

September 24, 2013

MEMORANDUM TO THE AUDIT COMMITTEE

FROM LES PARDO, VICE PRESIDENT – INTERNAL AUDIT

SUBJECT: Internal Audit Activity Report – August 31, 2013

SUMMARY

The Internal Audit Activity Report covers the performance of the Internal Audit Department for the period of January 1 through August 31, 2013. The report provides the status of the 2013 Audit Plan as of August 31, 2013, including a summary of completed audits, audits in progress and reports issued (see Exhibit 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.

Audit Committee

Internal Audit Activity Report

August 31, 2013

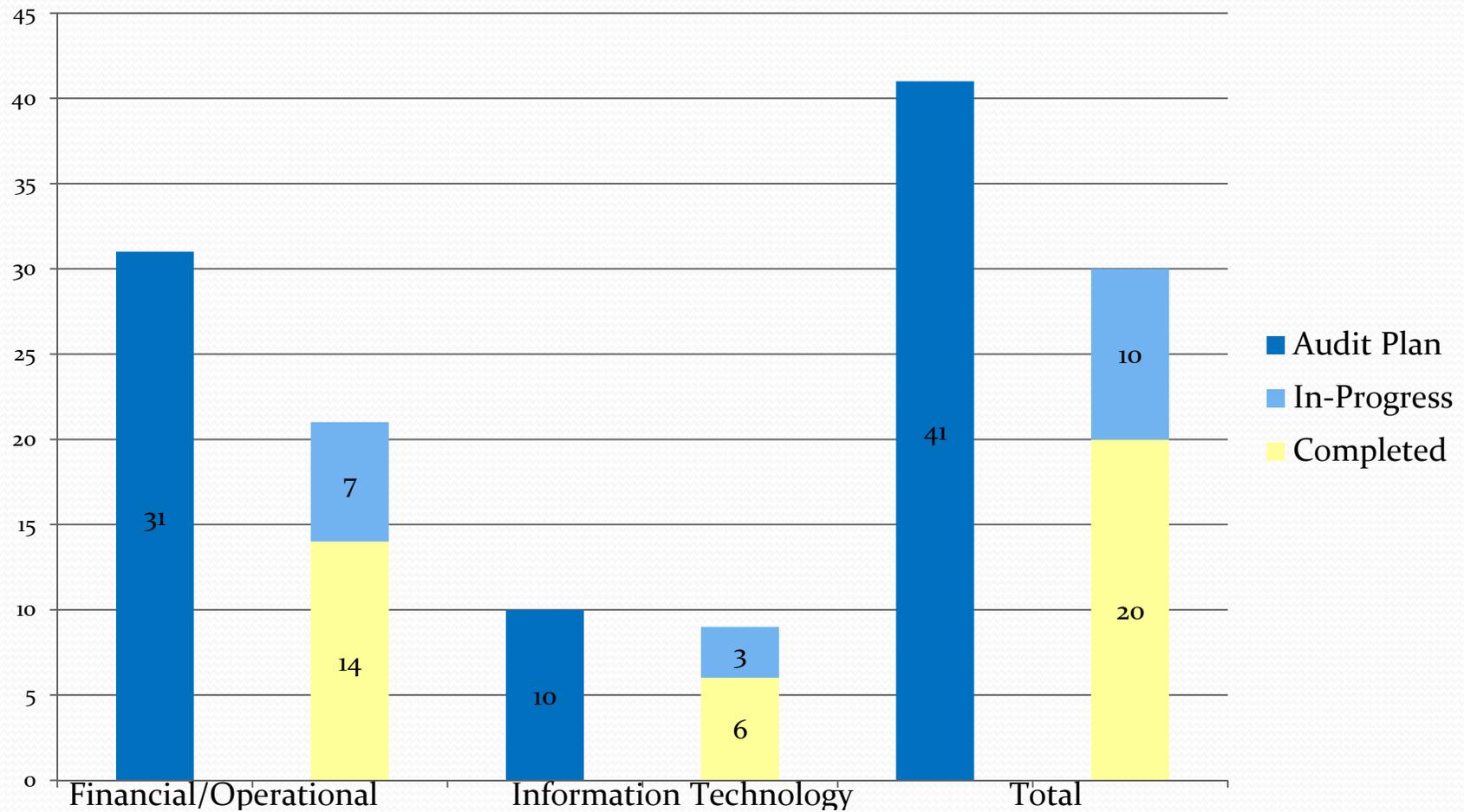
2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
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2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
SUMMARY

- Completed 20 audits and projects including 14 financial/operational and six (6) information technology audits.
- Ten (10) audits in progress as of 8/31/13.
- Approximately 73⁰% of the audits in the original Audit Plan have been completed or in progress.
- Issued 18 audit reports. Four (4) reports under review as of 8/31/13.
- Fifty-six (56) 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.
- Approximately 60 RNY customers will be audited over the next four months for compliance with their Job Commitment and Capital Investment Commitments.
- Internal Audit will participate in an external quality assurance review in the fourth quarter.

2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
AUDIT PLAN STATUS



2013 INTERNAL AUDIT PLAN ACTIVITY REPORT 8/31/13 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 (Consulting)
- Navigant Consulting Contracts (1)
- Headquarters Payroll (1)

INFORMATION TECHNOLOGY

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

- (1) Audit Added
(2) Audit Postponed

STATUS

- 4th Quarter
- 4th Quarter
- In Progress
- 3rd Quarter
- Completed
- In Progress
- Completed
- Completed
- In Progress
- 4th Quarter
- 3rd Quarter
- Completed
- Completed
- Completed
- Completed
- In-Progress
- In Progress
- 3rd Quarter
- In Progress
- In Progress
- Completed
- 4th Quarter

INFORMATION TECHNOLOGY (Continued)

- SAP Accounts Payable (2)
- 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)
- SAP Human Resources (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
- RNY Job Commitment Audits

STATUS

- 4th Quarter
- Completed
- Completed
- Completed
- Completed
- 3rd Quarter
- 4th Quarter
- Completed
- In-Progress
- 4th Quarter
- Completed
- Completed
- 3rd Quarter
- 4th Quarter
- In-Progress
- Completed
- 4th Quarter
- Completed
- In-Progress
- Completed
- In-Progress
- 4th Quarter
- In-Progress

2013 INTERNAL AUDIT PLAN
RECHARGE NY CUSTOMERS
JOB COMMITMENT & CAPITAL INVESTMENT AUDITS
8/31/13

Total No. of Customers In-Service	Total No. of Customers Full 12-Months Period (July 1, 2012 – June 30, 2013)	Total No. of Customers With One Year Capital Investment Commitment	Audit Plan 2013	
			Job Commitment	Capital Investment
492	277	25	55	5

2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Health and Insurance Portability and Accountability Act (HIPAA) Security Audit	Evaluate NYPA Policies and Procedures to ensure effective management and protection of confidential and protected health information and compliance to HIPAA privacy and security rules.	Internal controls could be improved in the following areas: -Policies and Procedures need to be updated to comply with new regulations. -A formal risk assessment is not in place and required by law. -A formal risk assessment should be conducted to assess the potential risks vulnerabilities and mitigating measures to minimize risks over the confidentiality, integrity and availability of protected health information.
Physical Security – Niagara Power Project	Review physical security program at the Niagara 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 could be improved.

2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
SENY Purchasing & Warehouse	Review processes and controls associated with purchasing and warehousing activities at the 500 MW Project. Verify compliance with established NYPA policies and procedures.	Recommendations were made to improve internal controls over: <ol style="list-style-type: none"> 1. Sole Source contracts awarded to M/WBEs and Small Business Enterprises. 2. Materials and Supplies issued from the warehouse. 3. Procurement Credit Card transactions.
Governmental Billing - SENY	Determine the adequacy and effectiveness of controls over SENY Governmental Revenues. Review procedures and processes for processing of meter reading data and billings of SENY customers.	Internal controls over customer billings are operating effectively. Additional automated system check should be implemented to detect certain billing anomalies for review and follow-up by Billing personnel.
IT Disaster Recovery – Energy Control Center (ECC)	Evaluate the IT Disaster Recovery Plan at the ECC to determine if it is adequate to ensure the recovery of actual systems, applications, data and operations.	Internal controls over the IT Disaster Recovery Plan at the ECC were found to be adequate and effective.