the adequacy and effectiveness of controls designed to operate and maintain the Central Region's assets. Determine that key operational and maintenance procedures are being consistently followed. Confirm that information used in the reporting of plant performance goals is complete and accurate and assess IT general controls.	<ul style="list-style-type: none"> -Current systems of control are satisfactory to ensure day-to-day monitoring and maintenance of the Central Region operations. -Documentation outlining NYPA's responsibilities for operating and maintaining generating facilities in the Central Region should be updated. -Documentation in Maximo (Maintenance System) supporting the completion of certain preventative maintenance (PM) procedures can be improved. -Install a Fire Suppression System in the Server Room housing the SCADA System.
Operational Planning	Evaluate procedures, processes and controls over Power Supply Operations Planning. Review information and communication between regional and Headquarters personnel involved in operational planning activities.	<ul style="list-style-type: none"> -Controls over Power Supply Operational Planning activities are adequate and effective. -Project Review and Approval Procedures should be finalized. -A summary of the project priority review meetings to support the decision and prioritization process in determining projects to be budgeted should be maintained.

2012 INTERNAL AUDIT PLAN

ACTIVITY REPORT

6/30/12

Exhibit C

Financial/Operational Title of Audit	Description
ReCharge NY Program Management	Review NYPA's governance documents to ensure program is set up in accordance with the legislation. Review customer files and verify compliance with policies and procedures. Review rate setting process to ensure adequacy and effectiveness of controls.
Energy Services Operations	Review implementation of prior audit recommendations. Evaluate operating procedures and controls over vendor selection, vendor management, project management, cost estimation, contingencies, and risk mitigation/ management. Review performance metric for applicability and ensure metrics are accurately monitored and reported.
Public Authorities Law (PAL) Compliance	Evaluate the overall processes/controls implemented by NYPA to ensure compliance with PAL requirements. Confirm that NYPA is complying with the reporting, governance and administrative requirements of the PAL. Verify compliance with selected NYPA policies and procedures.
Counterparty Credit	Confirm the resolution of prior audit issues. Evaluate the effectiveness of management's process for monitoring, assessing, and managing counterparty risks in relation to energy and treasury activities.
SENY Government Services Program	Review controls and procedures over (1) Project Selection and Facility Audits, (2) Construction Authorization, (3) Procurement of Material and Installation Labor, (4) Accounting for Project Costs, (5) Program Recovery and Overhead Costs, and (6) Project Closeout.
Salary Administration	Review NYPA's policies, procedures and controls over Salary Administration. Verify compliance with Salary Administration Policy. Confirm that documentation exists to support approval and justification for promotions and upgrades.
ReCharge NY Customer Revenues	Review procedures, processes and controls related to billings of ReCharge NY customers and cash receipts. Ensure that customers are billed accurately based upon meter data received and at the proper rates. Verify compliance with the terms of customer contracts.
Public & Governmental Affairs Expenditures	Review procedures, processes and controls over Public & Governmental Affairs Expenditures. Review Budget Monitoring procedures, Contributions and Sponsorships, and Department expenditures. Verify compliance with established policies and procedures.
Licensing Operations and Compliance	Evaluate processes and controls associated with ensuring compliance with existing licenses (tracking, monitoring and performance). Review Licensing expenditures and related controls. Verify compliance with established NYPA policies and procedures. Review management reporting processes for timeliness and reporting.

2012 INTERNAL AUDIT PLAN

ACTIVITY REPORT

6/30/12

Financial/Operational Title of Audit	Description
Purchasing/Warehousing – CEC	Review processes and controls associated with purchasing and warehousing activities at the Clark Energy Center. Verify compliance with established NYPA policies and procedures.
NYISO Installed Capacity	Review procedures, processes and controls associated with the determination of NYPA’s Installed Capacity (ICAP) requirements in NYC, Long Island and the rest of New York State. Review NYPA’s monthly ICAP certification to the NYISO. Review sales of surplus capacity and purchases for deficient capacity.
Small Clean Power Plants O&M	Review implementation of prior audit recommendations. Evaluate NYPA’s vendor management controls in place to oversee contractor performance. Review for compliance with contract terms and conditions.
Configuration Management Program	Review NYPA-wide compliance with the Configuration Management Policy. Ensure governance documents clarify program scope, roles and responsibilities. Confirm that controls exist for ensuring compliance when third party engineering firms are a party to configuration changes. Review procedures and processes for Headquarters and sites.
NYISO Transmission Settlements	Review processes and controls associated with Transmission revenues and charges billed by the NYISO. Review NYISO Transmission User Charges for congestion and losses. Review NYPA Transmission Adjustment Charge. Review congestion charges billed to Con Edison.
Assistance to KPMG	Assist KPMG in their annual audit of NYPA’s financial statements.

2012 INTERNAL AUDIT PLAN ACTIVITY REPORT 6/30/12

Information Technology Title of Audit	Description
SAP – General Ledger	Review, test and evaluate SAP General Ledger application controls, documentation and procedures.
Electronic Record Management System (LiveLink)	Review, test and evaluate Records Management System application controls, documentation and procedures.
Energy Management System	Test and evaluate the Energy Management System (EMS) application controls, documentation and procedures. Also, review and test the interfaces with NYISO and NYPA network to determine if EMS is adequately protected from unauthorized access, use, disclosure or modification, damage or loss using best security practices.
SCADA System	Test and evaluate the procedures, access security, controls and documentation implemented over the SCADA systems. Review and test for compliance with NERC-CIP requirements.
IT Disaster Recovery Plan	Evaluate the IT Disaster Recovery Plan (ITDRP) to determine if it is adequate to ensure the recovery of critical systems, applications, data and operations in the WPO. Review the training and testing plans, results and the updating of ITDRP.
SAP Business Planning Consolidation	Review, test and evaluate SAP Business Planning Consolidation application controls, documentation and procedures.