

# AUDIT COMMITTEE

## 2012 INTERNAL AUDIT PLAN

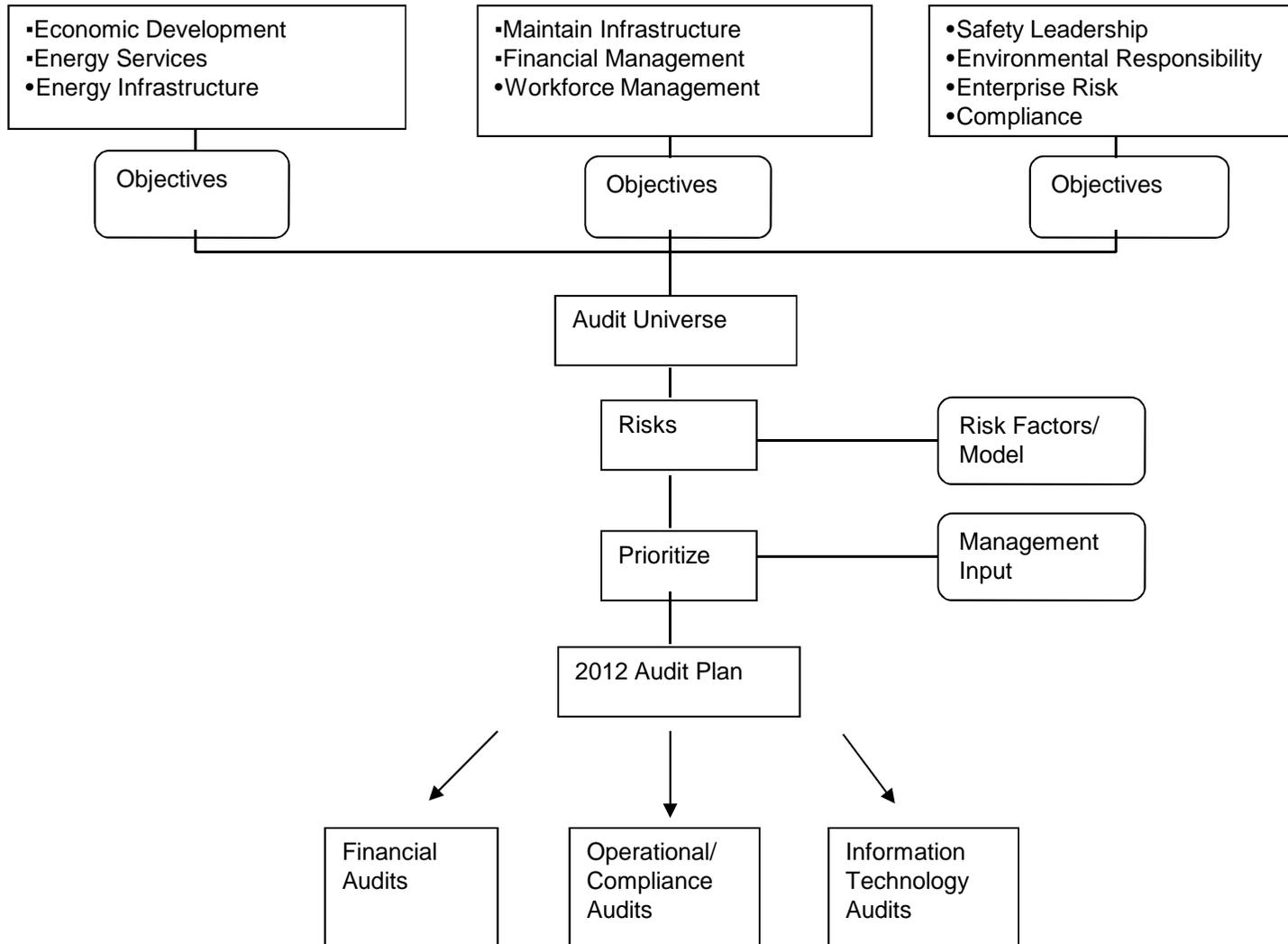
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# 2012 AUDIT PLAN SUMMARY

- 2012 Plan is based on the results of the risk assessment survey and management input.
- Focus on the high risk areas as identified by our risk assessment.
- Forty (40) audits are scheduled including 30 financial/operational and 10 information technology audits covering all Business Units.
- Nine (9) financial/operational and/or information technology audits will be conducted at the facilities.
- Key audits scheduled include Generation Resource Management, Counterparty Credit, Energy Services Operations, Safety Program, ReCharge NY Customer Revenues, ReCharge NY Program Management, Power Supply Operational Planning, and operational audits at SENY and Blenheim-Gilboa.
- Other projects include assistance to KPMG in their audit of NYPA's Financial Statements, work on Economic Development Job Commitment audits, vendor contract audits and the usual support to the Ethics office.
- 2012 Plan will provide comprehensive audit coverage, deploying Internal Audit resources in an effective and efficient manner.
- Performance Goals
  - Completion of high risk audit areas – goal of 100%.
  - Completion of the Audit Plan – goal  $\geq$  90%.

# 2012 Audit Plan Planning Process Strategic Result Areas



# 2012 AUDIT PLAN

## RISK ASSESSMENT METHODOLOGY

- NYPA's Strategic Plan, business activities and related control systems are examined to determine auditable entities (Audit Universe).
- Meetings and interviews with business owners were conducted to obtain feedback on critical business objectives and risks.
- A risk assessment is performed on all auditable entities based upon the following risk factors (see Appendix A on page 11 for definition of risk factors):
  - Profit and Loss Impact of the Business Function
  - Perception/Reputational Risk
  - Changes in Operations or Systems/Known Control Issues
  - Customer Impact from Process Disruption/Failure
  - Business Model Complexity/Organizational Size
  - Legal/Regulatory Compliance
  - Level of Impact on Financial Reporting
  - Strategic Alignment
- Audits are ranked from high to low in terms of the relative risk they represented based on the risk assessment performed by Internal Audit.
- Audit Plan is developed based on the results of the risk assessment and management input.
- Proposed Audit Plan is presented to Executive Management and the Audit Committee for discussion and feedback.

# 2012 Audit Plan

	Financial/Operational Audits	Business Unit	Description
1	ReCharge NY Program Management	Marketing & Economic Development	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.
2	Energy Services Operations	Energy Services & Technology	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.
3	Power Supply Operational Planning	Power Supply	Evaluate operational planning activities including short and long term plans. Determine how current events and/or equipment failure are considered in the operational planning process. Review information and communication between regional and Headquarters personnel involved in the planning activities.
4	Public Authorities Law (PAL) Compliance	Law Department/Various	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.
5	Counterparty Credit	Business Services	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.
6	SENY Government Services Program	Energy Services & Technology	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.
7	Salary Administration	Enterprise Shared Services/Human Resources	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.

# 2012 Audit Plan

	Financial/Operational Audits	Business Unit	Description
8	Generation Resource Management	Power Supply/Energy 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.
9	Hydro Revenues	Business Services/Energy Resource Management	Determine the adequacy and effectiveness of procedures and controls over Niagara/St. Lawrence revenues. Review procedures for billings of Municipal customers, Expansion and Replacement customers and Direct Service Industrial customers. Review processes related to Energy Accounting.
10	ReCharge NY Customer Revenues	Business Services/ Marketing & Economic Development	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.
11	SENY Long Term Agreement (LTA)	Business Services	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. Review process for billing of costs. Verify compliance with the various terms and conditions of the LTA. Review management reporting process for timeliness and accuracy.
12	NYISO Energy Settlements – Load Serving Entities	Energy Resource Management	Review processes and controls associated with Energy Scheduling, Energy Settlements, NYISO Settlement Data and Reconciliation, NYISO Rebills and recording of Energy Settlements in SAP.
13	Public & Governmental Affairs Expenditures	Public & Governmental Affairs	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.
14	St. Lawrence Life Extension	Power Supply	Review implementation of prior audit recommendations. Evaluate the adequacy and effectiveness of project management/administrative controls. Verify the accuracy of project activity reports. Ensure appropriateness of financial management activities including compliance with procurement, cost estimating, quality assurance plan and Accounting policies and procedures.

# 2012 Audit Plan

	Financial/Operational Audits	Business Unit	Description
15	Enterprise Risk Management	Business Services	Review Enterprise Risk (ER) Management Program policies and procedures to ensure that they are up-to-date and consistent with NYPA's current risk management efforts. Review NYPA's compliance with ER Program policies and procedures.
16	Astoria Energy II Project Agreement	Energy Resource Management	Review procedures, processes and controls over NYPA's Tolling Agreement with Astoria Energy II. Verify compliance with the various terms and conditions of the Tolling Agreement.
17	Licensing Operations and Compliance	Power Supply	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.
18	SENY Outage Management	Power Supply	Review outage management practices at SENY including project scoping, cost estimation, vendor selection and vendor management activities. For the 2011 Flynn outage and recent outages at Small Clean Power Plants, review cost and schedule activities.
19	Central Region O&M	Power Supply	Confirm that controls remain adequate and effective as it relates to plant reliability, efficiency and effectiveness. Evaluate processes and procedures for the planning, monitoring and controlling of operating and maintenance expenses including outside contractors. Confirm compliance with selected NERC Reliability Compliance Requirements. Test for site's compliance with the Maintenance Resource Management Program.
20	Fleet Operations/Corporate Plane	Enterprise Shared Services	Review processes and controls associated with the management of NYPA's fleet vehicles and Corporate Plane. Review usage controls and operating and maintenance expenses. Review fleet acquisitions and disposals. Verify compliance with NYPA policies and procedures.
21	Safety Program	Power Supply	Confirm the resolutions of prior audit issues. Review processes/controls related to identifying required safety training as well as developing, delivering and tracking/monitoring required training. Review Health & Safety Program goals and performance metrics.

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	Financial/Operational Audits	Business Unit	Description
22	Purchasing/Warehousing – CEC	Enterprise Shared Services	Review processes and controls associated with purchasing and warehousing activities at the Clark Energy Center. Verify compliance with established NYPA policies and procedures.
23	Headquarters ProCard	Enterprise Shared Services	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.
24	B-G Finance & Administration	Business Services	Review procedures, processes and controls over budget monitoring, accounts payable, payroll and travel and living expenses. Verify compliance with established NYPA policies and procedures.
25	NYISO Installed Capacity	Marketing & Economic Development	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.
26	Small Clean Power Plants O&M	Power Supply	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.
27	Configuration Management Program	Power Supply	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.
28	NYISO Transmission Settlements	Energy Resource Management	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.
29	Assistance to KPMG	Business Services	Assist KPMG in their annual audit of NYPA's financial statements.
30	Vendor Audits	Enterprise Shared Services/ Various	For selected procurement contracts, determine that contractor charges are supported and in agreement with contract terms and conditions. Determine that the contractor provided all information and services outlined in the contract and internal controls exist to oversee the contractor's performance.

# 2012 Audit Plan

	Information Technology Audits	Business Unit	Description
1	Mobile Device Security and Controls	Enterprise Shared Services	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.
2	SAP – General Ledger	Enterprise Shared Services	Review, test and evaluate SAP General Ledger application controls, documentation and procedures.
3	Electronic Record Management System (LiveLink)	Enterprise Shared Services	Review, test and evaluate Records Management System application controls, documentation and procedures.
4	Energy Management System	Power Supply	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.
5	Information Security – SAP	Enterprise Shared Services	Test and evaluate the SAP Security to determine if it is adequately protected from unauthorized access, use, disclosure or modification, damage or loss using best security practices.
6	SCADA System	Power Supply	Test and evaluate the procedures, access security, controls and documentation implemented over the SCADA systems. Review and test for compliance with NERC-CIP requirements.
7	SAP Business Intelligence	Enterprise Shared Services	Review, test and evaluate SAP Business Intelligence application controls, documentation and procedures.
8	IT Disaster Recovery Plan	Enterprise Shared Services	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.
9	WPO Data Center	Enterprise Shared Services	Test and evaluate procedures and controls over the White Plains Office Data Center. Review physical security, environmental controls and fire protection.
10	SAP Business Planning Consolidation	Enterprise Shared Services	Review, test and evaluate SAP Business Planning Consolidation application controls, documentation and procedures.

# Annual Audit Planning Tool: Risk Rating Factors (Utilize in the ranking & prioritization of potential audits) Appendix A

These eight factors are utilized in the ranking & prioritization of potential audits. The highest combined score warrants the area to be on the current year's audit plan.

## 1. P&L Impact of the Business Function:

- 4 Low P&L Impact or Capital Allocation (< 1% income)
- 8 Moderate P&L Impact or Capital Allocation (>1%, <5% income)
- 12 High P&L Impact or Capital Allocation (>5% income)

## 2. Changes in Operations or Systems / Known Control Issues:

- 4 Minor Business Changes or Reported Control Issues
- 8 Moderate Changes (Business Restructuring; Major System Release; High/Key Turnover) or Reported Control Issues
- 12 Significant Changes (New Mission-Critical Systems; In/Out-Sourcing of Process) or Reported Control Issues

## 3. Customer Impact from Process Disruption/Failure:

- 4 Minor – Slight Delays or disruption in delivery services to customers
- 8 Moderate – Significant Delays or short term Inability of delivery services to customers
- 12 Significant – Broken Promises or Inability to Meet Customer Commitments

## 4. Business Model Complexity/Organizational Size:

- 2 Low – Limited 3<sup>rd</sup> Party or Cross-Functional Dependency (<25%) / Low Transaction Volume
- 4 Moderate – Some 3<sup>rd</sup> Party or Cross-Functional Dependency (>25% and <50%) / Moderate Transaction Volume
- 6 Significant – Significant 3<sup>rd</sup> Party or Cross-Functional Dependency (>50%) / High Transaction Volume

## 5. Legal/Regulatory Compliance:

- 2 Minimal Risk of Litigation or government actions / Minimal Compliance Effort Required
- 4 Moderate Risk of Litigation or government actions / Moderate Compliance Effort Required
- 6 Significant Risk of Litigation or government actions / Significant Compliance Effort Required

## 6. Level of Impact on Financial Reporting (PAAA) Controls:

- 2 Low – Area impacts operational issues and is not an input or output to financial reporting data
- 4 Moderate – Area has indirect or some factors in the input or output to financial reporting data
- 6 High – Area has direct effect on the input or output of financial reporting data

## 7. Strategic Alignment:

- 2 Low – Audit has Indirect Impact on Corporate Initiatives
- 4 Moderate – Audit has Direct Impact on a Minor Corporate Initiative
- 6 High – Audit has Direct Impact on a Major Corporate Initiative

## 8. Perception / Reputational Risk

- 4 Low likelihood & impact of reputational and political / public opinion
- 8 Medium likelihood & impact of reputational and political / public opinion
- 12 High likelihood & impact of reputational and political / public opinion

# 2012 Audit Plan

## Internal Audit



# 2012 Audit Plan

## Internal Audit Staff

### Educational Background and Experience

#### **Lesly Pardo**

Vice President – Internal Audit

Education: BBA – Baruch College

MBA – St. John's University

Certifications: Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, Certified Fraud Examiner, Certified Management Accountant

Experience: Over 32 years of experience including 5 years in Public Accounting and 26 years in Internal Auditing

#### **Steven Apa**

Manager – Special Audit Services

Education: BSBA – Northeastern University

Certifications: Certified Public Accountant, Certified Fraud Examiner, Certified Financial Forensic

Experience: Over 27 years of experience; 9 years private industry; 18 years Public Accounting & Consulting

#### **Frank Deaton**

Manager – Operational Audit

Education: BS Accounting – SUNY Albany

Certifications: Certified Bank Auditor

Experience: Over 21 years of experience primarily in the financial services industry. 15 years of Internal Auditing experience – joined NYPA in April 2007

#### **George Varughese**

Manager – Internal Audit

Education: BS Accounting – CUNY, NY

MS Information Systems Auditing – New York University Wagner School

Certifications: Certified Public Accountant

Experience: Over 29 years of diversified accounting/auditing experience