

Date: May 19, 2015

To: THE TRUSTEES

From: THE PRESIDENT and CHIEF EXECUTIVE OFFICER

Subject: Procurement (Services) Contract – Professional Services – Ernst & Young LLC – Additional Funding and Contract Extension

SUMMARY

The Trustees are requested to authorize additional funding in the amount of \$2.7 million and an option for a contract extension through June 30, 2016 for the Authority's contract with Ernst & Young LLP ("EY") (No. 4500245948) for assistance in managing the Authority's Internal Audit department and in conducting various audits and assessments.

BACKGROUND

Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require the Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

The Authority's Expenditure Authorization Procedures ("EAPs") require the Trustees' approval when the cumulative change-order value of a personal services contract exceeds \$500,000.

At the March, 2014 meeting of the Power Authority's Audit Committee of the Board of Trustees, Executive Management was directed to engage the services of a third-party auditor to manage the Internal Audit department and to provide additional services including managing the execution of outstanding 2013 audits, assessing the 2014 proposed Internal Audit Plan, and determining the resources required to complete the Department's other work plans. A competitive search was initiated and EY's proposal was determined to be most responsive to the Authority's requirements. EY was awarded an interim contract for \$900,000, effective April 28, 2014, with the work to be completed within one year.

Subsequent to the initial April 2014 contract award, the EY contract has been before the Trustees at their July 29, 2014 and October 15, 2014 meetings. At the July meeting, the contract value was increased to \$1.653 million and the contract term was extended to December 31, 2014, to cover the Audit Committee's recommendation to the Trustees to expand EY's support to the Authority by increasing the number of audits to be conducted and by initiating additional EY support activities.

At the October meeting, the Trustees increased the compensation limit to \$3,871,600, including estimated expenses, to cover the costs for an extension of the contract term through June 30, 2015 with an option to extend for an additional six-month period through December 31, 2015.

DISCUSSION

At the request of the Audit Committee of the Board of Trustees and Executive Management, EY will continue to assist the Authority's Internal Audit department on the execution of its audit activities during the period July 1, 2015 through December 31, 2015, including the execution of the 2015 Internal Audit Plan and related assessments. These continuing and additional services include EY providing Internal Audit with resources and subject matter expertise support to conduct audits and other activities that would have been performed by various Authority staff who resigned their positions at the Authority. EY will be providing additional internal audit resources and support to assist the newly appointed Chief Audit Executive and other new staff with their transition to the Authority. Additional EY services will include: assistance in development of the 2016 Internal Audit Plan, conducting audits of specific vendor contracts which have been requested by the Authority, and a SCADA Network Discovery Assessment in order to evaluate the security of the Authority's SCADA from an intranet perspective.

The continued need to redirect the focus and skills of the Internal Audit department and to re-staff the department requires these EY activities. The projected cost of these additional services through December 31, 2015 and with an option to extend the contract through June 30, 2016, is \$2.7 million bringing the total contract value to \$6,571,600.

FISCAL INFORMATION

Payments associated with these EY services will be made from the Authority's Operating Fund.

RECOMMENDATION

The Vice President – Information Technology and Chief Information Officer, the Vice President – Procurement, the Senior Vice President – Internal Audit, and the Executive Vice President and General Counsel recommend that the Trustees approve an option for a contract extension, not to exceed June 30, 2016, and a \$2.7 million increase in the contract value to a not to exceed amount of \$6,571,600, to Ernst & Young LLC for assistance in managing the Authority's Internal Audit department and in conducting various audits and assessments.

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

Gil C. Quiniones
President and Chief Executive Officer

RESOLUTION

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority and the Authority’s Expenditure Authorization Procedures, approval is hereby granted for an option to extend the procurement (services) contract through June 30, 2016 and a \$2.7 million increase in funding of the contract up to an amount not to exceed \$6,571,600 to Ernst & Young for assistance in managing the Authority’s Internal Audit department and in conducting various audits and assessments, as recommended in the foregoing memorandum of the President and Chief Executive Officer;

<u>O & M</u>	<u>Contract Approval</u>	<u>Completion Date</u>
Ernst & Young LLC (No. 4500245948)		June 30, 2016
Previous Contract Approval	\$ 3,871,600	
Current Authorization Request	<u>2,700,000</u>	
Total Contract Amount	<u>\$ 6,571,600</u>	

AND BE IT FURTHER RESOLVED, That the Chairman, the Vice Chair, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.