

# Audit Committee

Internal Audit Activity Report

December 31, 2011

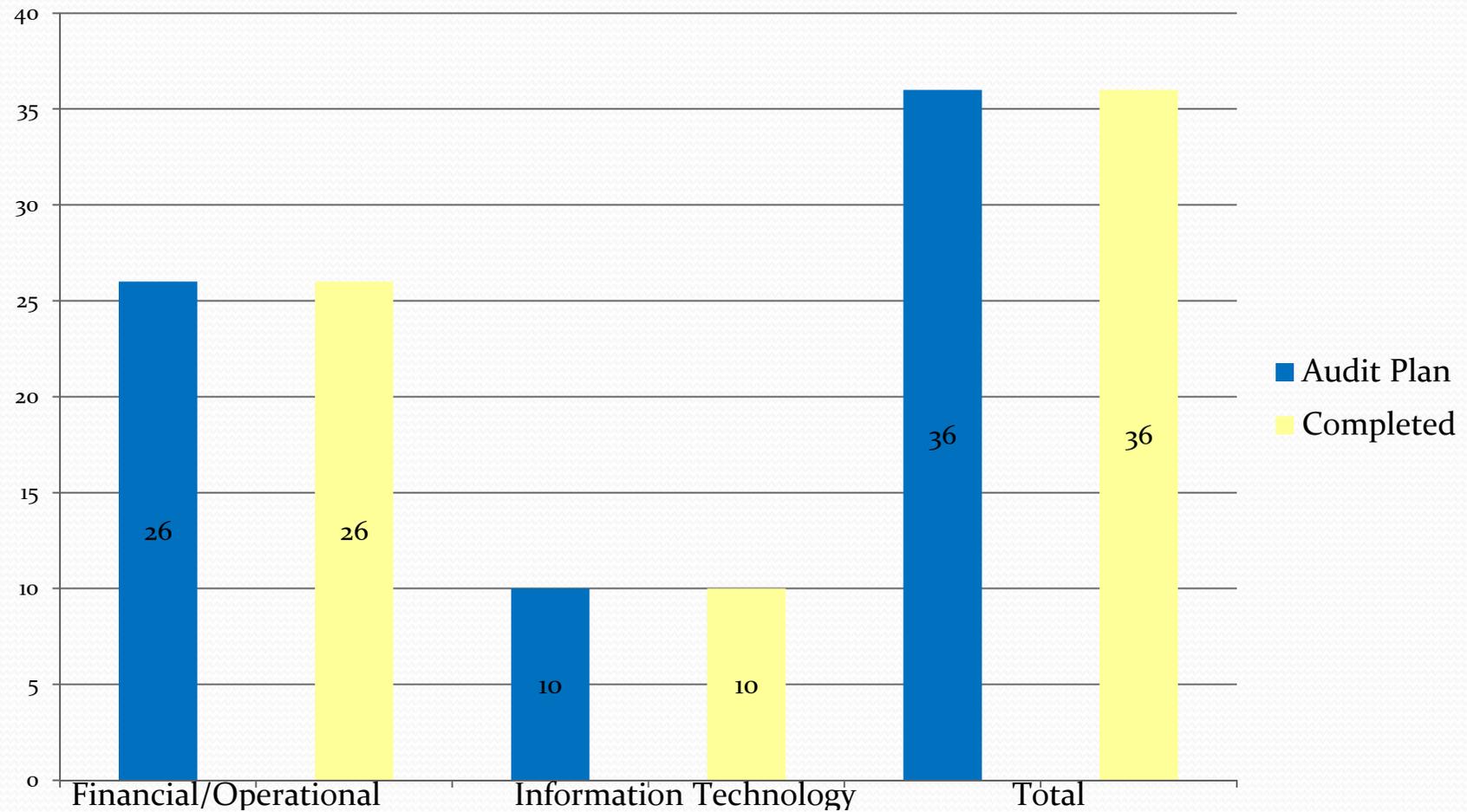
2011 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
12/31/11  
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2011 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
12/31/11  
SUMMARY

- Completed 36 audits and projects including 26 financial/operational and 10 information technology audits.
- All audits in the revised Audit Plan were completed.
- Issued 30 audit reports. Six (6) reports under review as of 12/31/11.
- Sixty-one (61) 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.
- Met or exceeded performance goals for:
  - Completion of high risk audit areas – 100% (goal 100%).
  - Completion of the Audit Plan – 100% (goal 90%).
- We are receiving management’s full cooperation and support.

2011 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
12/31/11  
AUDIT PLAN STATUS



# 2011 INTERNAL AUDIT PLAN ACTIVITY REPORT 12/31/11 AUDIT PLAN UPDATE

## FINANCIAL

- Customer Load Forecasting (C)
- Medical & Dental Benefits (C)
- Niagara Purchasing & Warehousing (C)
- Power for Jobs Revenues (C)
- Energy Cost Savings Benefit Customer Revenues (C)
- Investments/Investment Income (C)
- NYISO Generation Settlements (C)
- Headquarters Accounts Payable (C)
- Fuel Operations (C)
- NYPA Energy Services Program (C)
- SENY Revenue (C)
- Energy Services- Solar Projects (1)
- Niagara Finance & Administration (C)
- NYISO Ancillary Service Revenues & Expenses (C)
- Headquarters Procurement – Outline Agreements (C)
- Headquarters Travel & Living Expenses (C) (2)

## INFORMATION TECHNOLOGY

- SAP Fixed Assets (C)
- SAP – Human Resources (C)
- Change Control – SAP (C)
- Information Security – SAP (C)
- Energy Management System (C)
- Intrusion Prevention & Detection (C)
- Energy Control Center LAN (C)

C = Completed  
(1) = Audit Postponed  
(2) = Audit Added

## INFORMATION TECHNOLOGY (Continued)

- Internet/Intranet Security (C)
- Database Administration (C)
- Niagara LAN (C)

## OPERATIONAL/COMPLIANCE

- Environmental, Health & Safety Audit Programs (C)
- Maintenance Resource Management Program (C)
- Revenue Requirements (C)
- Customer Power Contracts (C)
- Law Department Selected Activities (C)
- Records Management (C)
- Transmission Line Maintenance (C)
- Energy Hedging (C)
- Engineering Support Services (C)
- Central Region O&M (1)
- Northern Region O&M (C)
- Compliance with NYS Comptroller's Contract Review and Reporting Requirements (C) (2)

## OTHERS

- BPS Enterprise Audit Software Implementation (C)
- NERC Reliability Compliance – Consulting (C)
- Vendor Contract Audits (C)
- EDP Customer Job Commitment Audits (C)
- Assistance to KPMG (C)

# 2011 INTERNAL AUDIT PLAN

## ACTIVITY REPORT

### 12/31/11

### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Northern Region Operations & Maintenance	Determine that (1) Water Entitlements are being managed in accordance with written agreements, (2) Assets are being managed in the manner which optimizes plant reliability and availability, (3) Maintenance procedures support the facility's objectives of optimal plant reliability and availability, (4) Costs are being appropriately monitored and controlled, and (5) Information Technology controls are in place.	<ul style="list-style-type: none"> <li>-Overall controls are adequate and working effectively.</li> <li>-Supervisory review of plant performance data should be documented.</li> <li>-Work Management Committee and Maintenance Resource procedures should be consistently followed.</li> </ul>
Energy Management System	Test and evaluate controls over changes, maintenance, and upgrades to the Energy Management System. Review user access controls, backup and recovery controls.	<ul style="list-style-type: none"> <li>-Controls over the Energy Management System application are effective.</li> <li>-The actual application roles granted to users of the Energy Management System application should be reviewed as part of the quarterly review process.</li> </ul>
Headquarters Travel & Living Expenses	Review procedures, processes and controls over (1) Travel Reservation Procedures, (2) Processing of Employee Expense Statements, (3) Direct Billed Account for air/train travel, and (4) Access controls over SAP Travel Module. Verify compliance with the Travel and Business Meal Policies.	<ul style="list-style-type: none"> <li>-Overall controls are working effectively.</li> <li>-NYPA's Business Meal Policy should be revised to require the most senior staff in attendance to pay and claim reimbursement for the off premises meals with other NYPA employees and contractors.</li> </ul>

# 2011 INTERNAL AUDIT PLAN

## ACTIVITY REPORT

### 12/31/11

### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Niagara Local Area Network (LAN)	Review, test and evaluate the physical security and access controls of the Niagara LAN. Assess the environmental controls (air conditioning, humidity, electrical, fire protection and water detection). Verify that backup and recovery procedures are effective.	-Overall controls over the LAN activities provide adequate protection for the Authority's Niagara LAN and its components.
Governmental Billing - SENY	Determine the adequacy and effectiveness of controls over SENY Revenues. Review procedures and processes for processing of meter reading data and billings of customers.	<p>-For the first nine months of 2011, energy sales to SENY customers consisted of 7.4 billion Kwh with total billed revenues of \$1.4 billion.</p> <p>-Controls over customer billings, processing of meter reading data and customer consumption review procedures are effective.</p> <p>-An edit report to check for accounts that lack demand or energy charges should be developed.</p>
Energy Control Center Local Area Network (LAN)	Review, test and evaluate the physical security and access controls of the ECC LAN. Assess the environmental controls (air conditioning, humidity, electrical, including UPS and backup generators), fire protection, and water detection and protection. Verify that backup and recovery procedures are effective.	Overall controls over the LAN and Data Center activities provide adequate protection for the Authority's ECC LAN and Data Center and components.

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<b>Report Name</b>	<b>High-Level Audit Objectives</b>	<b>Observations/Findings/ Recommendations</b>
Niagara Finance and Administration	Review procedures, processes and controls over budget monitoring, accounts payable, payroll and travel and living expenses.	<ul style="list-style-type: none"> <li>-Controls over the processing of new hires and union employees salary changes in SAP need improvements.</li> <li>-Develop formal procedures to cover the approval process for new hires.</li> </ul>
Compliance with NYS Comptroller's Contract Review and Reporting Requirements Audit	Confirm compliance with contract submission and filing requirements for eligible and exempt procurement contracts as required by NYCRR Title 2 Part 206.	<ul style="list-style-type: none"> <li>-Controls to ensure compliance with NYS Comptroller's Reporting and Review requirements for contract amendments can be improved.</li> <li>-Update Procurement Guidelines to clarify expectations for handling of contract amendments.</li> </ul>
Engineering Support Services – FERC Compliance Audit	Evaluate the adequacy and effectiveness of internal controls related to NYPA's FERC Dam Safety Program.	<ul style="list-style-type: none"> <li>-Controls are adequate and generally effective.</li> <li>-Update FERC compliance governance materials.</li> <li>-Work orders in the Maximo System should be periodically reviewed.</li> </ul>
Energy Hedging Transactions	Determine whether activities and controls of the Front, Middle and Back Offices related to energy hedging are in compliance with NYPA policies and procedures.	Current systems of control are satisfactory to ensure energy hedging transactions are entered into and managed consistently with the related hedging objectives and in compliance with NYPA policies and procedures.

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**REPORT RECAP**

<b>Report Name</b>	<b>High-Level Audit Objectives</b>	<b>Observations/Findings/Recommendations</b>
Fuel Operations	Test and evaluate procedures and controls over procurement of fuel oil and natural gas, Fuel Operations scheduling, natural gas deliveries, and the review and approval of supplier invoices.	Internal controls over fuel purchases and expenditures were found to be adequate and effective.
Internet/Intranet Security	Evaluate the adequacy and effectiveness of internal controls over the NYPA firewalls and to ensure compliance with established policies, procedures, guidelines and best security practices.	Overall controls over the Internet/Intranet Security provide adequate protection for the Authority's network and its components.
Data Base Administration	Review controls and procedures over NYPA's Data Bases and verify that controls allow only authorized access to the Data Bases based on job responsibilities.	Controls over NYPA's Data Base Management System and Data Bases were found to be adequate and effective.
Outline Agreement	Evaluate the adequacy and effectiveness of controls and processes over the issuance of Outline Agreements, processing of purchase order releases and the monitoring and reporting of Outline Agreements.	-Controls are effective and operating as designed. -Outline Agreements were processed in accordance with NYPA's Expenditure Authorization Procedures.