

**MINUTES OF THE SPECIAL MEETING
OF THE
AUDIT COMMITTEE**

December 17, 2015

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Minutes of the Special meeting of the New York Power Authority's Audit Committee held at the Clarence D. Rappleyea Building, 123 Main Street, White Plains, New York, at approximately 9:00 a.m.

The following Members of the Audit Committee were present:

Trustee Eugene Nicandri, Chairman
Trustee Terrance Flynn
Trustee Anthony Picente, Jr.

Trustee Jonathan Foster – excused

Also in attendance were:

John Koelmel	Chairman, NYPA
Tracy McKibben	Trustee, NYPA
Gill Quiniones	President and Chief Executive Officer
Edward Welz	Chief Operating Officer
Soubhagya Parija	Chief Risk Officer
Justin Driscoll	Executive Vice President and General Counsel
Robert Lurie	Executive Vice President and Chief Financial Officer
Jill Anderson	Senior Vice President – Public Affairs and Business Development
Jennifer Faulkner	Senior Vice President – Internal Audit
Iannarelli, Rocco	Senior Vice President – Corporate Affairs
James Pasquale	Senior Vice President – Economic Development and Energy Efficiency
Kristine Pizzo	Senior Vice President – Human Resources & Enterprise Shared Services
Karen Delince	Vice President and Corporate Secretary
Joseph Gryzlo	Vice President & Chief Ethics & Compliance Officer
Frank Deaton	Director – Internal Audit
Peter Byron	Technology Director – Internal Audit
James Anderson	Internal Audit Manager
Tamika Clarke	Audit Team Lead – Internal Audit
Vanessa Coggins	Audit Team Lead – Internal Audit
Elaine Matthews	Audit Team Lead – Internal Audit
James Reynolds	Audit Team Lead – Internal Audit
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Baughman	Senior Assistant Corporate Secretary
Peter Prunty	Director – Infrastructure
Gottor, Jaiah	Manager – Network Services
Glen Martinez	Senior Network Analyst

Chairman Eugene Nicandri presided over the meeting. Corporate Secretary Delince kept the Minutes.

Introduction

Chairman Nicandri welcomed committee members, Trustees Terrance Flynn and Anthony Picente, 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 Special Meeting Agenda**

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

2. **CONSENT AGENDA**

Upon motion made and seconded the Consent Agenda was approved.

a. Internal Audit Charter

Ms. Faulkner provided an update of the Internal Audit Charter to the Committee.

(Exhibit 2a-A)

DISCUSSION AGENDA:

3. Internal Audit Update and Proposed 2016 Audit Plan

Ms. Faulkner provided an update of the Internal Audit (“IA”) activities and the proposed 2016 Audit Plan to the Committee (Exhibit “3-A”). She also introduced the new IA management team present at the meeting to the Committee.

Ms. Faulkner said with regard to the 2015 Plan, IA has completed 24 of the 31 outstanding audits for 2015. IA will be able to officially close out the 2015 Plan, with the exception of one item, at the end of the month.

Status of Audit Recommendations

To date, 63 recommendations from the 2015 Plan are still open (16 rated “high;” 27 rated “medium” and 20 rated “low.”). However, there are no significant risks associated with these recommendations that are not being mitigated. IA feels comfortable with its recommendations and the timelines management has put into place to implement the recommendations. With regard to the approximately 250 open recommendations for the period 2011 to 2014, IA has identified 72% of them as having been completed, not identified as completed, no longer valid or never having been a viable recommendation. IA expects to have them closed-out by the end of next year.

In response to a question from Authority Chairman Koelmel, Ms. Faulkner said 40 recommendations are still in the process of being completed. Some of the recommendations required significant resource investment and the decision was made by management to include the recommendation completion in some of the other projects, such as NERC CIP implementation or SCADA replacement, that were on-going.

In response to comments from Authority Chairman Koelmel, Ms. Faulkner said IA is reevaluating how it records and reports the outstanding recommendations and will endeavor to close-out the 40 outstanding recommendations by the end of the year and report to the Committee in January.

Status of Department Transformation

- *IA is in the process of finalizing the recruiting and hiring for the last three open positions and getting staff on-boarded for those positions.*
- *IA is also in the process of developing a system to support the internal audit function. To that end, IA is working with the Risk Alignment Committee and the other Risk Management units to identify a solution that will fit across the enterprise and aggregate it to present a more accurate picture.*
- *Although IA is almost fully staffed for its non-technology activities, it will need to acquire third-party support to assist the new Technology Director.*
- *IA has issued an RFP to support approximately sixteen technology activities and four subject-matter expertise audits. The responses were due by December 15th; at least three parties have responded to the RFP.*

In response to a question from Trustee Flynn, Ms. Faulkner said the subject-matter expertise is to support the non-technology related activities. IA has a relatively new team, and there are some areas on the Audit Plan that are very specific and very technical - such as generation bidding, fuel purchasing and hedging – and it would be beneficial to have a third-party come in to execute those audits. However, IA plans to pair up the staff members with the third-party expert on those audits in order that staff can learn from the experts and build that knowledge in-house.

- *IA plans to develop a comprehensive training plan for the new team, going forward. To date, IA has conducted staff meetings inviting staff from the other business units to make presentations to the group. IA also plans to invest a lot of time next year in training and getting everyone up to speed so that in the future it will not need to rely on the subject-matter experts since those capacities will be in-house.*

2016 Audit Plan

IA is in the process of working on the 2016 Audit Plan. To that end, the team conducted more than fifty interviews and debriefing sessions with stakeholders across all of the Business

Units. Risks were identified and ranked “high,” “medium,” and “low” in order to develop the proposed Audit Plan. The proposed Audit Plan has been reviewed with the EMC and the Audit Committee members.

The proposed Plan will have fifty-four projects, 65% of which will be dedicated to traditional audits; 15% assessments; 10% consulting ; and 10% emerging risks. In addition, a resource analysis was performed by IA after which the President approved additional staff so that IA will have a team that can be more proactive and support the activities it plans to accomplish next year.

In response to a question from Authority Chairman, Ms. Faulkner said no significant risks were brought to IA’s attention that was not addressed by the staff during the year..

Resource Allocation

- *The proposed audit allocations are as follows: Operations - 42%; Legal and Regulatory - 20%; Strategic - 23%; and Financial - 16%.*
- *IA is comfortable, not only with the number of activities it has planned, but with the allocation across all of the different areas of the business.*

In response to a question from Trustee Flynn, Ms. Faulkner said she does have dialogue with her peers from other utilities. The Authority’s audit area is relatively aligned and similar to other utilities in terms of “hot topics.” Those topics have been addressed in the Authority’s Audit Plan as well as other utilities.

In response to further questioning from Trustee Flynn, Ms. Faulkner said she has been having bi-monthly meetings with the Chief Audit Executives from Con Ed, PSE&G, PPL and NATGRID, sharing information as they work to build and change their departments. In addition, she participated in round-tables for Chief Audit Officers of utilities hosted by E&Y and found them to be very beneficial. President Quiniones added that, at the outset, he encouraged Ms. Faulkner to reach out to Chief Auditors outside the utility industry and suggested she connect with the Chief Audit Officer at one company that uses the same model which the Authority has adopted whereby the Chief Audit Officer is more integrated with the executive leadership team.

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Trustee Flynn commended Ms. Faulkner and the IA team for a job well done.

4. **Motion to Conduct an Executive Session**

Mr. Chairman, I move that the Authority conduct an executive session pursuant to the Public Officers Law of the State of New York section §105 to discuss matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person or corporation. Upon motion made and seconded, an executive session was held.

5. **Motion to Resume Meeting in Open Session**

Mr. Chairman, I move to resume the meeting in Open Session. Upon motion made and seconded, the meeting resumed in Open Session.

6. **Next Meeting**

Chairman Nicandri said that the next regular meeting of the Audit Committee would be held on March 29, 2016 at the Clarence D. Rappleyea Building in White Plains, New York, at a time to be determined.

Closing

Upon motion made and seconded, the meeting was adjourned by the Chairman at approximately 10:00 a.m.

Karen Delince
Corporate Secretary