March 26, 2015

MEMORANDUM TO THE TRUSTEES

FROM THE AUDIT COMMITTEE

SUBJECT: Amendments to the Authority's Audit Committee Charter

SUMMARY

The Trustees are requested to adopt the Audit Committee Charter as amended and set forth in Exhibits "A" and "A-1" of this item. These amendments were approved by the Audit Committee at its March 26, 2015 meeting. The most significant amendments are discussed below.

BACKGROUND AND DISCUSSION

The Audit Committee Charter was last amended in February 23, 2010. In December of 2014, the Audit Committee requested that its Charter be evaluated against current practice at the Authority, as well as compared to the leading practices of comparable public authorities and utilities. The objective of the review was to identify gaps in information and processes and to provide recommendations for the Charter's enhancement. In addition, since 2010 there have been significant changes to the organizational structure of the Internal Audit Department, including the appointment of a new Chief Audit Executive on February 17, 2015.

The principal amendments to the Audit Committee Charter included in Exhibit "A" are as follows:

- Enhanced explanation of Committee decision-making requirements, such as quorum and majority vote. These include provisions for: changing the number of committee members from three to no more than five; the addition of an alternate member; defining a quorum to be a majority of the number of regular Committee members; and a majority vote of the members present to take action on a matter.

- Expanded explanation of Committee responsibilities as it relates to Internal Audit, such as the authority over the appointment, dismissal, compensation and performance reviews of the Chief Audit Executive; the review of the activities, staffing and organizational structure of the Internal Audit Department, as well as elaboration on the discussion of significant risks reported in the Internal Audit reports (See Section C.3 a, b and e).

- Inclusion of Committee oversight responsibilities, as recommended by the Institute of Internal Auditors ("IIA"), such as periodic reporting to the Board, annual review of the Charter and conduct a self-evaluation (See Section C.3 j and k).

FISCAL INFORMATION

None.

RECOMMENDATION

The Executive Vice President and General Counsel, the Senior Vice President – Internal Audits and the Audit Committee recommend that the Trustees approve the proposed amendments to the Audit Committee Charter.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below.

Eugene L. Nicandri
Chairman

R E S O L U T I O N

RESOLVED, That the attached Audit Committee Charter be adopted in the form proposed in Exhibit “A.”

Exhibit A
March 26, 2015

AUDIT COMMITTEE CHARTER

A. PURPOSE

The Audit Committee ("Committee") oversees the work of the Internal Audit Department and monitors all internal audits and external audits performed by the Independent Auditor and other external agencies as well as management's corrective action and implementation plans to all audit findings.

The responsibilities of the Committee are to: recommend to the Board of Trustees the hiring of a certified independent accounting firm for the New York Power Authority ("Authority"), establish the compensation to be paid to the accounting firm and provide direct oversight of the performance of the independent audit conducted by the accounting firm hired for such purposes; provide direct oversight of the Internal Audit Department, and perform such other responsibilities as the Trustees may assign it.

B. MEBERSHIP AND ORGANIZATION

(1) Committee Composition

The Committee will be comprised of at least three, but not exceeding five, independent members of the Board of Trustees, who possess the necessary skills to understand the duties and functions of the Committee and be familiar with corporate finance and accounting. Committee members and the Committee Chair will be selected by a vote of the Board of Trustees.

The Board may vote to designate one alternate member, who meets all the Committee member requirements, to serve on the Committee (a) in the absence of a regular Committee member at a meeting, (b) upon recusal or abstention of a regular Committee member from an action, or (c) in case of a vacancy on the Committee until such time as the Board of Trustees selects a replacement Committee member.

Committee members are prohibited from being an employee of the Authority or an immediate family member of an employee of the Authority. In addition, Committee members shall not engage in any private business transactions with the Authority or receive compensation from any private entity that has material business relationships with the Authority, or be an immediate family member of an individual that engages in private business transactions with the Authority or receives compensation from an entity that has material business relationships with the Authority.

(2) Term

Committee members will serve for a period of five years subject to their term of office under the Public Authorities Law § 1003. Committee members may be reelected to serve for additional periods of five years subject to their term of office. A Committee member may resign his or her position on the Committee while continuing to serve as a Trustee. In the event of a vacancy on the Committee due to death, resignation or otherwise, a successor will be selected to serve in the manner and for the term described above.

(3) Removal

A Committee member may be removed if he or she is removed as Trustee for cause, subject to Public Authorities Law § 2827, or is no longer eligible to serve as a Committee member.

(4) Meetings and Quorum

The quorum of the Committee is a majority of the number of regular Committee members selected by the Board of Trustees. For a quorum, the alternate Committee member is counted.

A majority vote of all Committee members present is required to take action on a matter within its authority. The alternate Committee member is counted and votes only when serving on the Committee as specified in Section B (1).

The Committee shall hold regularly scheduled meetings at least three times per year. A Committee member may call a special meeting of the Committee individually, or upon the request of the Authority's Present and Chief Executive Officer ("CEO"), Chief Operating Officer ("COO"), Executive Vice President and General Counsel ("GC"), Executive Vice President and Chief Financial Officer ("CFO"), Chief Risk Officer ("CRO"), Controller, or Chief Audit Executive of the Internal Audit Department ("CAE"). The notice of meeting need not state the purpose for which the meeting has been called. In order to transact business, a quorum must be present.

In addition, the Committee: (1) will meet at least three times a year with the CAE for the purpose of reviewing audit activities, audit findings, management's response, remediation action plans, and providing the CAE with an opportunity to discuss items and topics of relevance with the Committee; (2) will meet at least twice a year with the Authority's independent auditors to discuss the audit work plans, objectives, results and recommendations; and (3) may meet independently with the Authority's CEO, COO, GC, CFO, CRO, Controller, or CAE on matters or issues and items within the Committee's purview as it deems necessary. These meetings may be held as part of a regular or special meeting at the Committee's discretion.

An agenda will be prepared and distributed to each Committee member prior to each meeting and minutes to be prepared in accordance with the New York Open Meetings Law**.** Minutes of the meeting should include, at a minimum:

a. Date; location; time meeting was called to order and to adjourn; and if other Board committee (e.g., Finance Committee, etc.) is meeting simultaneously
b. Title and name of attendees; public comments period; title and name of public speakers
c. Approval of the official proceedings of the previous month's Committee meeting
d. Pre-Approval of audit and on-auditing services as appropriate, all auditing services and non-audit services to be performed by independent auditors will be presented to and pre-approved by the Committee:
    1. External Audit Approach Plans: Independent auditor presents approach/service plan; which is to be submitted to the Committee electronically
    2. Internal Audit Activity Report: CAE provides overview of Internal Audit activities
    3. Risk Management: CRO provides an overview of Risk Management activities
e. Follow-up items including communications to the Committee of the current status of selected open issues, concerns, or matters previously brought to the Committee's attention or requested by the Committee
f. Status of audit activities, as appropriate; representatives of the certified independent accounting firm or agency management will discuss with the Committee significant audit findings/issues, the status of on-going audits, and the actions taken by agency management to implement audit recommendations

g. Copies of handouts or materials presented to the Committee

Any meeting of the Committee may be conducted by video conferencing. To the extent permitted by law, the Committee may hold meetings or portions of meetings in executive session.

C. FUNCTIONS AND POWERS

The Committee has the following responsibilities:

(1) General Powers

The Committee may call upon the resources of the Authority to assist the Committee in the discharge of its oversight functions. Such assistance may include the assignment of Authority employees to assist the Committee, and the retention of external advisors to the requirements of the Public Authorities Law and the Authority's Expenditure Authorization Procedures. The Committee may communicate directly with the CEO.

The Committee may direct any Authority employee to make oral or written reports to the Committee on issues and items within the Committee's purview.

The Committee may direct the Authority's internal auditors to conduct special audits of items and issues of concern to the Committee.

(2) Accounting, Financial Reporting, and Oversight of Independent Accountants and Controller

The Committee will seek to enhance the integrity, quality, reliability and accuracy of the Authority's financial statements and accompanying notes, and will oversee the relationship with eh Authority's independent accountants. To accomplish these objectives, the Committee will:

a. Provide advice to the Trustees on this selection, engagement, compensation, evaluation and discharge of the independent accountants.

b. Review and discuss as necessary the Authority's financial statements including any material changes in accounting principles and practices with the independent accountants, the Controller, or members of Authority management.

c. Review and approve the Authority's annual audited financial statements (including the independent accountants' associated management letter).

d. Oversee the establishment of procedures for the effective receipt and treatment of (i) complaints regarding auditing, internal auditing and accounting matters, and (ii) the confidential submission of concerns raised by whistleblowers and other persons regarding accounting or auditing practices.

e. Review at least annually the scope, objectives and results of the independent auditors' examination of the annual financial statements and accompanying notes, and report to the Trustees on the Committee's findings.

f. Assure the independence of the independent accountants by approving any non-audit work for the Authority and examining the independent auditor's relationship with the Authority.

g. Report to the Trustees on any matters relevant to the audit process or independent accountant communications, and make such recommendations as the Committee deems appropriate.

(3) <u>Risk Management, Internal Controls and Oversight of the Internal Audit Department</u>

The Committee will seek to enhance the Authority's risk management infrastructure, and ensure timely and effective identification and mitigation of critical business risks. To accomplish these objectives, the Committee will:

a. Have authority over appointment, dismissal, compensation and performance reviews of the CAE. The CAE will report directly to the Committee.

b. Review the charter, activities, staffing and organizational structure of the Internal Audit Department with management and the CAE.

c. Ensure that the Internal Audit Department is organizationally independent from Authority operations.

d. Provide oversight of the Internal Audit Department and the Internal Audit Department's resources and activities to facilitate the Internal Audit Department's improvement of internal controls.

e. Review Internal Audit reports and recommendations of the CAE. This review will include a discussion of significant risks reported in the Internal Audit reports, and an assessment of the responsiveness and timeliness of management's follow-up activities pertaining to the same.

f. Require the CAE to attend any meeting of the Committee and to prepare and deliver such reports as the Committee requests.

g. Provide guidance to the Authority's CRO and enterprise risk management program on critical business objectives, risks and philosophy and tolerance for risk mitigation, and establish requirements for the CRO to report to the Committee.

h. Report at least annually to the Board of Trustees on matters relating to the internal audit function and the enterprise risk management program, and make such recommendations as the Committee deems appropriate.

i. Present periodic reporting to the Board of how the Committee has discharged its duties and met its responsibilities, and regularly report activities, issues and recommendations.

j. Review the Committee's charter annually, reassess its adequacy, and recommend any proposed changes to the Board.

k. Conduct an annual self-evaluation of performance, including its effectiveness and compliance with the charter.

March 26, 2015~~February 23, 2010~~

AUDIT COMMITTEE CHARTER

A. PURPOSE

~~The purpose of the Audit Committee ("Committee") is~~The Audit Committee ("Committee") oversees the work of the Internal Audit Department and monitors all internal audits and external audits performed by the Independent Auditor and other external agencies as well as management's corrective action and implementation plans to all audit findings.

The responsibilities of the Committee are to: recommend to the Board of Trustees the hiring of a certified independent accounting firm for the New York Power Authority~~;~~ ("Authority"), establish the compensation to be paid to the accounting firm~~;~~ and provide direct oversight of the performance of the independent audit conducted by the accounting firm hired for such purposes; provide direct oversight of the ~~internal audit function;~~Internal Audit Department, and perform such other responsibilities as the Trustees ~~shall~~ may assign ~~to~~ it.

~~B. MEMBERSHIP~~

B. MEBERSHIP AND ORGANIZATION

(1) ~~(1)~~ Committee Composition

~~The~~ Committee ~~shall~~will be comprised of at least three, but not exceeding five, independent members of the Board of Trustees, who ~~shall~~ possess the necessary skills to understand the duties and functions of the Committee and be familiar with corporate finance and accounting. Committee members and the Committee Chair ~~shall~~will be selected by a vote of the Board of Trustees.

~~(2)~~ The Board may vote to designate one alternate member, who meets all the Committee member requirements, to serve on the Committee (a) in the absence of a regular Committee member at a meeting, (b) upon recusal or abstention of a regular Committee member from an action, or (c) in case of a vacancy on the Committee until such time as the Board of Trustees selects a replacement Committee member.

Committee members are prohibited from being an employee of the Authority or an immediate family member of an employee of the Authority. In addition, ~~Term~~

Committee members shall not engage in any private business transactions with the Authority or receive compensation from any private entity that has material business relationships with the Authority, or be an immediate family member of an individual that engages in private business transactions with the Authority or receives compensation from an entity that has material business relationships with the Authority.

(2) Term

Committee members will serve for a period of five years subject to their term of office under the Public Authorities Law § 1003. Committee members may be reelected to serve for additional periods of five years subject to their term of office. A Committee member may resign his or her position on the Committee while continuing to serve as a Trustee. In the event of a vacancy on the Committee due to death, resignation or otherwise, a successor will be selected to serve in the manner and for the term described above.

(3) (3) Removal

A Committee member may be removed if he or she is removed as a Trustee for cause, subject to Public Authorities Law § 2827, or is no longer eligible to serve as a Committee member.

(4) (4) Meetings and Quorum

The quorum of the Committee is a majority of the number of regular Committee members selected by the Board of Trustees. For a quorum, the alternate Committee member is counted.

A majority vote of all Committee members present is required to take action on a matter within its authority. The alternate Committee member is counted and votes only when serving on the Committee as specified in Section B (1).

The Committee shall hold regularly scheduled meetings at least three times per year. A Committee member may call a special meeting of the Committee individually, or upon the request of the Authority's PresidentPresent and Chief Executive Officer, ("CEO"), Chief Operating Officer, ("COO"), Executive Vice President and General Counsel, Chief Risk Officer, ("GC"), Executive Vice President and Chief Financial Officer, ("CFO"), Chief Risk Officer ("CRO"), Controller, or headChief Audit Executive of the Office of Internal Audit ("OIA"). Department ("CAE"). The notice of meeting need not state the purpose for which the meeting has been called. In order to transact business, a quorum must be present.

In addition, the Committee: (1) shallwill meet at least three times a year with the head of the OIACAE for the purpose of reviewing audit activities, audit findings, management's responses, remedialresponse, remediation action plans, and providing the OIACAE with an opportunity to discuss items and topics of relevant torelevance with the Audit Committee; (2) shallwill meet at least twice a year with the Authority's independent accountantsauditors to discuss the audit work plans, objectives, results and recommendations; and (3) may meet independently with the Authority's President and Chief Executive Officer, Chief Operating Officer, Executive Vice President and General Counsel, Chief Risk Officer, Chief Financial OfficerCEO, COO, GC, CFO, CRO, Controller, or head of the OIACAE on matters or issues and items within the Committee's purview as it deems necessary. These meetings may be held as part of a regular or special meeting inat the Committee's discretion.

An agenda shallwill be prepared and distributed to each Committee member prior to each meeting and minutes shallto be prepared in accordance with the New York Open Meetings

Law. ~~A majority of those present, but no less than two~~Minutes of the meeting should include, at a minimum:

a. Date; location; time meeting was called to order and to adjourn; and if other Board committee (e.g., Finance Committee~~ members, at a regular or special~~, etc.) is meeting simultaneously

b. Title and name of attendees; public comments period; title and name of public speakers

c. Approval of the official proceedings of the previous month's Committee ~~shall constitute a quorum for the purposes of conducting the business~~meeting

d. Pre-Approval of audit and on-auditing services as appropriate, all auditing services and non-audit services to be performed by independent auditors will be presented to and pre-approved by the Committee:

1. External Audit Approach Plans: Independent auditor presents approach/service plan; which is to be submitted to the Committee electronically
2. Internal Audit Activity Report: CAE provides overview of Internal Audit activities
3. Risk Management: CRO provides an overview of Risk Management activities

e. Follow-up items including communications to the Committee ~~and receiving reports.~~of the current status of selected open issues, concerns, or matters previously brought to the Committee's attention or requested by the Committee

f. Status of audit activities, as appropriate; representatives of the certified independent accounting firm or agency management will discuss with the Committee significant audit findings/issues, the status of on-going audits, and the actions taken by agency management to implement audit recommendations

g. Copies of handouts or materials presented to the Committee

Any meeting of the Committee may be conducted by video conferencing.

To the extent permitted by law, the Committee may hold meetings or portions of meetings in executive session.

C. ~~C.~~ FUNCTIONS AND POWERS

The Committee ~~shall have~~has the following responsibilities:

(1) ~~(1)~~ General Powers

The Committee may call upon the resources of the Authority to assist the Committee in the discharge of its oversight functions. Such assistance may include the assignment of Authority employees to assist the Committee, and the retention of external advisors ~~subject~~ to the requirements of the Public Authorities Law and the Authority's Expenditure Authorization Procedures. The Committee may communicate directly with the CEO.

The Committee may direct any Authority employee to make oral or written reports to the Committee on issues and items within the Committee's purview.

The Committee may direct the Authority's internal auditors to conduct special audits of items and issues of concern to the Committee.

(2) (2) Accounting, Financial Reporting, and Oversight of Independent Accountants and Controller

The Committee shallwill seek to enhance the integrity, quality, reliability and accuracy of the Authority's financial statements and accompanying notes, and shallwill oversee the relationship with theeh Authority's independent accountants. To accomplish this objectivethese objectives, the Committee shallwill:

a. Provide advice to the Trustees on thethis selection, engagement, compensation, evaluation and discharge of the independent accountants.

b. Review and discuss as necessary the Authority's financial statements including any material changes in accounting principles and practices with the independent accountants, the Controller, or members of Authority management.

c. Review and approve the Authority's annual audited financial statements (including the independent accountants' associated management letter).

d. Oversee the establishment of procedures for the effective receipt and treatment of (i) complaints regarding auditing, internal auditing and accounting matters, and (ii) the confidential submission of concerns raised by whistleblowers and other persons regarding accounting or auditing practices.

e. Review at least annually the scope, objectives and results of the independent accountants'auditors' examination of the annual financial statements and accompanying notes, and report to the Trustees on the Committee's findings.

f. Assure the independence of the independent accountants by approving any non-audit work for the Authority and examining the accountant'sindependent auditor's relationship with the Authority.

g. Report to the Trustees on any matters relevant to the audit process or independent accountant communications, and make such recommendations as the Committee deems appropriate.

(3)

(3) Risk Management, Internal Controls and Oversight of the ~~OIA~~ Internal Audit Department

The Committee ~~shall~~will seek to enhance the Authority's risk management infrastructure, and ensure timely and effective identification and mitigation of critical business risks. To accomplish these objectives, the Committee ~~shall~~will:

Have authority over~~Have authority over~~

a. ~~Review and approve the~~ appointment, ~~evaluation and removal~~dismissal, compensation and performance reviews of the CAE. The CAE will report directly to the Committee.

~~a.~~b. Review ~~head~~~~with management and the CAE,~~ the charter, activities, staffing and organizational structure of the ~~OIA.~~ Internal Audit Department with management and the CAE.

c. Ensure that the Internal Audit Department is organizationally independent from Authority operations.

~~b.~~d. Provide oversight of the ~~OIA~~Internal Audit Department and the ~~OIA's~~Internal Audit Department's resources and activities to facilitate the ~~OIA's~~Internal Audit Department's improvement of internal controls.

e. Review Internal Audit reports and recommendations of the CAE. This review will include a discussion of significant risks reported in the Internal Audit reports, and an assessment of the responsiveness and timeliness of management's follow-up activities pertaining to the same.

~~c.~~f. Require the ~~head of the OIA~~CAE to attend any meeting of the Committee and to prepare and deliver such reports as the Committee requests.

~~d.~~g. Provide guidance to the Authority's ~~Chief Risk Officer~~CRO and enterprise risk management program on critical business objectives, risks and philosophy and tolerance for risk mitigation, and establish requirements for the ~~Chief Risk Officer~~CRO to report to the Committee.

h. Report at least annually to the Board of Trustees on matters relating to the internal audit function and the enterprise~~-wide~~ risk management ~~infrastructure~~program, and make such recommendations as the Committee deems appropriate.

i. Present periodic reporting to the Board of how the Committee has discharged its duties and met its responsibilities, and regularly report activities, issues and recommendations.

j. Review the Committee's charter annually, reassess its adequacy, and recommend any proposed changes to the Board.

k. Conduct an annual self-evaluation of performance, including its effectiveness and compliance with the charter.

~~e.~~