

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

**July 23, 2013**

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July 23, 2013

Minutes of the regular meeting of the New York Power Authority's Audit Committee held at the Authority's offices at 123 Main Street, White Plains, New York at approximately 9:20 a.m.

**The following Members of the Audit Committee were present:**

Trustee Terrance P. Flynn, Chairperson  
Trustee Eugene L. Nicandri  
Trustee R. Wayne LeChase

**Also in attendance were:**

John Koelmel	Chairman, New York Power Authority
Gil Quiniones	President and Chief Executive Officer
Edward Welz	Chief Operating Officer
Judith McCarthy	Executive Vice President and General Counsel
Donald Russak	Executive Vice President and Chief Financial Officer
William Nadeau	Senior Vice President and Chief Risk Officer
Karen Delince	Corporate Secretary
Dennis Eccleston	Vice President – Information Technology/Chief Information Officer
Lesly Pardo	Vice President – Internal Audit
Frank Deaton	Director – Enterprise Risk Management
Charles Douma	Director – General Accounting and Financial Accounting
Gary Schmid	Manager – Network Services
Lorna Johnson	Associate Corporate Secretary
Sheila Baughman	Assistant Corporate Secretary

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Chairman Terrance P. Flynn presided over the meeting. Corporate Secretary Delince kept the Minutes.

**Introduction**

*Chairman Flynn welcomed committee members Trustees Nicandri and LeChase, the Authority's Chairman and senior staff to the meeting. He said the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to section B(4) of the Audit Committee Charter.*

**1. Adoption of the Proposed Meeting Agenda**

By motion made and seconded the agenda for the meeting was adopted.

**2. Approval of the Minutes**

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting of September 24, 2012 were approved.

**3. Internal Audit Activity Report**

The Vice President of Internal Audit submitted the following report:

**"SUMMARY**

The Internal Audit Activity Report covers the performance of the Internal Audit Department for the period January 1 through June 30, 2013. The report provides the status of the 2013 Audit Plan as of June 30, 2013, including a summary of completed audits, audits in progress and reports issued (see Exhibit '3-A').

**BACKGROUND**

The Internal Audit Department is an independent, objective and consulting function designed to add value by improving the Authority's internal control structure and operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate, test and improve the effectiveness of internal controls, risk management and governance processes.

The Audit Committee Charter states that the Committee shall provide oversight of the Office of Internal Audit ('OIA') and the OIA's resources and activities to facilitate the OIA's improvement of internal controls. In addition, the Committee shall meet at least three times a year with the head of the OIA for the purpose of reviewing audit activities, audit findings, management's responses, remedial action plans, and providing the OIA with an opportunity to discuss items and topics of relevance to the Audit Committee.

The purpose of this report is to provide the Audit Committee the status of the 2013 Internal Audit Plan, which was reviewed by the Committee at its meeting in March."

*In response to a question from Authority Chairman Koelmel, Mr. Pardo said the OIA generally provides an overall opinion on all reports and that the OIA does not rate its own report. He said the OIA uses three types*

*of opinions: (1) internal controls are adequate and effective; (2) Internal controls need improvement (3) internal controls are inadequate. In response to further questioning from Authority Chairman Koelmel, Mr. Pardo said OIA staff did not note any material deficiencies in the Authority's internal control system; however, they made a number of recommendations for improvement. Responding to still further questioning from Authority Chairman Koelmel, Mr. Pardo opined that the Authority has a very sound internal control system and reiterated that OIA made recommendations with regard to certain areas where the controls could be improved or strengthened. He said, overall, the Authority's internal control system is effective.*

**4. Risk Management Update – Status of Comprehensive NYPA-wide Risk Assessment**

*Mr. William Nadeau provided an update of the Authority's Risk Management. He said Risk Management staff initiated a comprehensive reassessment of the Authority's risk profile. To date, they have completed sixteen of the eighteen workshops designed to examine the risk profiles of all the functional areas within the Authority. Mr. Nadeau continued that previously, the Authority had a comprehensive risk inventory; however, Mr. Donald Russak, Chairman of the Executive Risk Management Committee, along with Ms. Judith McCarthy, Mr. Edward Welz and Risk Management staff are working on establishing a framework for how risks are identified and assessed. They will also be working with a consultant to identify key risk indicators. He ended by saying that a report with respect to risk at the Authority will be presented at the September 24 Audit Committee and Board of Trustees meetings.*

*In response to a question from Trustee Nicandri, Mr. Nadeau said there were strong responses from staff when the Risk Management team gathered information for the report. He said, although aware of the sensitivity of the information in certain areas, staff's objective was to collect the information responsibly and present it to the Audit Committee and Trustees in a transparent manner. Responding to further questioning from Trustee Nicandri, Mr. Nadeau said staff has visited all of the Authority's facilities with the exception of SENY in Astoria and Corporate Support Services, which are scheduled for the following week.*

*In response to a question from Authority Chairman Koelmel, Mr. Nadeau said there were no major risk assessment issues that should be of concern to the Trustees. Although cyber security, for example, is high on the list from an impact and probability perspective, it is important to review all functional areas to ensure that*

*nothing is overlooked. He said Risk Management endeavors to keep the Audit Committee and Board of Trustees apprised on risk management concerns within the Authority.*

5. Next Meeting

Chairman Flynn said that the next regular meeting of the Audit Committee will be held on Tuesday, September 24, 2013, at the Niagara Power Project Power Vista (Visitors' Center) in Lewiston, New York.

Closing

On motion made and seconded, the meeting was adjourned by the Chairman at approximately 9:35 a.m.



Karen Delince  
Corporate Secretary

July 23, 2013

# **EXHIBITS**

**For**

**July 23, 2013**

**Meeting Minutes**

# Audit Committee

Internal Audit Activity Report

June 30, 2013

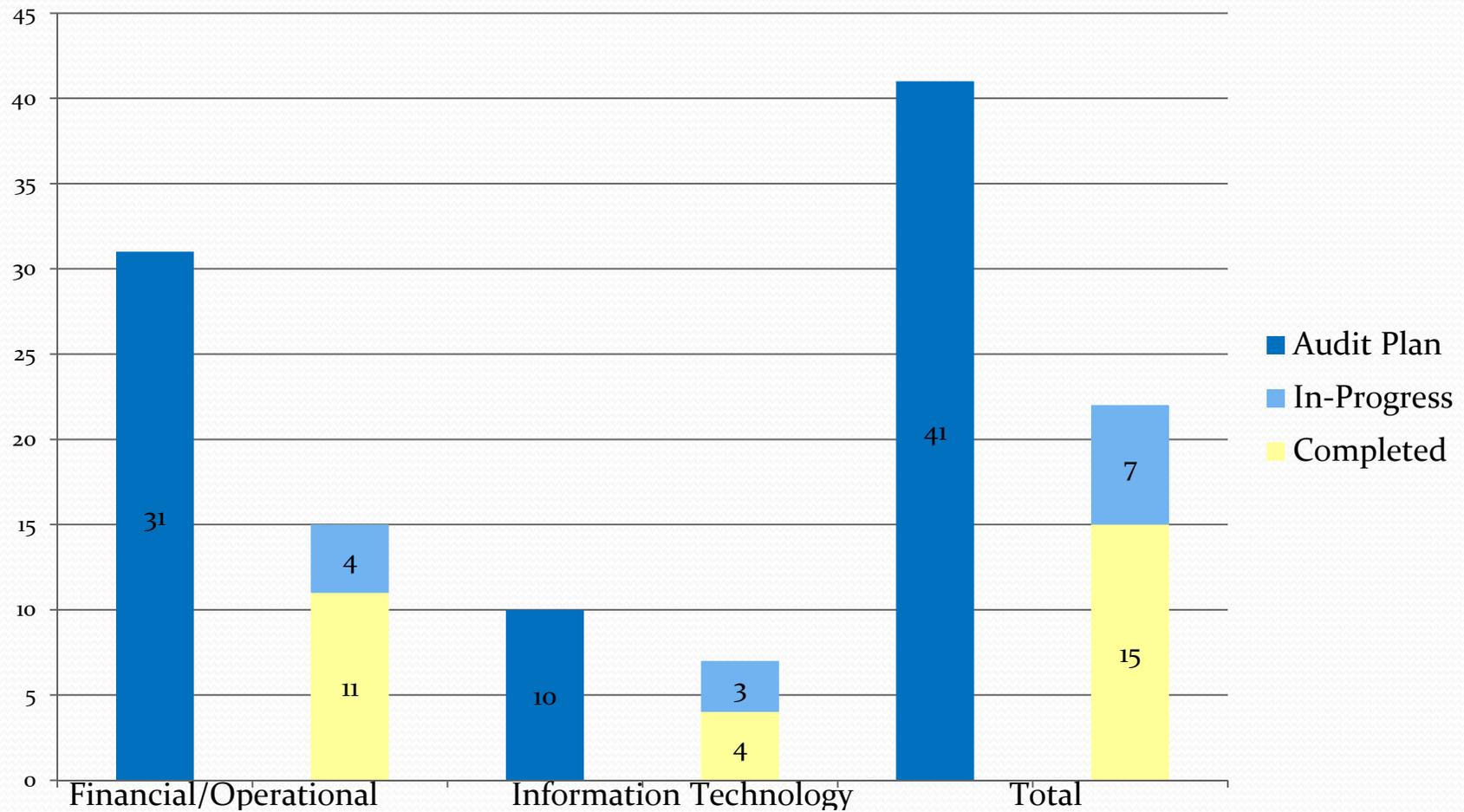
2013 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
6/30/13  
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2013 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
6/30/13  
SUMMARY

- Completed 15 audits and projects including 11 financial/operational and four (4) information technology audits.
- Seven (7) audits in progress as of 6/30/13.
- Approximately 54% of the audits in the original Audit Plan have been completed or in progress.
- Issued 10 audit reports. Four (4) reports under review as of 6/30/13.
- Thirty-five (35) 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.

2013 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
6/30/13  
AUDIT PLAN STATUS



**2013 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
6/30/13  
AUDIT PLAN UPDATE**

**FINANCIAL**

- Energy Efficiency – Statewide Program
- ReCharge NY Customer Revenues
- Energy Hedging Transactions
- NYISO Energy Settlements – LSE
- Flynn/Sound Cable Revenues
- Headquarters Procurement (Consulting Contracts)
- SENY Revenues
- Energy Efficiency Contractors (SENY)
- Facility Management
- Energy Efficiency Contractors (Statewide)
- NYISO Ancillary Services/Transmission Charges
- Headquarters Accounts Payable
- Headquarters Travel & Living Expenses
- Purchasing/Warehousing – SENY
- SENY Finance & Administration/HR
- CEC Finance & Administration/HR
- St. Lawrence Finance & Administration/HR
- Headquarters Business Expenses
- Navigant Consulting Contracts (1)

**INFORMATION TECHNOLOGY**

- NERC – CIP Compliance
- IT Disaster Recovery – Niagara
- IT Disaster Recovery – Energy Control Center
- SAP Materials Management

(1) Audit Added

**STATUS**

- 4<sup>th</sup> Quarter
- 4<sup>th</sup> Quarter
- 3<sup>rd</sup> Quarter
- 3<sup>rd</sup> Quarter
- Completed
- 3<sup>rd</sup> Quarter
- Completed
- Completed
- In Progress
- 4<sup>th</sup> Quarter
- 3<sup>rd</sup> Quarter
- Completed
- Completed
- 3<sup>rd</sup> Quarter
- In Progress
- 4<sup>th</sup> Quarter
- In Progress
- 3<sup>rd</sup> Quarter
- In Progress
- In Progress
- 4<sup>th</sup> Quarter

**INFORMATION TECHNOLOGY** (Continued)

- SAP Accounts Payable
- Electronic Record Management System (Livelihood)
- Time Warner Wide Area Network
- Internet/Intranet Security
- Procurement E-Sourcing Pre-Implementation Review (1)
- Intrusion Prevention and Monitoring
- SAP Project Systems
- Health Insurance Portability and Accountability Act (HIPAA) Security (1)

**OPERATIONAL/COMPLIANCE**

- ReCharge NY Program Management
- Emergency Management
- Lewiston Pump Generation Plant LEM
- Safety Program
- Transmission LEM
- Western Region O&M
- Fuel Operations
- 500 MW O&M
- Budgetary Control – O&M and Capital
- Transmission O&M Follow-up
- Physical Security Program

**OTHERS**

- Vendor Contract Audits
- Assistance to KPMG

**STATUS**

- 4<sup>th</sup> Quarter
- Completed
- Completed
- Completed
- Completed
- 3<sup>rd</sup> Quarter
- 4<sup>th</sup> Quarter
- In Progress
- 4<sup>th</sup> Quarter
- In Progress
- 4<sup>th</sup> Quarter
- Completed
- Completed
- 3<sup>rd</sup> Quarter
- 4<sup>th</sup> Quarter
- 3<sup>rd</sup> Quarter
- Completed
- 4<sup>th</sup> Quarter
- Completed
- 3<sup>rd</sup> Quarter
- Completed
- 4<sup>th</sup> Quarter
- In Progress
- 4<sup>th</sup> Quarter

# 2013 INTERNAL AUDIT PLAN

## ACTIVITY REPORT

### 6/30/13

### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Lewiston Pump Generation Plant Life Extension and Modernization (LEM)	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 and Accounting Policies and Procedures. Evaluate Project Risk Management, Cost Management and Quality Management.	<ul style="list-style-type: none"> <li>-Internal controls are operating effectively.</li> <li>-Project Risk Assessment Plan and Mitigating Strategies should be formally documented.</li> <li>-Issues and recommendations identified by Quality Assurance should be tracked.</li> <li>-Budget to Actual Variance Analysis should be completed on a quarterly basis.</li> </ul>
O&M Expense and Capital Budgetary Control Process	Evaluate the adequacy and effectiveness of internal controls over the O&M and Capital Budget process and ensure that Budgeting procedures are in compliance with applicable NYPA policies and procedures and guidelines. Review adequacy of monthly budget report process, including O&M Budget Performance.	<ul style="list-style-type: none"> <li>-Internal controls over the O&amp;M and Capital Budget process are operating effectively.</li> <li>-To strengthen controls, certain department policies and procedures should be documented.</li> <li>-Completed O&amp;M and Capital projects in SAP should be locked to prevent unauthorized spending and/or misclassification of charges.</li> </ul>

2013 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
6/30/13  
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Facility Management	Review processes, procedures and controls over (1) Building Expenditures (capital and O&M), (2) Budget Monitoring, (3) Use of Outside Services, (4) Credit Card Procurement, (5) Rental Income, and (6) Building Operations and Maintenance activities.	Control activities could be improved in the following areas: -Facility Management should maintain documentation of periodic testing and inspection of WPO elevators. -There were four tenants with expired rental permits. -Written price proposals should be obtained and maintained for all work performed by general contractors. -Contracts awarded to MWBE/Small Business Enterprise vendors should be properly approved and advertised in the NYS Contract Reporter.
Physical Security	Review physical security programs at the Niagara Power Project, Clark Energy Center and Blenheim-Gilboa Power Project. Evaluate the adequacy and effectiveness of controls over Contractor Badging Process, Inspections and Monitoring activities, Security Incidents tracking and reporting, and compliance with FERC and NERC requirements and established NYPA policies and procedures.	-Controls over the contractor badging process and system need improvement. Additional controls are needed to ensure that all badged contractors have a completed background check. -Documentation covering Security Incident Reporting and Dam Inspections of the Small Hydro facilities could be improved.

**2013 INTERNAL AUDIT PLAN**  
**ACTIVITY REPORT**  
**6/30/13**  
**REPORT RECAP**

<b>Report Name</b>	<b>High-Level Audit Objectives</b>	<b>Observations/Findings/Recommendations</b>
Headquarters Travel & Living Expenses	Verify compliance with NYPA's Travel and Reimbursement of Employee Meal Costs Policies. Review controls, procedures and processes over 1) Travel Reservation Procedures, 2) Processing of employee expense statements, 3) Citibank Travel Card, and 4) Access controls over SAP Travel Module.	<ul style="list-style-type: none"> <li>-Controls over Travel &amp; Living expenses are effective.</li> <li>-Additional controls are needed over the Citibank Visa Corporate Card and associated credit limits.</li> <li>-Corporate Accounting should communicate to employees at least annually instructions for claiming and calculating the reimbursement amount for mileage claimed for business travel while using their personal vehicle.</li> </ul>
Fuel Operations	Determine the adequacy and effectiveness of controls over (1) Fuel Operations scheduling, (2) Fuel Procurement, (3) Monitoring of gas deliveries, (4) Gas transportation and balancing, and (5) Payments to suppliers.	<p>Control activities can be improved in the following areas:</p> <ul style="list-style-type: none"> <li>-Bids for natural gas purchases made on a term basis (+40 days) should be solicited and received in writing.</li> <li>-Fuel Operating procedures should be updated to explain why multiple awards are necessary as part of the competitive bidding process.</li> <li>-Trader Authorization Limits for natural gas purchases should be updated.</li> </ul>
Electronic Record Management System (Livelink)	Review, test and evaluate Records Management System application controls, security, documentation and procedures.	<ul style="list-style-type: none"> <li>-Confidential and Personally Identifiable Information with unrestricted access was disclosed in Livelink (driver's license numbers and dates of birth information).</li> <li>-Over 300 Livelink user accounts were for former employees of NYPA.</li> </ul>

2013 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
6/30/13  
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Internet/Intranet Security	Test and evaluate the internet/intranet security to determine if it is adequately protected from unauthorized access, use, disclosure or modifications, damage or loss and at par with best security practices.	<p>-Overall controls over the internet/intranet security provide adequate protection for the Authority's network and components.</p> <p>-Audit found confidential and personally identifiable information with unrestricted access being disclosed at the NYPA intranet location:</p> <ul style="list-style-type: none"> <li>• Medical claim file containing social security number, home address and birth date of some NYPA employees.</li> <li>• Vehicle Incident Reports containing driver's license and date of birth of some NYPA employees.</li> </ul>
Flynn/Sound Cable Revenue	Determine the adequacy and effectiveness of procedures and controls over billings to LIPA for the Flynn and Sound Cable Projects.	<p>-Controls over billings to LIPA for the Flynn and Sound Cable Projects are working effectively.</p> <p>-NYPA and LIPA should formalize their agreed-upon capital costs authorized for recovery. As of December 31, 2012, total approved capital expenditures to be recovered from LIPA for the Flynn Project amounted to \$12.7 million.</p>

**2013 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
6/30/13  
REPORT RECAP**

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Time Warner Wide Area Network	<p>The objectives of the review were:</p> <ul style="list-style-type: none"> <li>-To evaluate Telecommunications administration controls.</li> <li>-To verify that controls allow only authorized access to Telecommunications facilities.</li> <li>-To assess the Environmental controls (air conditioning, humidity, electrical).</li> <li>-To assess the Fire Protection.</li> <li>-To evaluate the effectiveness of network security, performance, availability and monitoring procedures.</li> </ul>	<p>Internal controls over NYPA's Telecommunication operations were found to be adequate and effective to protect the Wide Area Network from unauthorized access, use, disclosure or modifications, and damage or loss.</p>
SENY Finance and Administration and Human Resources	<p>Review procedures, processes and controls over budget monitoring, accounts payable, payroll, travel and living expenses and human resources. Verify compliance with established NYPA policies and procedures.</p>	<ul style="list-style-type: none"> <li>-Controls over all activities reviewed are generally adequate and effective.</li> <li>-Additional controls are needed over the review and approval of invoices greater than \$10,000 and non-purchase order related invoices.</li> <li>-General Plant Asset inventory guidelines and procedures should be formally documented.</li> <li>-Union employee job titles and rates should be reviewed against the Collective Bargaining Agreement.</li> </ul>