

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

October 26, 2010

A meeting of the Audit Committee was held at New York Power Authority's Niagara Power Project – Power Vista Visitor's Center, Lewiston, NY and via videoconference at 123 Main Street, White Plains, NY at approximately 10:00 a.m.

The following Members of the Audit Committee were present:

Trustee D. Patrick Curley, Chairperson
Trustee Eugene L. Nicandri

Vice Chairman Jonathan Foster was excused from attending.

Also in attendance were:

<i>Terryl Brown</i>	<i>Executive Vice President and General Counsel</i>
<i>Elizabeth McCarthy</i>	<i>Executive Vice President and Chief Financial Officer</i>
<i>Donald Russak</i>	<i>Senior Vice President Corporate Planning & Finance</i>
<i>James Pasquale</i>	<i>Senior Vice President Marketing & Economic Development</i>
<i>Thomas Davis</i>	<i>Vice President – Financial Planning & Budgets</i>
<i>Lesly Pardo</i>	<i>Vice President – Internal Audit</i>
<i>Scott Scholten</i>	<i>Vice President & Chief Risk Officer</i>
<i>Karen Delince</i>	<i>Corporate Secretary</i>
<i>Brian McElroy</i>	<i>Treasurer</i>
<i>Thomas Concadoro</i>	<i>Vice President & Controller</i>
<i>Dennis Eccleston</i>	<i>Chief Information Officer</i>
<i>Lorna Johnson</i>	<i>Assistant Corporate Secretary</i>
<i>Sheila Baughman</i>	<i>Senior Secretary, Corporate Secretary's Office</i>
<i>Jamie Cote</i>	<i>Manager, KPMG</i>
<i>Amanda Specce</i>	<i>Senior Associate, KPMG</i>

1. **Approval of the Minutes of the Regular Meeting of July 27, 2010**

The minutes of the Committee's Regular Meeting of July 27, 2010 were adopted.

2. **KPMG 2010 Audit Plan**

Mr. Jamie Cote, Senior Manager at KPMG presented an overview of the 2010 Audit Plan. He named the members of the KPMG Audit Team: Ken Deon (Partner), Darin Kempke (Concurring Review Partner), Dean Bell and Emily Sheik (GASB 52 Resource), Chris Halstead (Manager), Rahul Naroola (IRM Manager) and introduced Amanda Spece (Senior Associate) who was present. Mr. Cote stated that in order to reduce audit risk, KPMG obtains an understanding of tone at the top, internal control structure and significant accounts and performed detailed procedures to mitigate audit risk to an acceptable level. The process involves considering significant audit risks and issues such as, current economic conditions, new accounting pronouncements, fuel and purchase power and interest rate derivatives, management judgments and accounting estimates, debt obligations and the Authority's business risk.

Two new accounting pronouncements will be implemented: Governmental Accounting Standards Board Statement No. 53 ("GASB 53") related to derivative instruments and GASB Statement No. 51, ("GASB 51"), which is related to intangible assets. This should have a negligible impact on the Authority this year as most of the requirements are already being met as part of the current accounting process. The fuel purchase power derivatives as well as interest rate derivatives will be looked at to make sure there is a proper determination of fair value. The KPMG team will also be looking at the accounting and disclosure requirements required by GASB 53. Revenue recognition is also a significant area that is examined. The team also looks at the assumptions and methodologies for significant estimates and reviews a sample of journal entries to make sure they are appropriate and supported by good business practices. With respect to debt obligations, the team looks at compliance with accounting related covenants and other business risks such as transactions with New York State.

Mr. Cote added the KPMG team makes site visits and looks at material inventory to make sure the quantity on hand is correctly reported. He noted the importance of having a code of conduct in place, controls to ensure the Authority is compliant with laws and regulations, a good information reporting system, and an effective internal audit department and controls over the safeguarding of assets entity wide. It is also very important to have a Board that is independent of management in order to have strong governance.

Mr. Cote ended by saying that in order to mitigate fraud risks, the KPMG team reviews journal entries and internal controls designed to detect and prevent fraudulent activities. KPMG also conducts management interviews. KPMG has been in the field at the Authority's White Plains Office since October 11.

In response to questions by Trustee Eugene Nicandri and Chairman Patrick Curley, Mr. Cote said:

- KPMG looks particularly closely at procedures performed manually since they are more subject to human error.
- The team uses computer system auditing techniques to set parameters for examining journal entries. Some entries may be selected if, for example, they are above certain thresholds over a million dollars or end in 999. Entries that are posted after midnight or entered by certain people may be worth examining as well. KPMG looks for certain key words used in the description. KPMG sets different parameters based upon what may be considered risks.
- The term "independent of management" means no one on the Board is a member of management.
- KPMG sets their audit procedures based on their consideration of internal and external pressures facing the Authority. Examples of external pressure may be pressure from the state for more contributions and pressure from customers for lower rates.
- KPMG will issue a report under OMG Circular A-1333 on whether the Authority is complying with significant federal award requirements if the Authority expends over \$500,000 in Federal awards. The audit of federal awards is triggered if \$500,000 or more is spent irrespective of the size of the award.

October 26, 2010

- The team does not audit ancillary entities such as the Economic Development Power Allocation Board (“EDPAB”) but they will look at EDPAB minutes in order to understand the economic development programs since EDPAB makes recommendations to the Board of Trustees.
- The team reads newspapers and they get press clips to understand the pressures faced by the Authority.

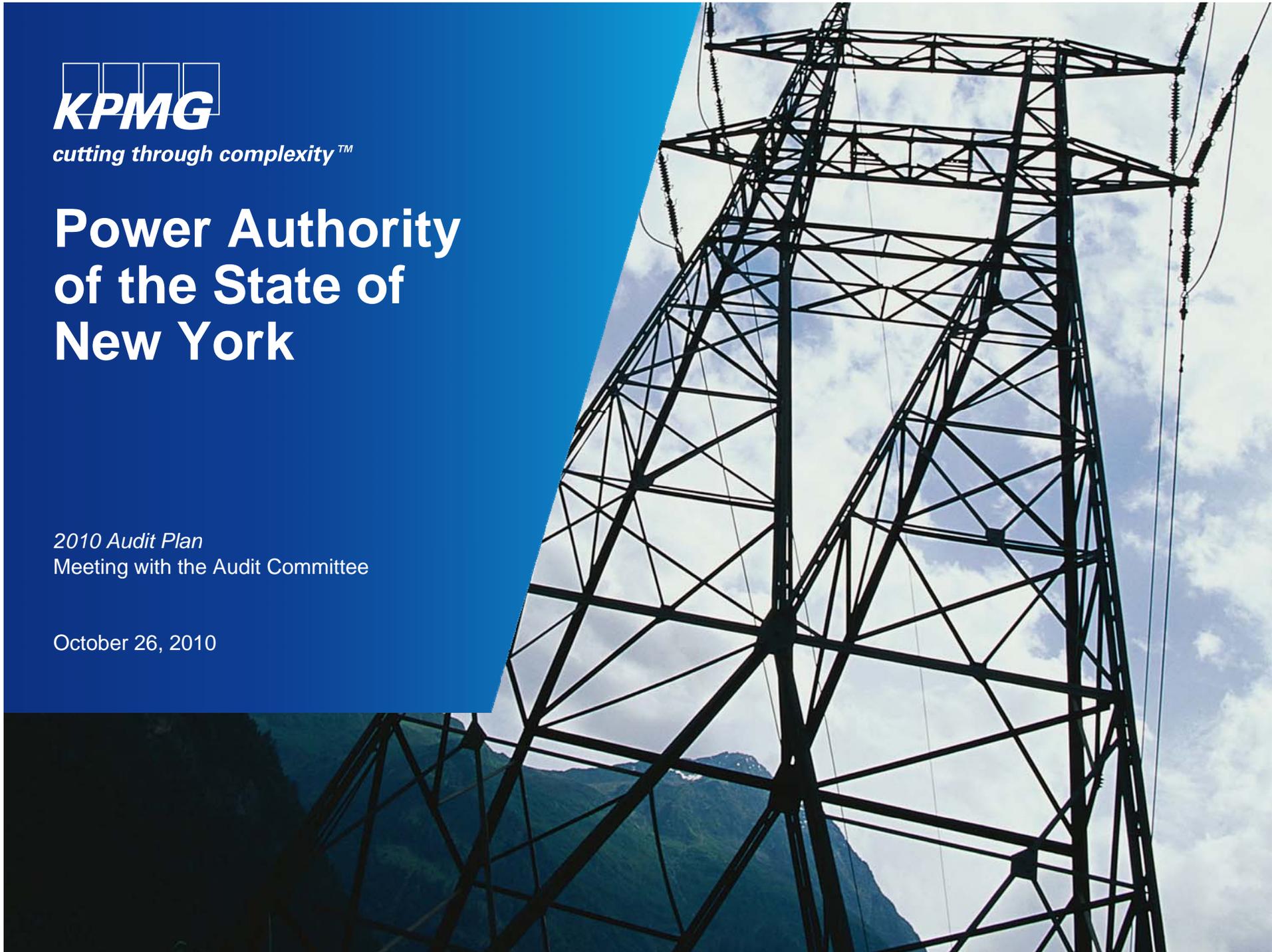


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Power Authority of the State of New York

2010 Audit Plan
Meeting with the Audit Committee

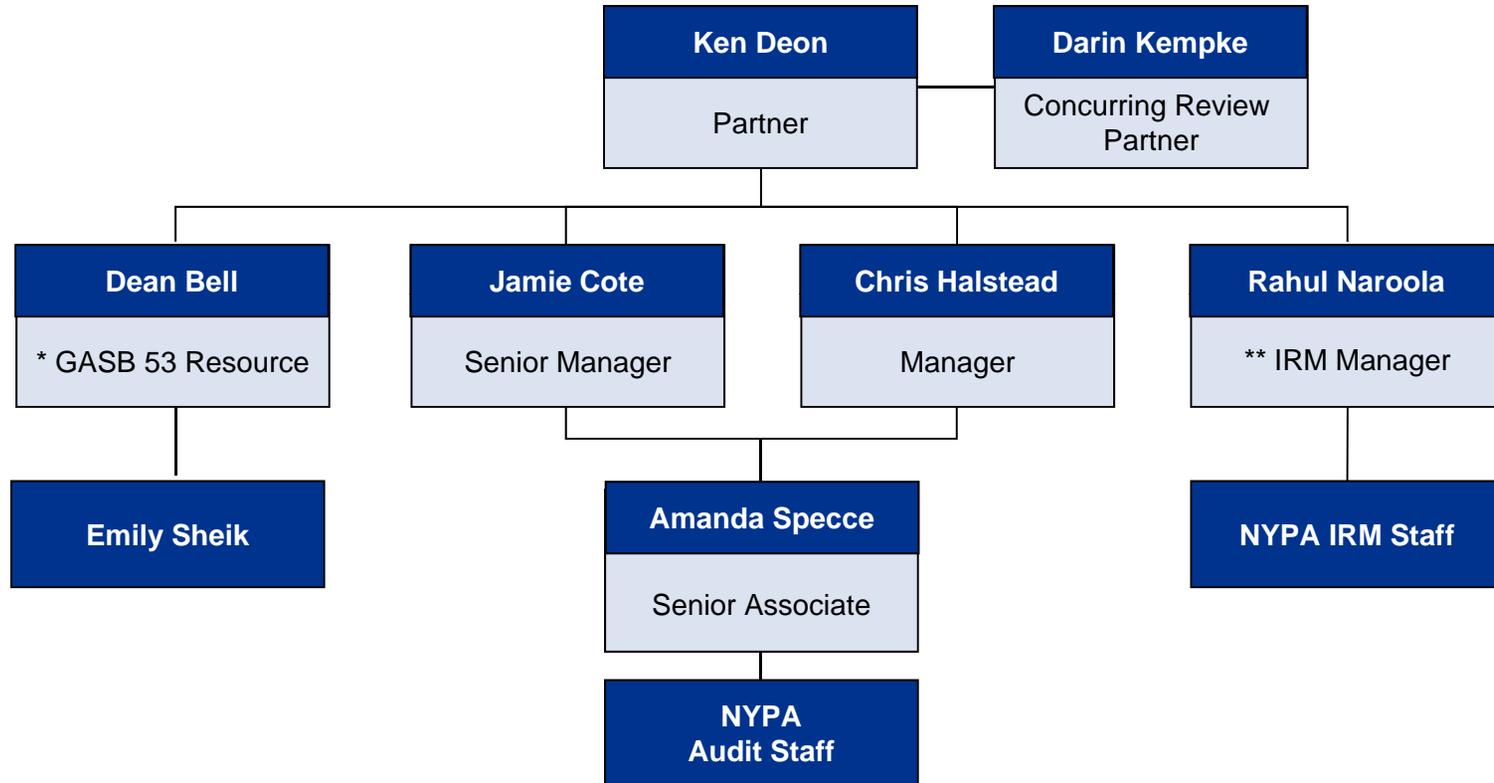
October 26, 2010



Agenda

- Audit Team
- KPMG Audit Methodology
- Audit Risk
- Audit Risks and Issues
- Substantive Audit Procedures
- Entity-Wide and Monitoring Controls
- OMB Circular A-133 Audit
- Fraud Approach
- KPMG Timetable
- New Accounting Matters
- Deliverables

Audit Team



** Information Risk Management

Audit Risk

Audit risk is defined as the combination of:

- the possibilities that material errors or irregularities may occur in the Authority's financial records
- that such errors will not be discovered through Authority's own controls
- audit procedures performed will fail to uncover them

KPMG's approach to reduce audit risk to an acceptably low level is to focus on understanding and assessing:

- The Authority's organization and operational risks
- The Authority's "tone at the top", control environment and monitoring controls
- The Authority's core business processes and related internal controls
- The Authority's significant accounts and disclosures

Detailed procedures at the Authority to mitigate audit risk to an acceptable level include:

- An evaluation and review of entity level controls and the control environment including fraud
- An evaluation of management's risk assessment process to assess and test key controls over financial reporting
- Tests of controls and tests of details over significant Authority risks, accounts and disclosures as identified

Audit Risks and Issues

The following are considered significant audit risks and issues:

Audit Risks	Issues
Current Economic Conditions	<p>We will design audit procedures to understand the Authority's exposure to the current economic environment and perform appropriate procedures to ensure account balances are appropriately stated and the proper disclosures are made. The following issues will be addressed:</p> <ul style="list-style-type: none"> • Impaired investments • Access to credit markets • Derivative collateral requirements • Accounts receivable aging and the related allowance for doubtful accounts
New Accounting Pronouncements	Application of GASB 53 <i>Accounting and Financial Reporting for Derivative Instruments</i> and GASB 51 <i>Accounting and Financial Reporting for Intangible Assets</i>
Fuel and Purchase Power Derivatives and Interest Rate Derivatives	Proper determination of fair value and implementation of GASB 53 accounting and disclosure requirements.
Revenue Recognition	Appropriate revenue recorded as energy is delivered, including unbilled revenue accounting
Management Judgments and Accounting Estimates	Appropriate methodologies and assumptions in assessing exposures / liabilities: ISO Reserves, Bad Debt Reserves, OPEB obligations, self insured reserves, legal injuries and damage.
Top side journals entries	Appropriate accounting for existence and accuracy of unusual, nonrecurring transactions
Debt Obligations	Compliance with accounting related covenants
Other Considerations – NYPA's business risks	<p>Transactions with New York State (Power for Jobs, Other Budget Actions)</p> <p>Volatility of fuel due to macro economic factors regarding oil, natural gas prices and power and its impact on the derivatives or risk management model utilized by NYPA (i.e. exposure to new risk)</p>

Substantive Audit Procedures

Cash and Investments

- Confirm all balances in cash and investment accounts
- Test investments on a sample basis for compliance with Authority investment guidelines
- Value investments on a sample basis with KPMG's pricing department to determine if recorded at fair value

Purchase Power and Fuel Expense

- Purchase power invoices are sampled and tested
- Oil and natural gas invoices are sampled and tested
- Analytical and substantive procedures of account balances from year to year are performed

Revenue

- Review and recalculate bills based on applicable tariffs
- Send confirmations for a sample of accounts receivable balances
- Perform analytical and substantive procedures of account balances from year to year
- Recalculate and evaluate the allowance for doubtful accounts and managements' methodology
- Send confirmation to the NYISO for ISO related revenues and expenses

Fuel and Materials Inventory

- Review inventory observations (in conjunction with internal audit) at selected locations to verify the quantity of inventories held
- Perform a weighted average cost based on consumption and oil price test work to determine the value of inventory held at year end
- Perform materials inventory counts for a sample of materials during site visits

Substantive Audit Procedures, *continued*

Derivatives

- Confirm all derivatives with counterparty
- Re-perform the valuation for a sample of derivative positions
- Perform process walk through for a sample of fuel derivatives
- Engage Financial Risk Management (FRM) professionals to review disclosures and valuations
- GASB 53 specialist involvement to review the application of GASB 53 for the accounting and reporting of derivative instruments

Debt

- Confirm all outstanding debt
- Review transactions related to debt refunding/refinancing, if any
- Review debt compliance related to all existing debt
- Select a sample of interest expense payments and obtain audit evidence to support expense

Plant and Property

- Select a sample of invoices to ensure proper accounting treatment for additions to Electric Plant in Service and CWIP accounts
- Select a sample of retirements to ensure proper accounting treatment for retirements
- Perform analytical procedures of account balances from year to year
- Perform plant and property observations during site visits

Journal Entries

- Obtain audit documentation for a selection of manual journal entries for authorization, appropriateness, and if in accordance with adopted accounting principles

Entity-Wide and Monitoring Controls

Our audit approach is to rely on the Authority's key entity-level and senior management's monitoring controls, identified as follows:

- A Code of Conduct has been effectively implemented and the control environment has appropriate policies in place
- A Board of Trustees and an Audit Committee exist that is independent of management
- Management has undertaken a detailed risk assessment and monitoring controls exist to mitigate the risks identified
- Management has controls in place to ensure effective compliance with laws and regulations including areas impacting financial reporting
- Management has information and reporting systems that are responsive to achieving entity-wide and activity level objectives and produces the necessary information to manage the Authority's operations
- Results of the Authority's operations are measured against objectives and expectations including analyzing variances and key performance indicators on a monthly basis
- Key controls exist over the safeguarding of the Authority's assets

Scope for 2010 assumes reliance on entity level controls to ensure a top down approach

OMB Circular A-133 Audit

- Authority's Current Federal Program's are:
 - Smart Grid Award from NYISO (\$200,000)
 - Smart Grid demonstration project for integration of Wind Power (\$720,000)
- Scope of OMB A-133 audit includes:
 - Audit and render an opinion on the Schedule of Expenditures of Federal Awards (SEFA)
 - Audit of internal controls over compliance
 - Audit and render an opinion on compliance with direct and material federal requirements
- Audit required only if Authority expends more than \$500,000

Consideration of Fraud Risk

Our approach to mitigate fraud risk includes:

- Management interviews and discussions including existing management fraud controls
- Review of journal entries, including large, unusual and non-recurring journal entries
- Involvement of a KPMG forensics team to assess potential illegal acts or fraud allegations, when necessary.

Planned Management Interviews	
<ul style="list-style-type: none"> • Audit Committee • President and Chief Executive Officer – Richard Kessel • Executive Vice President and Chief Financial Officer – Elizabeth McCarthy 	<ul style="list-style-type: none"> • General Counsel – Terryl L. Brown • Executive Vice President and Chief Administrative Officer – Francine Evans • Chief Operating Officer – Gil Quiniones • Treasurer – Brian McElroy • Controller – Tom Concadoro
Design Audit Procedures that Focus on the Following Company Specific Risks	
<ul style="list-style-type: none"> • Internal pressures (i.e., financial performance) • Third-party pressures (i.e., customers, elected officials) • Revenue recognition • Related party transactions 	<ul style="list-style-type: none"> • Non-automated journal entries • Propriety of various accruals (e.g. legal, etc.) • New significant customer contracts and/or agreements • Business travel expense reporting

KPMG Timetable

Planning

- Week of October 11, 2010
 - Performed risk assessment procedures and identified risks
 - Determined audit strategy and identified critical accounting matters
 - Finalized planned audit approach
 - Met with executive management for feedback, discussion, and time table of deliverable

Interim / Evaluation of controls

- Weeks of October 11 through October 29, 2010
 - Performed walkthroughs of NYPA processes
 - Tested NYPA's entity-wide and monitoring controls
 - Evaluated design of selected controls at NYPA
 - Tested NYPA's IT general controls
 - Reviewed accounting and reporting activities at NYPA including key performance indicators
 - Tested operating effectiveness of selected key controls at NYPA including NYISO transaction controls at Clark Energy Center
 - KPMG Financial Risk Management (FRM) professional to evaluated NYPA's Risk Management Process
 - Site visits (Blenheim – Gilboa Power Project, Flynn Power Plant and Niagara Project) – reviewed internal controls and existence of capital assets and inventories

KPMG Timetable, *continued*

Interim Substantive Testing

- Weeks of October 11 through October 29, 2010
 - Performed bill recalculations and other revenue testing through September 30, 2010 and confirmed a sample of accounts receivable balances
 - Sampled Operating Expenses through September 30, 2010
 - Journal Entries tested through September 30, 2010
 - Sampled CWIP and EPIS transactions through September 30, 2010
- Week of December 27, 2010
 - Fuel inventory observations performed. NYPA Internal Audit will attend the inventory observations as performed by a contractor.

Year-End Substantive Testing

- Week of January 24 through February 11, 2011
 - Perform remaining substantive procedures and tests of detail
 - Consider if audit evidence is sufficient and appropriate
 - Conclude on critical accounting matters and issues
 - Review draft financial statements
 - Begin completion procedures

Financials statements expected to be issued upon approval of the Board

KPMG Timetable, *continued*

Completion

- Week of February 14 through February 18, 2011
 - Finish completion procedures
 - Finish overall evaluation of the financial statements and disclosures
 - Finalize audit opinion on financial statements
 - Finalize Deliverables:
 - » Audit Opinion on NYPA’s Basic Financial Statements as of and for the year ended December 31, 2010
 - » Investment Guidelines Compliance Report
 - » Report on Internal Control over Financial Reporting and Compliance on Other Matters
 - » Required Communications to the Audit Committee
 - » Management letter, if necessary
 - Key Dates:
 - » February 4, 2011 – Authority management provides draft financial statements to KPMG
 - » February 11, 2011 – KPMG to provide comments to Authority management
 - » February 15, 2011 – Authority management provides draft financial statements to Audit Committee
 - » February 22, 2011 – KPMG’s formal presentation to Audit Committee members
 - » March 29, 2011 – Adoption of financial statements by full Board. KPMG present to respond to any questions



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3. **Internal Audit Activity Report**

Mr. Lesly Pardo highlighted the following Internal Audit (“IA”) activities:

- As of September 30, 2010, Internal Audit had completed 20 audits and projects.
- Six audits are in progress as of September 30th.
- Approximately 74% of the audits in the audit plan are completed or in progress.
- Sixteen audit reports have been issued and 46 recommendations to improve internal controls or enhance operational efficiency have been made.
- All recommendations were accepted by management and are being actively tracked for proper implementation.
- Management continues to cooperate fully with all audits.
- There is a three year audit plan for Economic Development Programs job commitment to determine the reliability of the actual job numbers reported by the customers.
- The three year audit plan for Economic Development Programs will cover the three major programs: 1) Replacement & Expansion Customers, 2) Traditional Power for Jobs customers, and 3) the Energy Cost Savings Benefit customers.
- The three year plan will audit any customers that have not been audited the past three years.
- Pages 7 through 12 provide a summary of audit reports issued since the last Audit Committee report in July 2010, including the overall audit objectives and findings and/or recommendations.

In response to a question from Trustee Nicandri, Mr. Pardo said the Authority’s electronic records are backed up and stored off site and a disaster recovery plan has been examined and tested.

Audit Committee

Internal Audit Activity Report
September 30, 2010

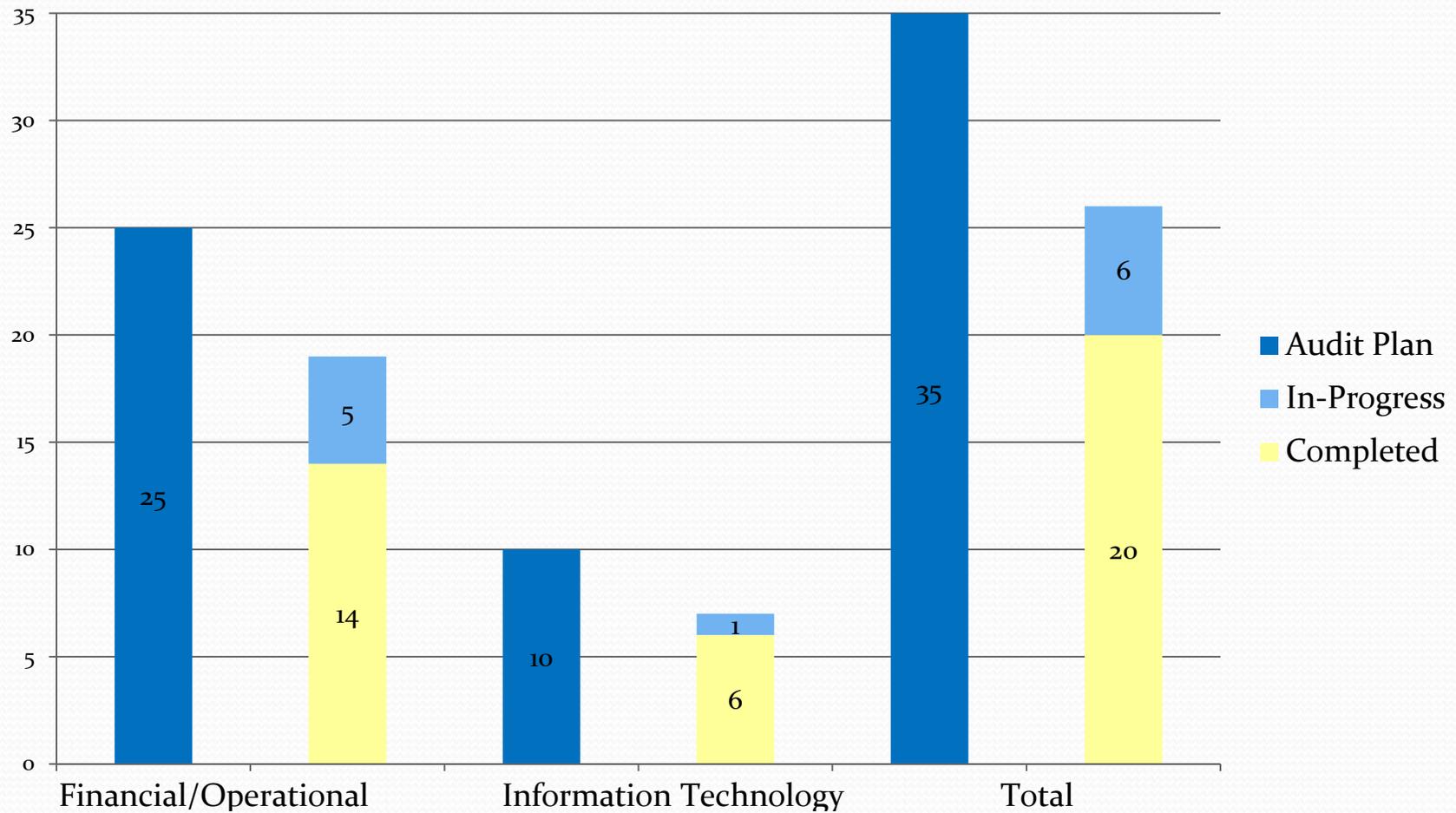
2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
9/30/10
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2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
9/30/10
SUMMARY

- Completed 20 audits and projects including 14 financial/operational and six (6) information technology audits.
- Six (6) audits in progress as of 9/30/10.
- Approximately 74⁰% of the audits in the original Audit Plan have been completed or in progress.
- Issued 16 audit reports. Three (3) reports under review as of 9/30/10.
- Forty-six (46) recommendations were made to improve internal controls/operational efficiency.
- All recommendations have been accepted by management. Accepted recommendations are being actively tracked and critical recommendations implemented are being verified.
- We are receiving management's full cooperation and support.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
9/30/10
AUDIT PLAN STATUS



2010 INTERNAL AUDIT PLAN

ACTIVITY REPORT

INTERNAL AUDIT OVERVIEW PER PLAN

1/1/10 - 9/30/10

LIST OF AUDITS COMPLETED/IN-PROGRESS

FINANCIAL

- SENY Long-Term Agreement (IP)
- Generation Resource Management (C)
- Headquarters Procurement (IP)
- NYISO – Energy Settlements (Load Serving Transactions) (C)
- Hydro Revenues (C)
- Transmission Revenues/ISO Settlements (C)
- Wheeling Expenses
- Purchasing/Warehousing St. Lawrence (C)
- Purchasing/Warehousing 500 MW/Flynn
- Headquarters ProCard Usage & Controls (C)

INFORMATION TECHNOLOGY

- NERC-CIP (C)
- NYPA Network Security (IP)
- Maximo System
- Change Control – Network (C)
- SAP Billing
- EMS Group
- SAP Materials Management (C)
- Telecommunications (C)
- IT Disaster Recovery (Hot Site) (C)
- Network Penetration

OPERATIONAL/COMPLIANCE

- Energy Hedging – Follow-up Review
- Enterprise Risk – Follow-up Review
- Power Resource Planning & Acquisition (C)
- NERC Reliability Compliance (IP)
- Public Authorities Law Compliance (C)
- Transmission O&M (C)
- Western Region O&M (C)
- Fleet Operations (C)
- Economic Development Programs (C)
- Counterparty Credit Follow-up Review
- Succession Planning Follow-up Review (IP)
- Project Management Operations & Cost Estimation (C)
- Financial Planning/Operating Forecast Development (C)
- Corporate Compliance

OTHERS

- Stimulus Projects (IP)
- GRC Software (C)

In-Progress = IP
Completed = C

**2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
AUDIT PLAN 2010 - 2012
EDP JOB COMMITMENT AUDITS**

Customer Group	Total No. of Customers	Total No. of Customers Audited 2007-2009	Total No. of Customers Unaudited 2007-2009	2010	Audit Plan	
					2011	2012
(1) Hydro	128	68	60	39	-	21
(2) PFJ	444	158	286	89	98	99
(3) ECSB	79	40	39	-	30	9
Total				128	128	129

- (1) Expansion Power & Replacement Power Customers.
- (2) Power for Jobs Customers
- (3) Energy Cost Savings Benefit Programs Customers

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
9/30/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Transmission Operations & Maintenance	To evaluate internal controls over transmission maintenance processes, cost control activities, reliability and availability performance and follow-up on previous audit recommendations.	<ul style="list-style-type: none"> -The Right-of-Way Vegetation Management System remains “Best in Class” although monitoring of the contractor performing support services for the program can be improved. -The Maintenance Resource Management program can be improved by linking critical spare parts to the associated equipment in the work management system. -Succession management is a key risk to the Transmission Maintenance group as activities are heavily dependent on the knowledge and experience of the line maintenance crews. The timely filling of transitional positions to ensure current and potential future vacancies is an important management priority. -A large number of backlogged maintenance work orders exists and is being assessed by management.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
9/30/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Public Authorities Law – Compliance	Evaluate the overall processes/controls implemented by NYPA to ensure compliance with the Public Authorities Law.	<ul style="list-style-type: none"> -Audit confirmed that NYPA is complying with the reporting, governance, and administrative requirements of the Public Authorities Law. -Certain Policies (Anti-Retaliation, Workplace Violence) should be updated to reflect organizational changes. -Additional control procedures should be established to ensure the completeness and accuracy of reported salary information.
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.	<ul style="list-style-type: none"> -Controls over the generation bidding process are adequate and working effectively. -A process to review NYPA's submitted generation bids with the corresponding bid data provided by the NYISO should be implemented.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
9/30/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
<p>NERC Reliability – Critical Infrastructure Protection (CIP) Standards</p>	<p>Confirm that NYPA has established and is consistently following guidelines to comply with NERC Reliability Standards CIP.</p>	<p>Although significant effort has gone into building the compliance program, additional work is needed to ensure consistent application of guidelines from site to site. We provided management with various observations and made recommendations relating to policies, procedures, processes and supporting compliance documentation. We offered three program level recommendations:</p> <ol style="list-style-type: none"> 1) Update job descriptions and performance plus documents of impacted personnel to establish accountability and authority. 2) Update staffing/organizational assessments of impacted departments to ensure adequacy of resources. 3) Improve organization and formatting of documents to better support compliance efforts.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
9/30/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Western Region Operations & Maintenance	Assess the effectiveness of processes and procedures used in the day-to-day monitoring and maintenance of the Niagara Power Project operations and review succession/knowledge transfer initiatives.	<ul style="list-style-type: none"> -The lead time to fill transitional positions should be reduced. -Assess the impact of assigning Instrument & Control Department engineers to NERC Reliability Compliance requirements on the department's ability to complete scheduled projects. -Ensure test plans for all equipment/systems exist and are linked in the Maintenance System (Maximo).
Transmission Revenues/NYISO Settlements	Evaluate the adequacy and effectiveness of controls over Transmission Revenues and Charges billed by the NYISO. Review processes for calculating and billing NYPA Transmission Adjustment Charge (NTAC) to the NYISO.	<ul style="list-style-type: none"> -Controls over Transmission Revenues and Transmission Settlement Charges with the NYISO are working effectively. -Additional procedures to verify the MWh used by the NYISO to bill NYPA Transmission User Charges should be implemented.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
9/30/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Change Control - Network	Review, test and evaluate the controls and control procedures over the changes to network software and their testing and approval by users prior to their placement in production.	<ul style="list-style-type: none"> -Controls over the change management process were found to be adequate and working effectively. -Changes and upgrades to existing applications are reviewed, approved and tested prior to their placement in production.
IT Disaster Recovery	Evaluate and assess the IT Disaster Recovery Plan to determine if it is adequate and allows NYPA to recover its critical network applications and operations in the event of a disaster in the White Plains Office Data Center.	<ul style="list-style-type: none"> -The IT Disaster Recovery Plan and Hot Site will be adequate to provide recovery of critical Data Center applications and IT Services. -The IT Hot Site has been tested. -Backup procedures are in place.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
9/30/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Telecommunications	Determine whether internal controls and procedures are adequate and effective for Telecommunication operations, backup and recovery, physical security, environmental control (temperature/electrical and water) and Fire Protection.	<ul style="list-style-type: none"> -Controls over Telecommunication operations were found to be adequate. -The Fire Suppression and Temperature Alarm Systems should be tested.
SAP Materials Management	<ul style="list-style-type: none"> -To evaluate controls over the Vendor Master File and Purchasing processes in the SAP Materials Management module. -To evaluate the security access controls over users of the purchasing and vendor management SAP functions. 	<ul style="list-style-type: none"> -Controls over the SAP purchasing function are adequate. -Controls over the Vendor Master File maintenance need improvement. -The Vendor Master File includes duplicate records, former employees and retirees that should be deleted. -Formal guidelines for adding and changing vendor records, including bank information changes, should be established.

4. Risk Policy and Procedure Update

Mr. Scott Scholten presented the energy risk management policy and procedure update. There had been gaps identified in the Authority's previous policy and procedures. The policy that sets forth the overarching objectives were adopted at by the Trustees at the September meeting. The objectives established by the policy are:

- There will be no hedging except when it relates to core Authority activities (generation and customer loads).
- The Authority will not enter into hedge transaction unless there is a certainty that volumes are going to be there.
- The prime objective is to constrain potentially unfavorable outcomes to within acceptable limits.

The procedures were adopted by the Executive Risk Management Committee ("ERMC") the prior week. The Committee is comprised of five members and chaired by the CFO. The procedures define the composition, responsibility and voting of the ERMC. They also define commercial objectives for containing exposure to market volatility, specifically by codifying ERMC ratified tolerance limits for NYPA net revenues; customer bill impacts; unsecured credit extended to counterparties; and Authority collateral-posting requirements.

Next set of controls establishes clear separation of duties and delineation of responsibilities for: authorization of transactions (ERMC); execution of transactions (Front Office); monitoring risk quantification and control (Middle Office); and confirmation and accounting of transactions (Back Office).

The procedures define permissible hedge instruments and actionable commodities (e.g., generation fuels, electric energy, electric capacity, and emissions); establish trade limits for individuals authorized to execute transactions; specify standards for risk quantification, monitoring, and reporting; define credit and collateral management procedures for: initial credit thresholds for counterparties; metrics and procedures for monitoring counterparty default risk; collateral tracking and reconciliation; and payment authorizations; mandate annual employee compliance attestation and establish enforcement provisions for non-compliance.

KPMG had reviewed the procedures prior to the ERMC's adoption and made recommendation. Some of the recommendations regarding clarifying some of the language and others dealt with elevating the procedures to leading practice standards. These recommendations are being implemented including the recommendation that the policy be reviewed by the Trustees annually.

In response to a question by Trustee Nicandri, Mr. Scholten said that the Authority monitors the risks involved with customer default separately from how it monitors credit risks associated with counterparties to long-term hedges (i.e., the Authority enters into transactions to secure market price of energy that will be delivered one year, two years, and sometimes longer in the future. Until there is a settlement, the Authority has exposure, which it may choose to limit with long-term hedge transactions).

5. **Motion to Conduct Executive Session**

Trustee Nicandri made a motion that the Authority conduct an Executive Session pursuant to Section 105(1)(f) of the Public Officers Law of the State of New York to discuss matters leading to the appointment, employment, promotion, discipline, suspension, dismissal or removal of a particular person or corporation. On motion made and seconded, an Executive Session was held.

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

Trustee Nicandri made a motion to resume the meeting in Open Session. On motion made and seconded, the meeting resumed in Open Session.

7. **Next Meeting**

The next regular meeting of the Audit Committee is to be determined.

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