

March 25, 2014

**MEMORANDUM TO THE AUDIT COMMITTEE**

**FROM LES PARDO, VICE PRESIDENT – INTERNAL AUDIT**

**SUBJECT: Internal Audit Activity Report – December 31, 2013**

**SUMMARY**

The Internal Audit Activity Report covers the performance of the Internal Audit Department for the period of January 1 through December 31, 2013. The report provides the status of the 2013 Audit Plan as of December 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 approved by the Committee at its meeting in March.

# Audit Committee

Internal Audit Activity Report  
December 31, 2013

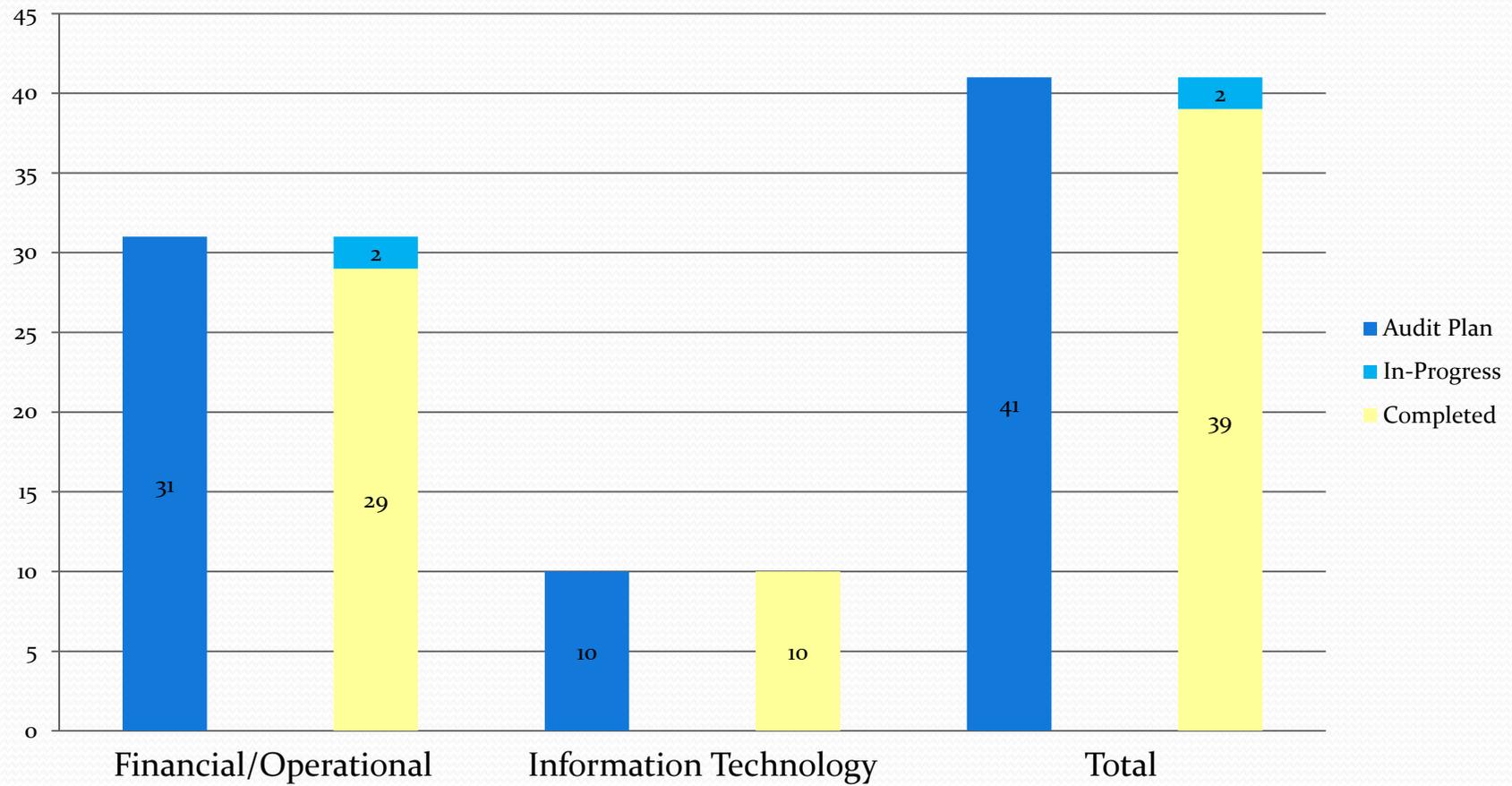
2013 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
12/31/13  
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2013 INTERNAL AUDIT PLAN  
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SUMMARY

- Completed 39 audits and projects including 29 financial/operational and 10 information technology audits.
- Two (2) audits in progress as of 12/31/13.
- Ninety-five (95) percent of the Plan was completed exceeding our performance target of 90%.
- Issued 37 audit reports containing 114 recommendations to improve internal controls/operational efficiency.
- All issues and recommendations are being appropriately addressed by management and have either been implemented or are scheduled for implementation.
- As required by professional auditing standards, an independent Quality Assessment Review on NYPA's Internal Audit activities was conducted by the Institute of Internal Auditors.
- Internal Audit is organizationally independent and no restrictions have been placed on Internal Audit work.

# 2013 INTERNAL AUDIT PLAN ACTIVITY REPORT 12/31/13 AUDIT PLAN STATUS



**2013 INTERNAL AUDIT PLAN  
ACTIVITY REPORT  
12/31/13  
AUDIT PLAN UPDATE**

**FINANCIAL**

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

**INFORMATION TECHNOLOGY**

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

- (1) Audit Added
- (2) Audit Postponed
- (3) Combined with NERC-CIP Audit

**INFORMATION TECHNOLOGY (Continued)**

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

**OPERATIONAL/COMPLIANCE**

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

**OTHERS**

- Vendor Contract Audits (C)
- Assistance to KPMG (C)
- RNY Job Commitment Audits (C)

C = Completed  
IP = In-Progress

2013 INTERNAL AUDIT PLAN  
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REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Energy Hedging	Evaluate the adequacy and effectiveness of internal controls over risk management activities related to energy hedging transactions and verify compliance with established policies, procedures and guidelines.	<p>Controls are operating effectively, except in the following areas:</p> <ul style="list-style-type: none"> <li>• The Procedure for Energy Commodity &amp; Credit Risk Management is not updated to reflect the current processes.</li> <li>• Energy Commodity &amp; Credit Risk Management does not have established minimum guidelines documenting the requirements for the validation of new hedging strategies.</li> <li>• The validation of hedge transactions for conformity against the strategy is not documented.</li> <li>• For some of NYPA’s hedge transaction counterparties, NYPA does not have International Swaps and Derivatives Association conforming agreements with associated Credit Support Annexes (CSAs).</li> </ul>

# 2013 INTERNAL AUDIT PLAN

## ACTIVITY REPORT

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### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Health & Safety	Review processes, procedures and controls over the Health and Safety Program. Review Health & Safety performance metrics. Verify compliance with NYPA policies and procedures. Confirm the resolutions of prior audit issues.	<p>The following key issues were raised:</p> <ul style="list-style-type: none"> <li>• There is no support for determining whether a reported incident should be included or excluded on the Health &amp; Safety recordable incident log.</li> <li>• Documentation supporting Level 2 performance metrics was not readily available for some sites.</li> <li>• There are inaccuracies in the reported quantity of Near Misses and Safety Walk-Downs.</li> <li>• There are no written procedures for providing Safety training to contractors working at NYPA sites.</li> <li>• The Safety Training Policy has not been updated since 1996.</li> </ul>
SAP Materials Management	Evaluate the adequacy and effectiveness of internal controls over SAP Materials Management activities and ensure compliance with established policies, procedures and guidelines.	<p>The following key issues were raised:</p> <ul style="list-style-type: none"> <li>• More than 500 SAP users have access to confidential and Personally Identifiable Information (e.g. social security number, vendor bank account number) which was inadvertently disclosed in the SAP Materials Management module.</li> <li>• Vendor master additions and changes are not being reviewed.</li> </ul>

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### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Western Region O&M	Evaluate the effectiveness of processes, procedures and controls over plant maintenance and operations, and to ensure compliance with established policies, procedures and regulatory guidelines.	<p>The following key issues were raised:</p> <ul style="list-style-type: none"> <li>• The Monthly Operational Summary Report should include the performance targets and the reasons for significant variances.</li> <li>• The monthly review of outstanding Priority 2 work orders should include an aging analysis and the status of high priority preventative maintenance work orders.</li> <li>• There is no documented review of canceled work orders.</li> </ul>
NERC – CIP Compliance	Evaluate NYPA’s North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection (CIP) Compliance Program to determine its adequacy and effectiveness and for compliance with the Authority’s policies and procedures and applicable laws and regulations.	<ul style="list-style-type: none"> <li>• The following key issues were raised to improve internal controls:</li> <li>• No action is being taken at the respective facilities to remediate issues and/or recommendations identified during the periodic internal assessments.</li> <li>• The Technical Compliance Group is responsible for ownership and monitoring on some of the NERC-CIP control processes resulting in a segregation of duties issue.</li> <li>• The Cyber Security Incident Response Plan should be updated in a timely manner and Incident Test Response Plan should occur annually and evidence should be maintained.</li> <li>• There is currently no inventory of information documents that are classified as “controlled”.</li> </ul>

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### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Emergency Management	Evaluate NYPA's Emergency Management Plan to determine its adequacy and effectiveness and for compliance with NYPA's policies and procedures.	<ul style="list-style-type: none"> <li>• The Comprehensive Emergency Management Plan does not have stated goals and objectives, nor does it contain clear lines of responsibilities.</li> <li>• At the St. Lawrence and Niagara Plants, there is an inability to notify all occupants during an emergency event in a timely manner.</li> <li>• Training has not been provided to the sites by Headquarters personnel, as it pertains to Emergency Management. In addition, exercises and drills at the facilities are infrequent, with little evaluation and follow-up.</li> <li>• The current roles and responsibilities of Headquarters Emergency Management are unclear in its oversight responsibilities of Emergency Management activities.</li> <li>• A comprehensive hazard/vulnerability analysis is not in place.</li> </ul>

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### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Transmission O&M	Evaluate the adequacy and effectiveness of internal controls over Transmission O&M processes and procedures, including Right-of-Way Vegetation Management Program, Transmission Performance Procedures and Transmission Line Maintenance Procedures. Verify compliance with NYPA policies and procedures.	<ul style="list-style-type: none"> <li>• Actual performance data for the Transmission performance metrics should be reviewed by supervisory personnel.</li> <li>• Time and Material invoices should be approved by the respective Regional Foresters.</li> <li>• The Geographical Information System should be updated monthly for adequate management review and monitoring of results.</li> </ul>
Energy Efficiency SENY Implementation Contractors	Determine that vendor charges were supported, approved and in agreement with contract terms and conditions and the related Customer Installment Commitment.	Vendor billings to the Authority were supported, approved and in compliance with the terms of the contracts and related Customer Installment Commitments.
SAP – Human Resources	Evaluate the adequacy and effectiveness of internal controls over SAP Human Resources. Review user access/security controls, configuration controls, Employee Master Record Changes, Data Interface Validation and Personal Identifying Information Privacy.	<ul style="list-style-type: none"> <li>• There were 15 employee records that show different retirement tiers when comparing Human Resources and Payroll Files.</li> <li>• Controls over the activities reviewed are operating effectively.</li> </ul>

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### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
ReCharge New York Program	Evaluate the adequacy and effectiveness of controls designed to administer the ReCharge NY Program, ensure ongoing compliance with legislative mandates and ensure the program is being administered in accordance with NYPA's governance documents.	Internal controls over the ReCharge NY Program are operating effectively. There were no significant issues raised.
Statewide Implementation Contractors	Determine that vendor charges were supported and in agreement with contract terms and conditions and the related Customer Installment Commitment.	Vendor billings to the Authority were supported, approved and in compliance with the terms of the contracts and related Customer Installment Commitments.
St. Lawrence/FDR Project Finance & Administration and Human Resources	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.	Internal controls are operating effectively. The following recommendations were made: <ul style="list-style-type: none"> <li>• The process for verifying existence of Plant Assets should be formalized.</li> <li>• Petty Cash funds should not be used to pay non-Petty Cash items.</li> </ul>
Clark Energy Center Finance & Administration and Human Resources	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.	Internal controls were found to be adequate and effective. The following recommendations were made: <ul style="list-style-type: none"> <li>• The facility should maintain a list of personnel who are authorized to approve overtime.</li> <li>• The Petty Cash Policy should be complied with and non-Petty Cash items should not be paid from the Petty Cash funds.</li> </ul>

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### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Operation Technology Disaster Recovery Plan - Niagara	Evaluate the IT Disaster Recovery Plan to determine if it is adequate to ensure the recovery of critical systems, applications, data and operations in the Niagara Power Project. Determine that the plan has been adequately tested and updated based on test results.	The Disaster Recovery Plan can be improved by considering a recovery strategy that addresses the risk of catastrophic events that would render the Control Room and SCADA server room inoperable/inaccessible.
Headquarters Payroll	Evaluate the adequacy and effectiveness of internal controls over Headquarters Payroll and ensure compliance with established policies, procedures and regulatory guidelines. The scope of the audit included: <ul style="list-style-type: none"> <li>•Payroll Processing</li> <li>•Processing of Salary Changes, New Hires and Terminations</li> <li>•Payroll Benefits Deductions</li> <li>•Processing of Third Party Payments</li> </ul>	Controls were found to be effective except for controls over the review of payroll changes. Key issues raised: <ul style="list-style-type: none"> <li>•Procedures over key payroll processes should be documented.</li> <li>•A detailed review of payroll changes (new hires, salary changes, terminations) processed by the Payroll department should be performed by the Human Resources Information Systems group.</li> <li>•Documentation of the annual reconciliation process between Ceridian and Benefits should be formalized.</li> </ul>

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### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
500 MW Power Plant	Evaluate the effectiveness of processes, procedures and controls over: <ul style="list-style-type: none"> <li>•Plant Maintenance Procedures</li> <li>•Plant Performance Management</li> <li>•Maintenance Contract Management and Cost Control</li> <li>•General Information Technology Controls</li> </ul>	The following key issues were raised: <ul style="list-style-type: none"> <li>•Supervisory review of certain high priority corrective maintenance work orders are not consistently documented in the Maintenance System (Maximo).</li> <li>•An independent review of Plant Performance Reporting data is not being performed.</li> <li>•Periodic training covering the review of key plant operations and maintenance procedures is needed.</li> <li>•A formal Disaster Recovery Plan that covers the recovery of critical operational applications in the event of a disaster does not exist.</li> </ul>
Customer Billing – ReCharge NY	Evaluate the adequacy and effectiveness of controls over billings to ReCharge NY customers and verify compliance with policies and procedures. The audit covered the following: <ul style="list-style-type: none"> <li>•Customer Billing including Verification of Billing Rates</li> <li>•Energy Charge Adjustment</li> <li>•Recording of Billing Transactions in SAP General Ledger</li> <li>•Follow-up on Prior Audit Recommendations</li> </ul>	Internal controls are operating effectively. There were no issues requiring corrective action identified in this audit.

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### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Energy Efficiency	<p>Evaluate the adequacy and effectiveness of internal controls over Energy Services Programs and ensure compliance with established policies, procedures and regulatory guidelines. Review the following areas:</p> <ul style="list-style-type: none"> <li>•Performance Management and Reporting</li> <li>•Project Assignment</li> <li>•Program/Project Authorization</li> <li>•Project Management/Cost Control</li> <li>•Credit Risk and Write Off</li> <li>•Project Risk Management</li> </ul>	<p>Internal controls over certain activities reviewed need improvement:</p> <ul style="list-style-type: none"> <li>•Document requirements in Energy Efficiency System (Primavera) should be enhanced to include evidence of review and concurrence by the Project Manager.</li> <li>•Meeting minutes of the Implementation Contractor (IC) Assignment Committee should be formalized to include the agenda, discussion topics and documentation to support the Committee approval of the IC recommendation.</li> <li>•A second level review of the MMBTU saved calculation results in the Primavera System should be performed.</li> <li>•Monitoring reports identifying exceptions and resolution should be maintained on file to ensure transparency and awareness of non-compliance.</li> <li>•Projects that have been closed without a Final Customer Installation Commitment should be reviewed for trends and potential higher level issues.</li> </ul>

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### REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
NYISO Energy & Ancillary Service Settlements – Load Serving Transactions	Evaluate the adequacy and effectiveness of controls over the following areas: <ul style="list-style-type: none"> <li>•Energy Scheduling</li> <li>•Energy Settlement</li> <li>•Ancillary Service Settlements</li> <li>•Allocation of NYISO Ancillary Charges to ReCharge NY Customers</li> <li>•Recording of Energy and Ancillary Service Settlements</li> </ul>	Internal controls need improvements in the following areas: <ul style="list-style-type: none"> <li>•The procedures for reviewing potential NYISO billing anomalies should be updated and the billing anomaly program tested.</li> <li>•Review procedures to ensure forecast data of RNY customers were accurately and completely submitted to the NYISO should be documented.</li> <li>•Limitation on the current functionality of the nMarket System leads to inefficiencies in performing variance analysis procedures.</li> <li>•An anomaly check should be developed to verify NYISO Ancillary MWh used to bill NYPA for Ancillary service charges.</li> </ul>