



**MINUTES OF THE REGULAR MEETING
OF THE
NYPA AND CANAL AUDIT COMMITTEE
December 7, 2021**

Table of Contents

<u>Subject</u>	<u>Page No.</u>
Introduction	2
1. Adoption of the December 7, 2021 Proposed Meeting Agenda	2
2. Motion to Conduct an Executive Session	2
3. Motion to Resume Meeting in Open Session	2
4. DISCUSSION AGENDA:	3
a. New York Power Authority and Canal Corporation	3
i. 2021 Internal Audit Update	3
ii. 2022 Internal Audit Plan	4
iii. 2022 Internal Audit Budget	5
b. New York Power Authority:	5
i. Audit Plan and Strategy Update – Year-end December 31, 2021	5
5. CONSENT AGENDA:	7
a. Approval of the Joint Minutes of the Regular Meeting held on July 15, 2021	8
b. Approval of the Joint Special Minutes of the Meeting held on October 19, 2021	8
6. Next Meeting	8
Closing	8

December 7, 2021

Minutes of the meeting of the New York Power Authority and Canal Corporation's Audit Committee, held via videoconference, at approximately 9:00 a.m.

The following Members of the Audit Committee were present:

Eugene Nicandri, Chairman
John R. Koelmel
Anthony J. Picente, Jr.
Bethaida González
Dennis Trainor

Also in attendance were:

Michael Balboni	Trustee
Justin Driscoll	Interim President & Chief Executive Officer
Philip Toia	President – NYPA Development
Joseph Kessler	Executive Vice President & Chief Operations Officer
Adam Barsky	Executive Vice President & Chief Financial Officer
Kristine Pizzo	Executive Vice President and Chief Human Resources & Admin Officer
Sarah Salati	Executive Vice President & Chief Commercial Officer
Robert Piascik	Senior Vice President and Chief Information & Technology Officer
Yves Noel	Senior Vice President & Chief Strategy Officer
Keith Hayes	Senior Vice President - Clean Energy Solutions
Angela Gonzalez	Senior Vice President - Internal Audit
Daniella Piper	Regional Manager & CTO - Niagara Project
Karen Delince	Vice President & Corporate Secretary
Joseph Gryzlo	Vice President and Chief Ethics & Compliance Officer
Adrienne Lotto	Vice President and Chief Risk & Resilience Officer
John Canale	Vice President - Strategic Supply Management
Emilie Bolduc	Vice President - New York Energy Manager
Ricardo DaSilva	Vice President - Strategic Operations
Steven Kalashian	Vice President - Human Resources & Organizational Development
Fabio Mantovani	Vice President - Head of e-Mobility
Sundeep Thakur	Controller
James Levine	Assistant General Counsel
Laura Yu	Director - Enterprise Change Management & Engagement
David Mellen	Regional Manager - Canals
Christina Iwaniw	R&TD Engineer II
Carley Hume	Chief of Staff – President's Office
Christopher Vitale	Financial Performance & Reporting Manager
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Quatrocci	Associate Corporate Secretary
Andrea Kelli Higgs	Associate Corporate Secretary
Eliat Bidette	Consultant – Russell Reynolds Associates
Jennifer Rockwood	Consultant – Russell Reynolds Associates
Robert Sherry	Consultant – Russell Reynolds Associates
Scott Heiser	Lead Audit Partner – KPMG
Christopher DaVanzo	Lead Senior Audit Manager – KPMG

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

Introduction

Chairman Nicandri welcomed committee members 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 December 7, 2021 Proposed Meeting Agenda

On motion made by Member Dennis Trainor and seconded by Member John Koelmel, the agenda for the meeting was unanimously adopted.

Conflicts of Interest

Chairperson Nicandri stated there were no conflicts of interest based on the list of entities previously provided to Committee Members for their review.

2. Motion to Conduct an Executive Session

On motion made by Member Dennis Trainor and seconded by Member John Koelmel, an executive session was held to discuss the financial and credit history of a particular corporation pursuant to Section 105(f) of the New York State Public Officers Law.

3. Motion to Resume Meeting in Open Session

On motion made by Member Dennis Trainor and seconded by Member John Koelmel, the meeting resumed in open session.

Chairperson Nicandri said no votes were taken during the executive session.

4. **DISCUSSION AGENDA:**

a. **New York Power Authority and Canal Corporation**

i. **2021 Internal Audit Update**

Ms. Angela Gonzalez, Senior Vice President of Internal Audit, presented and update on the 2021 Internal Audit Plan for NYPA and Canals.

Internal Audit (“IA”) Scorecard as of November 29, 2021

2021 Audit Plan

The 2021 Audit Plan is 92% complete. IA is well-positioned to complete the Plan by the end of the year.

2021 IA Operational Excellence

- ***Deliverables with Opinions*** – target is 50%. To date, it is above that target.
- ***Fieldwork to Report Issuance*** – this target is below the benchmark, averaging approximately 6.6 weeks to issue a report.
- ***Average Project Cycle*** – the average time it takes to complete an audit from the beginning to the end is 11.4 weeks, which is below the benchmark.

Department Utilization for all Available Hours

Audit Hours Internal Target is at 79%.

Observations Identified and Implemented

IA tracks the percentage of high-risk observations identified and implemented. All high-risk observations for 2020 have been closed. To date, 17 have been identified for 2021. Seven (7) have been closed and 10 are in progress.

A total of 93 observations were identified in 2020. Two remains to be closed; one will be closed by the end of the year, the other in 2022 due to automation that needs to be implemented.

Of 81 observations that were identified in 2021, 38 have been closed. Three were closed ahead of the schedule, 4 on schedule and 10 are in progress.

Quality Assurance Improvement Program

Each year, an internal assessment related to IA’s compliance with IIA standards is conducted; every five years, an external assessment is conducted. The last external assessment was done in 2019; the next will be in 2024. No gaps were identified in IA’s compliance with the IIA Standards.

Environmental Health & Safety (EH&S) Compliance Audit Plan

- There are 4 compliance audits in the EH&S Compliance Audit Plan which will be completed in Q1 2022; the audit year extends from April to March.

- Three audits are in the reporting stage, and one is in fieldwork. Two audit reports are expected to be issued by mid-December and the two remaining audit reports are expected to be issued in Q1 2022.
- No critical issues were found related to the EH&S Audit Plan.

ii. **2022 Internal Audit Plan**

Ms. Gonzalez provided an update on the New York Power Authority and Canal Corporation's 2022 Internal Audit Plan ("Plan"). She said that the Plan has been fully developed and reflects key items based on a defined and risk-scored Audit Universe aligned by Business Unit. The 2022 Audit Plan, which has been reviewed by the Executive Management Committee ("EMC"), has 38 projects for NYPA and four for Canal Corporation.

There are 52 audit entities in the audit universe. Projects on the Plan are based on the audit entity risk ranking, last year audited, IA's resources to be able to execute the Plan, a key component of which is stakeholder input, EMC, and Risk Management input.

Eighty-eight percent (88%) of the Plan is aligned to a strategic Priority, pillar or top enterprise risk. Every quarter, IA reviews the Plan to ensure that it is still relevant based on emerging risks or business changes.

Risk Assessment Process

A Risk Assessment Process is used to develop the Plan. Using internal inputs, IA reviews the results of the current year's Plan and any audits that were deferred, last year audited, strategic pillars, priorities, and top risks. IA engaged 63 stakeholders across the organization for their input. External inputs, "Gartner's 2022 hotspots," is used for the top key risks that audit functions are focusing on over the next year. IA also benchmark against other peers, and also reviews industry information.

Audit Universe

The audit universe is composed of high, medium, and low entities, each of which risk-assessed using IA's risk-scoring model which was adjusted to reflect changes in risk due to the strategy for VISION2030 associated with the current utility industry landscape as it relates to decarbonization and renewables. IA's audit universe cycle focuses on high-rated and medium-rated entities, and, over the last five years, all of the high-rated entities and approximately 90% of the medium rated entities have been audited. Low-rated entities are audited as needed or due to emerging risks.

2022 Audit Plan Coverage

The 2022 Audit Plan has 42 projects, 86% of which are audits, 9% assessments and 5% advisory. The Plan is based on IA staff available hours, co-sourced hours for assistance with IT audits, and average budgeted hours for each project. Last year, this was estimated at 525 hours to complete an audit and was used as the average figure for the number of projects that would be on the Plan for 2022. The actual timekeeping information for 2021 was approximately 520 hours per audit project. Total Plan hours are 19,250; IA's capacity is 19,245.

Due to business changes and changing priorities, approximately nine audits were removed from the 2021 Plan; seven were added back to the 2022 Plan.

Audit Plan Resource and Audit Type Allocation

This is a breakdown of the hours between business technology, internal and external, comparing business technology and integrated audits between 2021 and 2022. Integrated audits decreased and business audits increased slightly. Technology audits, which is about one-third of the Plan, remains the same.

Audit Plan Risk Category Allocation

The Audit Plan is aligned using macro level type risks - financial, legal, operational, strategic and technology - taking into consideration the strategic priorities, pillars, top enterprise risks and industry risks to determine the allocation of the risks for the Plan. Most of the Plan covers operational, cyber, and also the increased technology risk, in alignment with the Digitization pillar.

Alignment

There is a concentration on the Plan aligned to two priorities, Digitation and Resilience. Resilience covers workforce planning, process excellence and knowledge management. For top enterprise risks, concentrations were aligned to Critical Infrastructure and Cyber Security.

Internal Audit Strategy

Last year, IA refreshed its strategy related to Agile, GRC, Talent Management, and Data Analytics. Agile and GRC optimization, and Talent Management have been substantially operationalized and they align with the Digitalization and Resource Alignment pillars.

Data Analytics

In 2021, the focus was on implementation, training, building data analytics routines and enhancing data analytics during audit work. IA will continue this trend in 2022 as well as implementing a Change Management Plan, and spreading more data analytics throughout the organization during audits.

Ms. Gonzalez requested that the Audit Committee recommend that the full Board approve the 2022 NYPA and Canal Corporation Internal Audit Plan.

On motion made by member John Koelmel and seconded by member Dennis Trainor, the members approved the recommendation requesting that the full Board of Trustees and Directors approve the 2022 NYPA and Canal Corporation Internal Audit Plan.

iii. **2022 Internal Audit Budget**

Ms. Angela Gonzalez provided an update on the New York Power Authority and Canal Corporation's 2022 Internal Audit Budget as provided to the members. She said that pursuant to the Institute of Internal Auditors (IIA) Standard, the Audit Committee is required to approve the Internal Audit Budget and requested that the Audit Committee approve the 2022 budget for Internal Audit.

On motion made by member John Koelmel and seconded by member Michael Balboni, the members approved the 2022 Internal Audit Budget.

b. New York Power Authority:

i. **Audit Plan and Strategy Update – Year-end December 31, 2021**

Mr. Scott Heiser, KPMG's Lead Audit Partner, and Mr. Christopher DaVanzo, Lead Senior Audit Manager presented KPMG's Audit Plan and Strategy for the year ending December 31, 2021.

Mr. Heiser outlined the Client Service team for the engagement adding that there were no significant changes in the engagement team for the audit. Due to rotation requirements, a new partner, Edward Lee, was added to the team. In addition to his industry experience, Mr. Lee has in-depth knowledge of GASB standards.

Key Audit and Accounting Items for 2021:

Leases – Adoption of GASB No. 87

NYPA will be required to reflect the impact of this new accounting standard on its 2021 financial statements. KPMG has begun reviewing management's documentation for its adoption and is preparing to have it ready to adopt this year. If additional time is needed, the presentation of that impact can be deferred until the 2022 statements are issued.

Single Year Financial Statement Presentation

Management has elected to prepare a 1-year financial statement presentation for Fiscal Year 2021. KPMG has discussed this with management and concurs with the election in this year's audited financial statements.

Digitizing the Audit Platform

Mr. Christopher DaVanzo reported that the engagement team would be shifting to a new audit platform, KPMG Clara, which will enhance and provide higher quality efficiencies in the performance of its audit. This platform is built on a model that aligns directly with the auditing standards built into the tool, which will help the company achieve its high audit quality goals. Additionally, there are a number of new technologies that are built directly within the platform, such as data extraction and automation tools which will allow the engagement team to enhance a lot of their risk assessment procedures. This will allow the team to be more efficient and have an effective audit response to certain risks. In addition, there are a number of other tools that the team is working on implementing, e.g., recalculations of depreciation, revenue bills, expenses. There is a number of tools that they are exploring and looking to implement into the audit to continue in order to increase efficiencies and quality.

Along with KPMG Clara, another technology tool, KPMG Clara for Audit Clients, is geared towards data sharing with NYPA. This will increase visibility and transparency for both the engagement team and NYPA into the project management process throughout the audit. It will provide an audit trail and timeline of all the requests made by KPMG, including samples, questions, follow-ups, and financial statements. Additionally, it allows for KPMG and NYPA to have real-time interactions in working files, simultaneously, enhancing KPMG's project management capabilities during the audit.

Required Communications

Similar to prior years, the scope of the audit is an audit of the Consolidated Financial Statements of New York Power Authority as of and for the year ended December 31, 2021, in accordance with the auditing standards generally accepted in the United States of America. Consistent with the prior years, KPMG's audit deliverables are a report on internal control over financial reporting and compliance with other matters in accordance with governmental auditing standards, as well as a report on the Authority's investment compliance.

Materiality

KPMG applies materiality thresholds in the performance of its audit. In making the assessment of determination of materiality, a number of factors that are assessed, including qualitative and quantitative factors. Materiality is subject to professional judgment and takes into consideration the needs of the users of the financial statements.

Timeline

KPMG's timeline remains consistent with prior years from April to August. KPMG performs planning and risk assessment; discusses with management some of the key issues and activities that occurred during the period, to date. During the interim period, KPMG performs interim substantive procedures, conduct walk-through of key processes that are in the scope and identification of risks that are relevant to those processes.

At year's end, KPMG completes its audit response by evaluating the results of those procedures performed and performing a review of the annual financial statements. Consistent with prior years, the filing date of all KPMG's audit deliverables will be prior to March 31st.

Key Audit and Accounting Items for 2021

Changes to the Authority's OPEB Plan:

Effective January 2021, NYPA amended the OPEB Trust, allowing the Trust to now fund both the NYPA and Canal Corporation OPEB Plans. Previously, the Trust could not fund the Canal Corporation. The impact on the financial statements is a reduction in the Canal Plan's liability, which is directly related to the change in discount rate. Going forward, the Plans will be considered a single Plan under GASB.

Change in Medicare Advantage

NYPA will now provide Medicare eligible management retirees with medical coverage through a fully-insured Medicare Advantage Plan. A portion of this change will be expensed in the current period, FY21. A portion will be amortized over the remaining life and service years of the retirees.

KPMG Procedures

KPMG has had numerous discussions with NYPA management and Buck Consulting, NYPA's actuary, in addition to KPMG's actuarial specialists used in the evaluation of the plans, and GASB subject matter professionals who have assisted in the preliminary review discussions with management.

Allowance for Funds Used During Construction (ADUDC)

Historically, NYPA has capitalized interest costs on construction projects in accordance with Generally Accepted Accounting Principles ("GAAP").

In 2021, NYPA identified that, under the FERC Uniform System of Accounts, they should be accruing AFUDC, which permits an equity component of finance costs to be capitalized.

During 2021, in accordance with GASB 89, which NYPA adopted in FY21, those costs will be capitalized as a regulatory asset rather than within the capital asset, PPE, on the balance that it was previously recorded.

KPMG has had numerous discussions with NYPA management, have obtained calculations performed by management, has started substantial procedures over those calculations and amounts, and will continue to do so, moving forward.

Management Override of Controls

KPMG conducts a variety of analyses of different fraud factors, primarily management override of controls, using technology tools to review certain journal entries throughout the year.

ESG (Environmental, Social, Governance) Initiatives

KPMG is assisting with the assessment of the ESG initiatives in a non-audit capacity. As the rules develop, ESG initiatives will be tested when that information is reported.

Diversity and Inclusion

KPMG highlighted some of the diversity and inclusion goals in terms of hiring and promotion that the firm has set out for the next five years.

5. CONSENT AGENDA:

On motion made by Member John R. Koelmel, and seconded by Member Dennis Trainor, the following items on the Consent Agenda were unanimously adopted:

- a. Approval of the Joint Minutes of the Regular Meeting held on July 15, 2021
- b. Approval of the Joint Special Minutes of the Meeting held on October 19, 2021

6. **Next Meeting**

The next regular meeting of the Audit Committee will be held on a date and at a time to be determined.

Closing

On motion made by Member Dennis Trainor and seconded by Member Anthony Picente, the meeting was adjourned at approximately 10:22 a.m.

Karen Delince

Karen Delince
Corporate Secretary