



**MINUTES OF THE REGULAR JOINT MEETING
OF THE
NYPA AND CANAL AUDIT COMMITTEE**

July 16, 2020

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July 16, 2020

Minutes of the regular meeting of the New York Power Authority and Canal Corporation's Audit Committee held via video conference, at approximately 8:30 a.m.

The following Members of the Audit Committee were present:

Eugene Nicandri, Chairman
John R. Koelmel
Anthony Picente, Jr.
Tracy McKibben
Dennis Trainor
Michael Balboni

Also in attendance were:

Gill Quiniones	President and Chief Executive Officer
Justin Driscoll	Executive Vice President and General Counsel
Joseph Kessler	Executive Vice President and Chief Operations Officer
Adam Barsky	Executive Vice President and Chief Financial Officer
Sarah Salati	Executive Vice President and Chief Commercial Officer
Soubhagya Parija	Senior Vice President and Chief Risk Officer
Angela Gonzalez	Senior Vice President – Internal Audit
Karen Delince	Vice President and Corporate Secretary
Daniella Piper	Vice President – Digital Transformation/Chief of Staff
Christine Reynolds	Treasurer
Anne Reasoner	Vice President Budgets & Business Controls
Sundeep Thakur	Controller
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Quatrocci	Associate Corporate Secretary

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 Proposed Meeting Agenda**

On motion made by member Anthony Picente and seconded by member Dennis Trainor, the agenda for the meeting was adopted.

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

Mr. Chairman, I move that the Audit Committee conduct an executive session to discuss the financial and credit history of a particular corporation (pursuant to section 105f of New York Public Officers Law). On motion made by member Dennis Trainor and seconded by member Michael Balboni, an Executive Session was held.

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

Mr. Chairman, I move to resume the meeting in Open Session. On motion made by member Tracy McKibben and seconded by member Dennis Trainor, the meeting resumed in Open Session.

Chairman Nicandri said no votes were taken during the Executive Session.

4. DISCUSSION AGENDA:

a. New York Power Authority and Canal Corporation Internal Audit Update

Ms. Angela Gonzalez, Senior Vice President, Internal Audit, provided an update on the New York Power Authority and Canal Corporation's Internal Audit Plan. (Exhibit "4a-A")

Internal Audit Scorecard

Internal Audit ("IA") retooled and refined some of the metrics of the Internal Audit Scorecard presented to the Committee in March which is broken down into two parts, Operational Excellence and Value Impact.

• **Operational Excellence**

IA has Achieved or Exceeded a majority of the metrics under Operational Excellence.

Audit Plan – the Audit Plan is 41 percent complete and IA is on track to be 100% complete by the end of the year.

Audit Utilization Rate – IA was able to maintain its utilization rate despite its staff working remotely because of the COVID-19 pandemic. IA was able to maintain a 65% utilization rate which is below the benchmark of 75%. IA continues to work on its key initiatives outlined in the IA Plan -- GRC Automation, Data Analytics program, and Quality Assurance Improvement Program ("QAIP"). As these programs mature over time, or are operationalized, IA will be able to dedicate more hours towards audit and client support work.

• **Value and Impact**

1. Percentage of high-risk Observations Identified – for informational purposes; observations that IA has identified over the last year.
2. Percentage of High-Risk Observations Implemented – Achieved Internal Target. This includes only observations that had a due date prior to 6/30/20. One was due after June 30, 2019 and seven (7) are due after June 30, 2020.
3. Percentage of All Observations by Due Date – Includes observations that had a due date prior to June 30, 2020. Internal Target being Monitored.
4. Percentage of Observations Extended and Subsequently Implemented – Includes observations that had a due date prior to June 30, 2020, of which three observations are open; and two are open for 2019. To date, there are no extensions for 2020.

Internal Audit – COVID-19 Response

People

- Successfully implemented work-from-home protocols and new ways of working
- Redeployed resources to special COVID-19 projects, at management's request
- Collaborated frequently with other LPPC audit executives and leveraged industry information in response to COVID-19 and best practices
- Engaged subject matter specialists, as needed

Process

- Continuation of IA's Agile methodologies has allowed IA to pivot projects and allocating resources quickly
- Re-prioritized Audit Plan and conducted quarterly plan re-evaluation
- Perform a refreshed risk assessment to assess additional risks/exposures due to COVID-19
- Continued to collaborate with Risk Management and provide input on the Risk Registry

Technology

- Departmental use of video conferencing using Microsoft Teams and Webex
- Audit staff developed an electronic Agile Kanban board to manage the audit project portfolio virtually
- Held Departmental Virtual trainings

2020 Audit Plan Status

- 37 audits are included in the NYPA and Canals Audit Plan
- 15 audit reports have been issued to date. Two audits have moved to the reporting stage and are expected to be issued within the next two weeks
- Three audits are in fieldwork and the audit reports are expected to be issued by the end of July or early August
- Planning for two Q3 audits has begun

Summary of Changes to 2020 Internal Audit Plan due to COVID-19

Based on discussions with management to date, their focus on response to COVID-19 and level of priority, 13 audit projects have been removed from the 2020 Internal Audit Plan some of which became lower priorities. In addition, some scope changes were made to audit projects on the plan due to risks related to COVID-19.

IA is in the process of reviewing the projects which were removed from the Plan to determine which ones can be added back. Some projects have been funneled into other projects on the Plan and some project scopes had to be changed because of risks related to COVID-19.

Internal Audit Remediation Status – NYPA

- As of June 30, 2020, seventeen (17) 2020, ten (10) 2019 and three (3) 2018 NYPA recommendations are open.
- Closure of the medium-rated 2018 open recommendations are on track to close by their 2020 due dates.

Internal Audit Remediation Status – Canals

- As of June 30, 2020, seven (7) 2020 and two (2) 2019 Canals recommendations are open and are tracking to close on time.

Status of Audit Recommendations – 2018

Fleet Management Operations

Three recommendations for fleet management are still open. Remediation is tied to the automation of the Maximo transportation module which is expected to go live in Q4 2020.

Internal Audit Transformation Highlights:

BRANDING

IA continues to bring forth its brand. Because of COVID-19, IA staff have not been able to visit the sites as planned; however, they started conducting virtual meetings with St. Lawrence, Blenheim-Gilboa, Niagara, CEC and SENY in Q3/Q4 replacing the site visits. All audit staff will be involved in participating in these virtual meetings using Microsoft Teams.

DELIVERY

Agile Project Methodology

- 76% of the Audit Plan is using the Agile methodology. The remaining 24% is using the traditional methodology.
- Agile Coach support from Internal Audit's co-source partner has been fully transitioned to the Audit Managers. The Audit Managers provide Agile coaching support and ensure process consistency across all audit teams.

GRC Automation

- All Q2 audits have been executed in the GRC Audit system. Configuration for timekeeping and design for reporting has been completed and is in production. IA is fully charging all its hours through the GRC system.
- Additional enhancements to the Audit system's user interface and the overall platform are in progress. As a result, use of the Observation Management workflow is on hold until these enhancements are in production which is targeted for July 13, 2020. All observations continue to be uploaded to SharePoint for observation tracking and reporting.

Data Analytics

- To date, 23 (62%) of 2020 audit projects have been identified where data analytics could be applied. 11 (52%) of the Q1 and Q2 projects have applied data analytics to date.
- The Data Analytics team attended demonstrations for four data analytics tools and has worked extensively on the procurement process in collaboration with the Data Governance department. A scope of services document has been developed and Internal Audit is now fully engaged with Strategic Supply Management working on an RFP which is expected to be completed and executed in Q3 with final decision in Q4, with tool onboarding in Q1 2021.
- The build-out of the continuous auditing program has been put on hold because of the COVID-19 pandemic. The continuous auditing program will move forward once a data analytics tool has been onboarded.

Quality Assurance Improvement Program

- The QAIP team continues to work through the remediation of recommendations from the 2019 external quality assessment. To date, the team have achieved 83% completion and are tracking to complete all items by the end of the year.
- As part of the Quality Assurance Improvement Program, the QAIP team is in the process of conducting the required annual internal assessment for compliance with the IIA standards. This is targeted for completion by the end of August and the results will be communicated to the Audit Committee.

TALENT (STAFF EXCELLENCE)

- Virtual training geared to the electric utility industry was held in April to enhance staff knowledge of the industry.
- Virtual training on the impact of COVID-19 on the utility industry and Internal Audit functions was held in June.
- The Training and Development team has created an automated solution using SharePoint technology for the training and development program that was implemented in 2019 so that staff will be able to look up internal and external training classes, links to industry organizations, and review their training hours log. Expected completion and use by Internal Audit staff is targeted for July.

5. **CONSENT AGENDA**

On motion made by member Dennis Trainor and seconded by member Anthony Picente, the Consent Agenda was approved.

a. **Approval of the Minutes of the Joint Meeting held on March 26, 2020**

On motion made and seconded, the Minutes of the Committee's Regular Meeting held on March 26, 2020 were approved.

b. Approval of the New York Power Authority and Canal Corporation Audit Committee Charters

The President and Chief Executive Officer submitted the following report:

SUMMARY

The members of the Audit Committee are requested to adopt the Authority's and the Canal Corporation's Audit Committee Charters as set forth in Exhibits '5b-A' and '5b-B,' and to recommend their adoption to the Authority's Trustees and the Canal Corporation's Board of Directors.

BACKGROUND

The Authority's Audit Committee Charter was last amended on December 12, 2017 to reflect best practices and to conform to the Canal Corporation's Audit Committee Charter which was adopted on January 31, 2017. There were no additional changes to the Audit Committee Charters, and approval was granted by the Audit Committee for compliance with the Institute of Internal Auditors Standards at the July 9, 2019 Audit Committee meeting.

As a result of the Institute of Internal Auditors external quality assessment of Internal Audit in August 2019, recommendations were made to enhance both the Authority's and the Canal Corporation's Audit Committee Charters to further align with the Institute of Internal Auditors Standards.

FISCAL INFORMATION

None.

RECOMMENDATION

The Executive Vice President and General Counsel recommends that the Audit Committee adopt the Authority's and the Canal Corporation's Audit Committee Charters and recommends their adoption to the Authority's Trustees and the Canal Corporation's Board of Directors."

The following resolution was unanimously approved by the members.

RESOLVED, That the attached Authority and Canal Corporation Audit Committee Charters be adopted in the forms proposed in Exhibits "5b-A" and "5b-B;" and be it further

RESOLVED, That the Audit Committee recommends the adoption of the Authority and Canal Corporation's Audit Committee Charters to the Authority's Trustees and the Canal Corporation's Board of Directors.

**c. Approval of the New York Power Authority
Internal Audit Charter (Corporate Policy 5-1)**

The President and Chief Executive Officer submitted the following report:

SUMMARY

The Audit Committee is requested to adopt the Authority's Internal Audit Charter as presented and set forth in Exhibit '5c-A' of this item and to recommend its adoption to the Trustees.

BACKGROUND

The Authority's Internal Audit Charter was last amended on October 5, 2018 to reflect reporting line changes and updates to audit processes. There were no additional changes to the Internal Audit Charter, and approval was granted by the Audit Committee at the July 9, 2019 Audit Committee meeting.

As a result of the Institute of Internal Auditors external quality assessment of Internal Audit in August 2019, recommendations were made to enhance the Authority's Internal Audit Charter to further align with the Institute of Internal Auditors Standards.

FISCAL INFORMATION

None.

RECOMMENDATION

The Executive Vice President and General Counsel recommends that the Audit Committee adopt the Authority's Internal Audit Charter and recommend its adoption to the Trustees."

The following resolution was unanimously approved by the members.

RESOLVED, That the attached Authority Internal Audit Charter be adopted in the form proposed in Exhibit "5c-A"; and be it further

RESOLVED, That the Audit Committee recommends the adoption of the Authority's Internal Audit Charter to the Trustees.

6. **Next Meeting**

Chairman Nicandri said that the next regular meeting of the Audit Committee would be held on December 20, 2020 at a time to be determined.

Closing

On motion made by member Dennis Trainor and seconded by member Tracy McKibben, the meeting was adjourned by the Chairman at approximately 10:06 a.m.

Karen Delince

Karen Delince
Corporate Secretary

July 16, 2020

EXHIBITS

For

Audit Committee

Minutes

July 16, 2020



**NY Power
Authority**

**Canal
Corporation**

Exhibit 4a-A

Audit Committee

***New York Power Authority and Canal Corporation
Internal Audit Update***

7/16/2020

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Appendix

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Executive Summary

Internal Audit Scorecard

Operational Excellence	Metric	Progress		Bench- mark (3)	Internal Target	Status
		2019	2020			
		Internal Audit Performance				
	Audit Plan Percentage Complete	100%	41%	88%		
	Audit Deliverables with Opinions	62% (31/50)	73% (11/15)	N/A	50% Opinions Issued	
	Fieldwork to Report Issuance (weeks)	3.1	3.4	5.1		
	Audit Utilization Rate	65%	65% (1)	75%		
	IA Average Project Cycle Time (weeks - Excludes ongoing projects)	12	12	12		
Audit Standards						
	External Quality Assessment Remediation Completion Status	83%			100% by year-end 2020	

Key	Achieved or Exceeded Benchmark/Internal Target/On Track	
	Benchmark/Internal Target Monitored	
	Benchmark/Internal Target Not Achieved	
	N/A - Benchmark Not Available	

Value and Impact	Metric	Observations by Year Identified			Internal Target	Status
		2018	2019	2020		
		% of High-Risk Observations Identified				
	% of High-Risk Observations Identified	14% (14/102)	12% (11/90)	23% (7/30)		Information Purposes
	% of High-Risk Observations Implemented	100% (14/14)	100% (2) (10/10) 1 due after 6/30/20	(0/0) 7 are due after 6/30/20	100% for each year	
	% of All Observations Implemented by Due Date	100% (2) (99/99)	99% (2) (78/79)	100% (2) (6/6)	100%	
	% of Observations Extended and Subsequently Implemented	80% (12/15)	87% (13/15)	0% No observations extended to date	100% for each year	

Note:
(1) Maintained utilization rate given COVID-19 and remote working. Staff continue to work on IA key reinvestment activities (GRC system, Data Analytics, QAIP) and internal administration.
(2) Includes only observations that had a due date prior to 6/30/20.
(3) Benchmarks used are from Gartner Audit Leadership Council and the IIA Global Audit Information Network (GAIN) report.

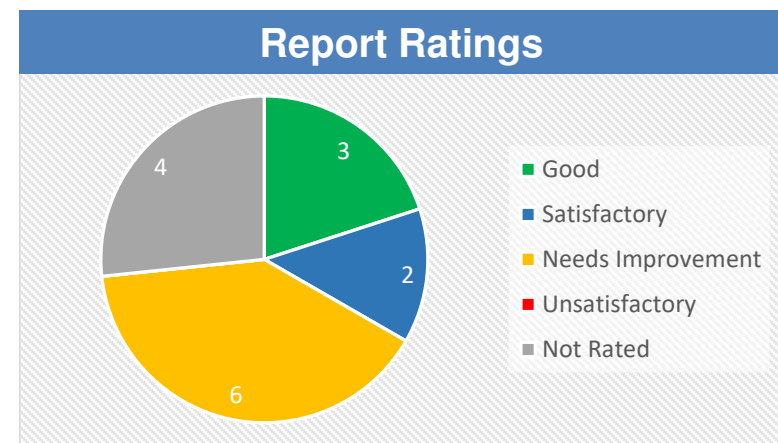
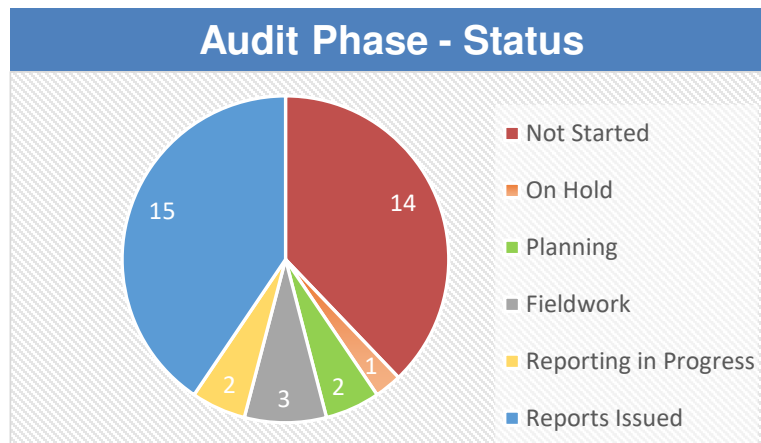
Internal Audit COVID-19 Response

	People	Process	Technology
Key Activities	<ul style="list-style-type: none"> Successfully implemented work from home protocol and new ways of working Increased department communications and touchpoints Re-deployed resources to special COVID-19 projects at management's request Collaborated with LPPC audit colleagues, leveraged industry and market related committees/groups to facilitate idea sharing and best practices Engaged subject matter specialists as needed 	<ul style="list-style-type: none"> Continuation of Agile principles allowed Internal Audit to pivot projects and resources quickly Re-prioritized Audit Plan and conducted quarterly plan re-evaluation Perform a refreshed risk assessment to assess additional risks/exposures due to COVID-19 Continued to collaborate with Risk Management and provide input on the Risk Registry Conducted special request reviews as needed 	<ul style="list-style-type: none"> Departmental use of video conferencing using Microsoft Teams and Webex Audit staff developed an electronic Agile Kanban board to manage the audit project portfolio virtually Held Departmental Virtual trainings

Evaluate risk and data

2020 Audit Plan Status

- 2020 Audit Plan Status*:
 - 37 audits are included in the NYPA and Canals Audit Plan.
 - 15 audit reports have been issued to date. Two audits have moved to the reporting stage and are expected to be issued within the next two weeks.
 - Three audits are in fieldwork and these audit reports are expected to be issued by the end of July. Planning for two Q3 audits has begun.



NOTE: * See Appendix A for details

Summary of Changes to 2020 Internal Audit Plan

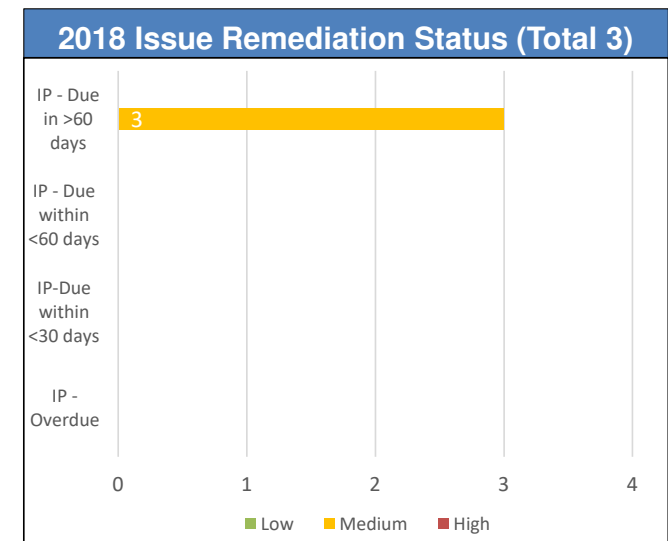
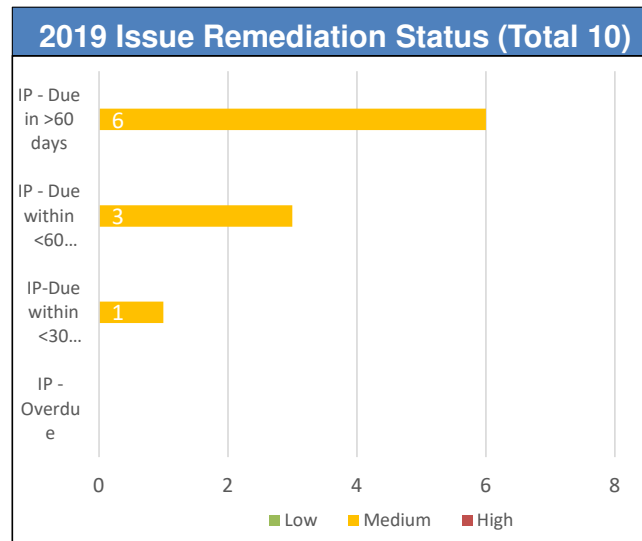
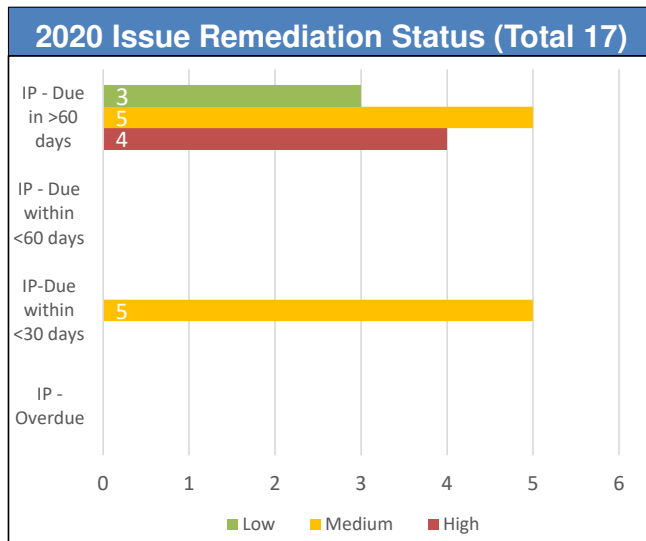
- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in management and operations committees and discussions with leadership across the organization. Based on discussions with management to date, their focus on response to COVID-19 and level of priority, 13 audit projects have been removed from the 2020 Internal Audit Plan as follows:

2020 Audit Status	As of 6/30/20
Approved 2020 Internal Audit Plan	50
Audits Added to 2020 Internal Audit Plan NYPA: None Canals: None	0
Audits Removed from 2020 Internal Audit Plan NYPA: Communications Backbone Program, Transmission LEM, Customer Digital Experience (CDEx), Digital Worker, Succession Planning (NYPA and Canals), Pension Plan Management, Data Splice Post Implementation, Enterprise Program Management, Software License Management, Customer Credit (Customer Financing), Environmental Health & Safety Program (NYPA and Canals) Canals: Canals Vendor Management, Canals Maximo System Implementation	13
Total 2020 Audits	37

- In addition, some scope changes were made to audit projects on the plan due to risks related to COVID-19. See Appendix B for details.

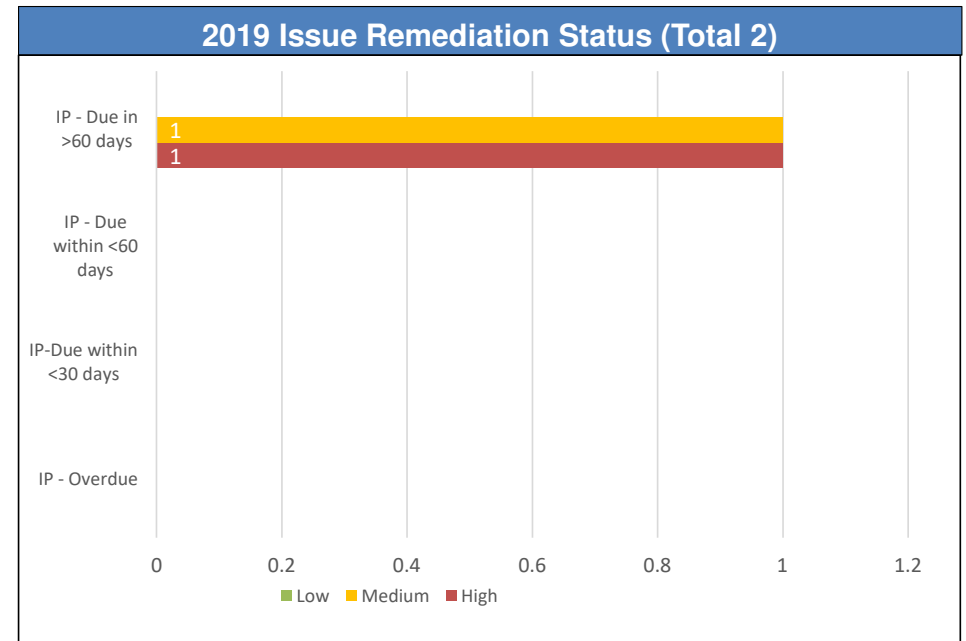
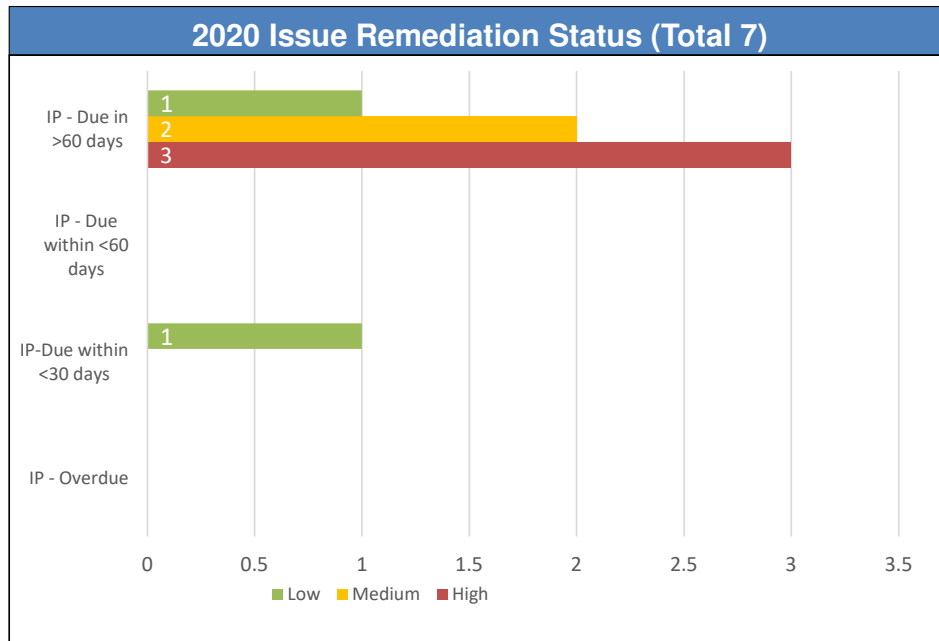
Internal Audit Remediation Status – NYPA

- As of June 30, 2020, 17 2020, 10 2019 and three 2018 NYPA recommendations are open.
- Closure of the medium-rated 2018 open recommendations are on track to close by their 2020 due dates. See slide 11 for details.
- Internal Audit continues to assist management by providing monthly reporting to the EMC on open recommendation status and is monitoring remediation efforts for 2018-2019 issues, with the priority on high-risk issues.



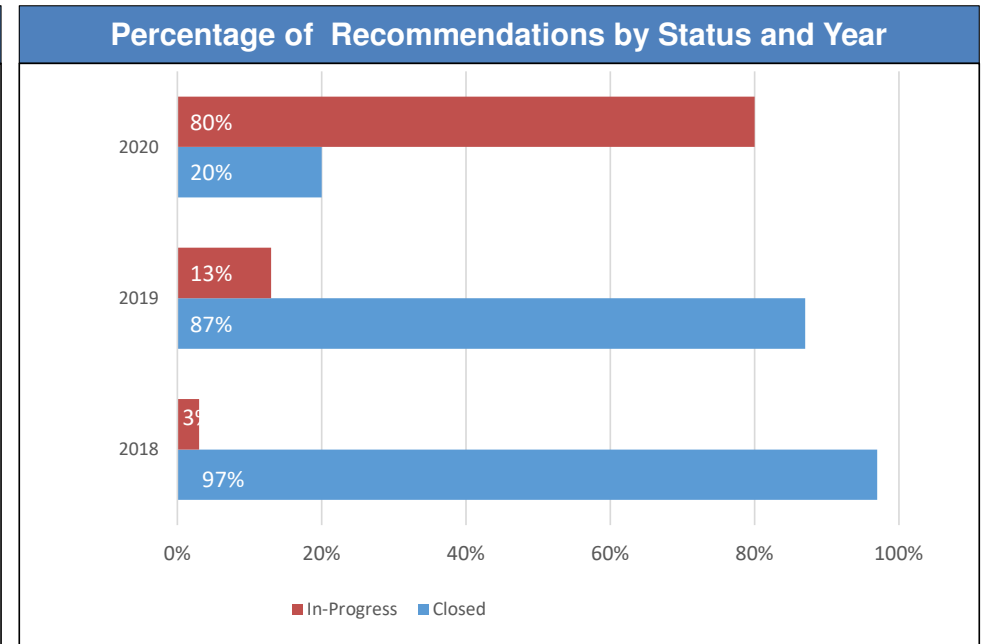
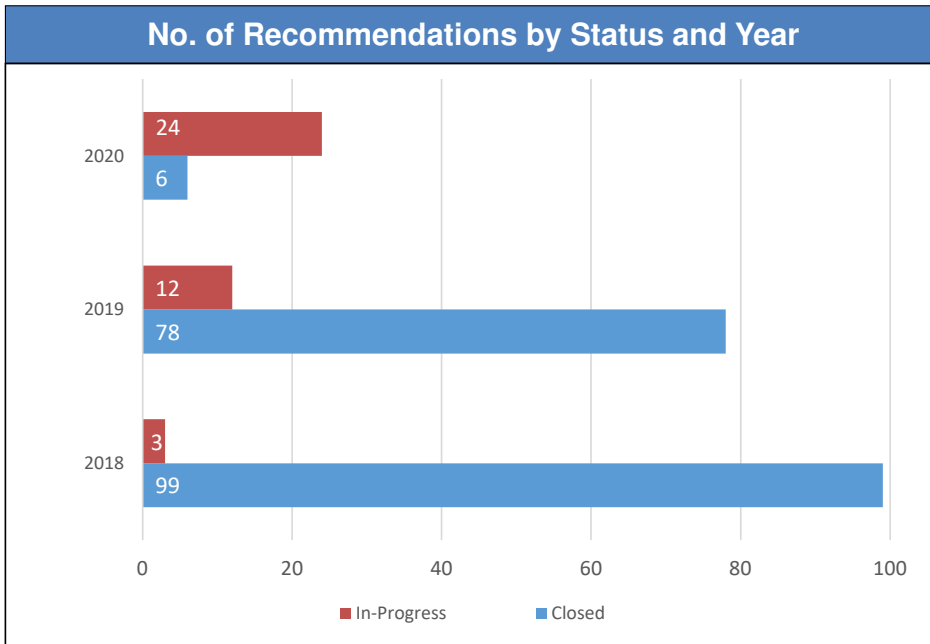
Internal Audit Remediation Status – Canals

- As of June 30, 2020, seven 2020 and two 2019 Canals recommendations are open.
- Internal Audit continues to assist management by providing monthly reporting to the EMC on open recommendation status and is monitoring remediation efforts with the priority on high-risk issues.



Internal Audit Remediation Status

➤ Below is the number and percentage of NYPA and Canals open and closed recommendations by year 2018-2020:



Status of Audit Recommendations – 2018

2018 Open Recommendations - NYPA	Remediation Status
<p>Fleet Management Operations (three recommendations)</p>	<p>Rec. 1: Remediation has been implemented to the extent possible. All attributes will be captured in the Maximo transportation module once it goes live. The project was paused during the height of the pandemic, however, has been un-paused and is expected to go live in Q4 2020.</p> <p>Due Date: 12/1/2020</p> <p>Rec. 3: Completion of the Maximo transportation module transition for fleet maintenance practices is in progress and the project was paused during the height of the pandemic, however, has been un-paused and is expected to go live in Q4 2020. Recruiting for a Fleet Supervisor is in progress.</p> <p>Due Date: 12/31/2020</p> <p>Rec. 4: Remediation has been implemented to the extent possible. NYS LENS reports are reviewed and compared to AssetWorks information which is sent to supervisors for scrutiny. Full remediation for fleet management reporting will take place upon the Maximo transportation module migration. The project was paused during the height of the pandemic, however, has been un-paused and is expected to go live in Q4 2020.</p> <p>Due Date: 9/1/2020</p>

Internal Audit Transformation Highlights

BRANDING

- Development of video clip with key stakeholders is on hold and will be resumed in 2021.
- Virtual meetings with St. Lawrence, Blenheim-Gilboa, Niagara, CEC and SENY staff will be conducted in Q3/Q4 replacing the site visits. All audit staff will be involved in participating in these virtual meetings using Microsoft Teams.

DELIVERY

Agile Project Methodology

- 76% of the audit plan (28 audit projects) is using the Agile methodology. The remaining 24% (9 projects) is using the Traditional methodology since these projects are comprised of ongoing system implementations, one advisory engagement and six Canals audit projects.
- Agile Coach support from Internal Audit's co-source partner has been fully transitioned to the Audit Managers. The Audit Managers provide Agile coaching support and ensure process consistency across all audit teams.

Internal Audit Transformation Highlights – cont'd

GRC Automation

- All Q2 audits have been executed in the GRC Audit system. Configuration for timekeeping and design for reporting has been completed and is in production.
- Additional enhancements to the Audit system's user interface and the overall platform are in progress. As a result, use of the Observation Management workflow is on hold until these enhancements are in production which is targeted for July 13, 2020. All observations continue to be uploaded to SharePoint for observation tracking and reporting.

Data Analytics

- To date, 23 out of 37 (62%) of 2020 audit projects have been identified where data analytics could be applied. 11 out of 23 (52%) of the Q1 and Q2 projects have applied data analytics to date.
- The Data Analytics team attended demonstrations for four data analytics tools and has worked extensively on the procurement process in collaboration with the Data Governance department. As a result, a scope of services document has been developed and Internal Audit is now fully engaged with Strategic Supply Management to start an RFP. The RFP is expected to be completed and executed in Q3 with final decision in Q4, with tool onboarding in Q1 2021.
- The COVID-19 pandemic has delayed this process by three months due to coordinating with vendors and consultants that were paused during the height of the pandemic. The continuous auditing program will move forward once a data analytics tool has been onboarded.

Internal Audit Transformation Highlights – cont'd

Quality Assurance Improvement Program

- The QAIP team continues to work through the remediation of recommendations from the 2019 external quality assessment. To date, we have achieved 83% completion and are tracking to complete all items by year-end. See slide 15 for the standards where remediation items were cited.
- As part of the Quality Assurance Improvement Program, the QAIP team is in the process of conducting the required annual internal assessment for compliance with the IIA standards and is targeted for completion by the end of August. The review is on track and results will be communicated to the Audit Committee.
- The Required Communications to the Audit Committee list states specific standards required of the CAE to communicate with the Audit Committee as per IIA Standard 1000 and 2060. See slide 16 for details.

TALENT (STAFF EXCELLENCE)

- Specific training geared to the electric utility industry was held virtually in April to enhance staff knowledge of the industry.
- Held virtual training on the impact of COVID-19 on the utility industry and Internal Audit functions in June.
- The Training and Development team has created an automated solution using SharePoint technology for the training and development program that was implemented in 2019. Staff will be able to look up internal and external training classes, links to industry organizations, review their training hours log and more. Expected completion and use by Internal Audit staff is targeted for July.
- As of 7/16/20, 63% of staff currently have at least one certification and 32% of staff are pursuing various certifications such as the CIA, CPA and CISA.

2019 External Quality Assurance Assessment Remediation Status

IIA Standard #	Standard Description	GAP/ Improvement Opportunity	GAP OR Improvement Opportunity Description	Status
1311	Internal Assessments	GAP	Conduct an Internal Quality Assessment (QA) annually.	Completed
1312	External Assessments	GAP	Conduct an external QA every five years.	Completed
1320 1311	Reporting on the QAIP	GAP	Communicate internal and external assessment results.	Completed
1311	Internal Assessments	GAP	Develop a balanced scorecard and report results during the periodic reporting process to the Audit Committee.	Completed
1000 1100	Purpose, Authority and Responsibility	GAP	Update the NYPA and Canals Audit Committee Charters to include QAIP responsibilities and obtain CAE and Audit Committee approvals.	In Progress
1000	Purpose, Authority and Responsibility	Improvement Opportunity	Update the IA Charter and obtain CAE and Audit Committee approvals.	In Progress
1000 2060	Purpose, Authority and Responsibility Reporting to Senior Management and the Board	Improvement Opportunity	Implement a checklist including Required Communications of the CAE to the Audit Committee.	Completed
1210	Proficiency	Improvement Opportunity	Consider developing IA staff in specialized areas of the energy industry.	Completed
1210	Proficiency	Improvement Opportunity	Consider use of technology-based audit.	In Progress
1210	Proficiency	Improvement Opportunity	Consider other data analysis techniques and Computer Assisted Audit Techniques (CAATS) to better evaluate data and identify problems.	In Progress
2240	Engagement Work Program	Improvement Opportunity	Document supervisory review of the Audit Program to evidence approvals.	In Progress
2410 2411	Criteria for Communicating	Improvement Opportunity	Incorporate limitations on the distribution of deliverables in the report.	Completed
2450	Overall Opinions	Improvement Opportunity	Include a section in the report for description of any scope limitations.	Completed
1300	Quality Assurance and Improvement Program	Improvement Opportunity	Update QAIP documentation in policy. Develop the QAIP program. Perform the 2020 Internal QA. Present final 2020 Internal Annual QAIP report to the Audit Committee.	In Progress
2050	Coordination and Reliance	Improvement Opportunity	Provide an Assurance Map that describes coverage of risk between IA and other providers of assurance for NYPA.	In Progress

CAE Required Communications to the Audit Committee

Internal Audit - NYPA and Canal Corporation CAE Required Communications to the Audit Committee 2020

Standard	Communication Requirement	Form	Audit Communication
1000 1010	The CAE must periodically review the Internal Audit charter and present it to senior management and the board for approval. The Mission of Internal Audit and the mandatory elements of the IPPF, which are acknowledged in the internal audit charter, should also be discussed.	Audit Committee Meetings and Private Sessions	As the CAE, I hereby confirm the presentation of the revised Internal Audit charter and the required discussions with senior management and the board took place on July 16, 2020.
1111	The CAE must communicate and interact directly with the Audit Committee.	Audit Committee Meetings and Private Sessions	As the CAE, I confirm that an appropriate level of communication and interaction has taken place between myself and the Audit Committee.
1320	The CAE must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include: - the results of ongoing monitoring of the internal audit activity's performance, which is part of the internal assessment process.	Monthly Activity Report & IA Scorecard	As the CAE, I confirm results of ongoing monitoring of performance were reported to the Audit Committee as a component of the internal activity reports on July 16, 2020.

Appendix

Appendix A – 2020 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued/ Comment
Deliverable Issued: 15							
1	NYPA	2020-AU-01	Recharge NY Customer Compliance Audit (D&M)	Commercial Operations	Audit	N/A	2/27/20
2	NYPA	2020-AU-15	Intrusion Detection/Intrusion Protection Management	Information Technology	Audit	Satisfactory	3/11/20
3	NYPA	2020-AU-39	FEMA Reimbursement	Utility Operations	Audit	Good	3/16/20
4	NYPA	2020-AU-19	Active Directory Review	Information Technology	Audit	Needs Improvement	3/19/20
5	NYPA	2020-AU-43	Inventory & Warehousing: NIA, STL, BG, SENY	Utility Operations	Audit	Satisfactory	4/8/20
6	NYPA	2020-AU-27	Payroll (NYPA and Canals)	Business Services	Audit	Needs Improvement	4/20/20
7	NYPA	2020-AU-04	Commercial Operations Product Pricing	Commercial Operations	Audit	Needs Improvement	5/18/20
8	NYPA	2020-AU-11	Ariba Application Review	Human Resources & Administration	Audit	Needs Improvement	5/26/20
9	NYPA	2020-AU-26	Accounts Payable	Business Services	Audit	Needs Improvement	5/26/20
10	NYPA	2020-AU-08	New York Energy Manager Strategy, Customer and Management Reporting	Commercial Operations	Audit	Good	5/28/20
11	NYPA	2020-AS-22	Data Governance & Protection Program	Information Technology	Assessment	N/A	6/3/20
12	NYPA	2020-AS-10	Supply Chain Management (NYPA and Canals)	Human Resources & Administration	Assessment	N/A	6/9/20
13	Canals	2020-AU-46	Canals Vendor Payment Accruals Follow-up	Administrative Services	Audit	Good	5/26/20
14	Canals	2020-AU-45	Canals Budgeting and Forecasting	Administrative Services	Audit	Needs Improvement	5/29/20
15	Canals	2020-AU-47	Canals Real Property	Administrative Services	Audit	N/A	7/2/20
Reporting in Progress – Fieldwork Complete: 2							
16	NYPA	2020-AU-24	Treasury Workstation System Implementation	Business Services	Audit		
17	Canals	2020-AS-49	Canals Fleet Management Operations	Administrative Services	Assessment		
Fieldwork in Progress: 3							
18	NYPA	2020-AU-17	Database Security (NYPA and Canals)	Information Technology	Audit		
19	NYPA	2020-AU-20	Microsoft 365	Information Technology	Audit		
20	NYPA	2020-AU-32	Insurance Risk Management (NYPA and Canals)	Business Services	Audit		
Planning in Progress: 2							
21	NYPA	2020-AU-31	Energy Commodity Risk Management System Impl.	Business Services	Audit		
22	NYPA	2020-AU-41	ISO 55001 Audit Remediation Follow-up	Utility Operations	Audit		

Appendix A – 2020 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued/ Comment
Audit Projects on Hold: 1							
23	NYPA	2020-AU-28	Non-Work Time Benefits	Business Services	Audit		On Hold: Will resume when client can support
Planning Not Started: 14							
24	NYPA	2020-AS-34	Utility Operations Construction Projects - COVID-19 Response Review	Utility Operations	Assessment		
25	NYPA	2020-AS-02	Economic Development Customer Assistance	Commercial Operations	Assessment		
26	NYPA	2020-AU-06	Bid to Bill System Implementation	Commercial Operations	Audit		
27	NYPA	2020-AU-07	Unforced Capacity (UCAP) & Transmission Congestion Charge (TCC) Services & Trading	Commercial Operations	Audit		
28	NYPA	2020-AS-09	EVolve Program	Commercial Operations	Assessment		
29	NYPA	2020-AU-14	Threat and Vulnerability Management	Information Technology	Audit		
30	NYPA	2020-AU-18	Network Administration (NYPA and Canals)	Information Technology	Audit		
31	NYPA	2020-AV-21	IT Disaster Recovery Tests	Information Technology	Advisory		
32	NYPA	2020-AU-25	Credit Profile Management	Business Services	Audit		
33	NYPA	2020-AU-29	Finance & Administration (NIA, STL, CEC, WPO)	Business Services	Audit		
34	NYPA	2020-AU-30	Generation & Transmission Customer Rate Development	Business Services	Audit		
35	NYPA	2020-AU-37	GE Asset Performance Management Implementation (APM)	Utility Operations	Audit		
36	NYPA	2020-AU-42	Site SCADA Systems (NIA, BG, STL, SENY)	Utility Operations	Audit		
37	NYPA	2020-AU-44	Operations Technology Operating System Security	Utility Operations	Audit		
Audit Projects Canceled: 13							
1	NYPA	2020-AU-35	Communications Backbone Program	Utility Operations	Audit		
2	NYPA	2020-AU-36	Transmission LEM	Utility Operations	Audit		
3	NYPA	2020-AU-03	Customer Digital Experience (CDEx)	Commercial Operations	Audit		
4	NYPA	2020-AU-40	Digital Worker	Utility Operations	Audit		
5	Canals	2020-AU-48	Canals Vendor Management	Administrative Services	Audit		
6	Canals	2020-AU-50	Canals Maximo System Implementation	Technical Services	Audit		
7	NYPA	2020-AU-12	Succession Planning (NYPA and Canals)	Human Resources & Administration	Audit		
8	NYPA	2020-AU-13	Pension Plan Management	Human Resources & Administration	Audit		

Appendix A – 2020 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued/ Comment
9	NYPA	2020-AU-38	Data Splice Post Implementation	Utility Operations	Audit		
10	NYPA	2020-AS-23	Enterprise Program Management	Executive Office	Assessment		
11	NYPA	2020-AU-16	Software License Management	Information Technology	Audit		
12	NYPA	2020-AU-05	Customer Credit (Customer Financing)	Commercial Operations	Audit		
13	NYPA	2020-AS-33	Environmental Health & Safety Program (NYPA and Canals)	Utility Operations	Assessment		

Appendix B – Changes to 2020 Internal Audit Plan (since March meeting)

NYPA:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Utility Operations	Utility Operations Construction Projects (Non-LEM)	Name, Audit Type and Scope Change	The changes to name, audit type and scope are a result of the impact of COVID-19 to Utility Operations construction projects and the recent pause. Several essential projects have been un-paused and the volume of capital projects to stop/start projects and related scope and budgetary changes could potentially lead to increased financial, operational, and legal risk to NYPA. Scope change is to ensure controls are in place to validate decisions for pausing, restarting and deferring projects in alignment with COVID-19 response requirements of safety, essential work and reliability, project management and governance are adhered to, project portfolio is re-assessed and project activity is monitored and reported. This review will be conducted as an assessment.	Q3	0
Utility Operations	Communications Backbone Program Transmission LEM	Combine Audits	Due to Utility Operations management's focus on COVID-19, the Communications Backbone Program and Transmission LEM audits have been combined into the Utility Operations Construction Projects audit to reduce overlaps in scope and demand on Utility Operations. The scopes for both of these audits will be executed within this audit.	Q3	-2
Commercial Operations	Clean Energy Solutions Pricing	Name Change	Change to Commercial Operations Product Pricing.	Q2	0
Information Technology	Microsoft Office 365	Name Change	Change name to Microsoft 365 due to Microsoft rebrand of the Office 365 product. Office 365 is a limited set of the larger Microsoft 365 product suite. The change in audit name correctly reflects the audit scope.	Q3	0
Commercial Operations	Western NY Customer Compliance Audit (D&M)	Name, Audit Type and Scope Change	The changes to name, audit type and scope are a result of the impact of COVID-19 and the decision by management to defer compliance requirements for job and capital commitments of Economic Development power allocation customers and offer an assistance program to defer payments. Scope change is to ensure controls are in place to determine customers were offered the assistance program, an executed agreement is in place and payment deferrals are accurate, complete, and timely.	Q3	0

Appendix B – Changes to 2020 Internal Audit Plan (since March meeting)

NYPA:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Information Technology	Software License Management	Remove from Plan	Due to IT management's focus to provide work from home capabilities and continuous connectivity supporting the business as a result of COVID-19, this audit has been postponed to 2021.	N/A	-1
Utility Operations	Data Splice Post Implementation	Remove from Plan	Due to Utility Operations management's focus on COVID-19, this audit had been postponed to 2021.	N/A	-1
Human Resources & Administration	Succession Planning (NYPA and Canals)	Remove from Plan	Due to Human Resources & Administration management's focus supporting NYPA to address COVID-19 impacts to the business and undergoing process changes, this audit will be considered for the 2021 audit plan.	N/A	-1
Executive Office	Enterprise Program Management	Remove from Plan	Due to management's focus on addressing COVID-19 impacts to the business and management's initiative to develop an enterprise program office, this audit will be considered for the 2021 audit plan.	N/A	-1
Human Resources & Administration	Pension Plan Management	Remove from Plan	Due to Human Resources & Administration management's focus supporting NYPA to address COVID-19 impacts to the business and undergoing process changes, this audit will be considered for the 2021 audit plan.	N/A	-1
Utility Operations	Digital Worker	Remove from Plan	In response to COVID-19, NYPA has deferred select capital projects, including Digital Worker.	N/A	-1

Appendix B – Changes to 2020 Internal Audit Plan (since March meeting)

NYPA:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Utility Operations	Environmental Health & Safety Program (NYPA and Canals)	Remove from Plan	EH&S had contracted a third-party vendor to conduct a gap analysis to industry standards. IA was to conduct an assessment to ensure areas of deficiencies identified had remediation plans and risks were addressed. This project has been put on hold until further notice and consequently removed from the audit plan.	N/A	-1
Commercial Operations	Customer Credit (Customer Financing)	Remove from Plan	Due to Commercial Operations management's focus on addressing COVID-19 impacts to the business and undergoing process changes, this audit will be considered for the 2021 audit plan.	N/A	-1
Commercial Operations	Customer Digital Experience (CDEx)	Remove from Plan	CDEx is primarily supported by consultants who were put on hold due to COVID-19. Internal resources will not be able to support the project.	N/A	-1

Appendix B – Changes to 2020 Internal Audit Plan (since March meeting)

CANALS:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Administrative Services	Canals Vendor Management	Remove from Plan	Several capital and O&M projects have been put on hold due to stricter cost containment efforts as a result of COVID-19. Consequently, the Canals Vendor Management audit project is lower priority and will be considered for the 2021 audit plan.	N/A	-1
Technical Services	Canals Maximo System Implementation	Remove from Plan	Capital budget updates from COVID-19 response activities has resulted with the Canals Maximo System Implementation efforts to start in Q4 2020. Postpone audit work to 2021.	N/A	-1

Appendix C - Metric Definitions

Operational Excellence	
Audit Plan Percentage Complete	Measures effectiveness at completing the audit plan.
Audit Deliverables have Opinions	Measures the level of opinions provided to management.
Fieldwork to Report Issuance	Measures time to issue an audit report from the end of fieldwork.
Audit Utilization Rate	Measures the percentage of time staff charge to audit work (audit projects, remediation follow-up, risk assessment, client support).
IA Average Project Cycle Time (Excludes Ongoing Projects)	Measures audit cycle from Audit Start to Report Issuance.

Value and Impact	
Percentage of High-Risk Observations Identified	Measures valuable insights for high-risk areas provided to management.
Percentage of High-Risk Observations Implemented	Measures closure of high-risk observations by year.
Percentage of All Observations Implemented by Due Date	Measures timeliness of closing open observations either by original due date or extended due date.
Percentage of Observations Extended and Subsequently Implemented	Measures the timeliness of closing extended observations.



**NY Power
Authority**

**Canal
Corporation**



July 16, 2020

AUDIT COMMITTEE CHARTER

A. PURPOSE

The Audit Committee (“Committee”) oversees the work of the Internal Audit Department and monitors all internal audits and external audits performed by the Independent Auditor and other external agencies as well as management’s corrective action and implementation plans to all audit findings.

The responsibilities of the Committee are to: recommend to the Board of Trustees the hiring of a certified independent accounting firm for the New York Power Authority (“Authority”), establish the compensation to be paid to the accounting firm and provide direct oversight of the performance of the independent audit conducted by the accounting firm hired for such purposes, provide direct oversight of the Internal Audit Department, and perform such other responsibilities as the Trustees may assign it.

B. MEMBERSHIP AND ORGANIZATION

(1) Committee Composition

The Committee will be comprised of at least three independent members of the Board of Trustees, who possess the necessary skills to understand the duties and functions of the Committee and be familiar with corporate finance and accounting. Committee members and the Committee Chair will be selected by a vote of the Board of Trustees.

Committee members are prohibited from being an employee of the Authority or an immediate family member of an employee of the Authority. In addition, Committee members shall not engage in any private business transactions with the Authority or receive compensation from any private entity that has material business relationships with the Authority, or be an immediate family member of an individual that engages in private business transactions with the Authority or receives compensation from an entity that has material business relationships with the Authority.

(2) Term

Committee members will serve for a period of five years subject to their term of office under Public Authorities Law § 1003. Committee members may be re-elected to serve for additional periods of five years subject to their term of office. A Committee member may resign his or her position on the Committee while continuing to serve as a Trustee. In the event of a vacancy on the Committee due to death, resignation or otherwise, a successor will be selected to serve in the manner and for the term described above.

(3) Removal

A Committee member may be removed if he or she is removed as Trustee for cause, subject to Public Authorities Law § 2827, or is no longer eligible to serve as a Committee member.

(4) Meetings and Quorum

The quorum of the Committee is a majority of the number of regular Committee members selected by the Board of Trustees.

A majority vote of all Committee members present is required to take action on a matter. The Committee shall hold regularly scheduled meetings at least three times per year. A Committee member may call a special meeting of the Committee individually, or upon the request of the Authority's President and Chief Executive Officer ("CEO"), Executive Vice President and Chief Operating Officer ("COO"), Executive Vice President and General Counsel ("GC"), Executive Vice President and Chief Financial Officer ("CFO"), Chief Risk Officer ("CRO"), Controller, or Chief Audit Executive of the Internal Audit Department ("CAE"). The notice of meeting need not state the purpose for which the meeting has been called. In order to transact business, a quorum must be present.

In addition, the Committee: (1) will meet at least twice a year with the CAE for the purpose of reviewing audit activities, audit findings, management's response, remediation action plans, and providing the CAE with an opportunity to discuss items and topics of relevance with the Committee; (2) will meet at least twice a year with the Authority's independent auditors to discuss the audit work plans, objectives, results and recommendations; and (3) may meet independently with the Authority's CEO, COO, GC, CFO, CRO, Controller, or CAE on matters or issues and items within the Committee's purview as it deems necessary. These meetings may be held as part of a regular or special meeting at the Committee's discretion.

An agenda will be prepared and distributed to each Committee member prior to each meeting and minutes of each meeting will be prepared in accordance with the New York Open Meetings Law. Minutes of the meeting should include, at a minimum:

- a. Date; location; time meeting was called to order and adjourned; and if other Board committee (e.g., Finance Committee) is meeting simultaneously.
- b. Title and name of attendees; public comments period; title and name of public speakers.
- c. Approval of the official proceedings of the previous month's Committee meeting.
- d. Pre-Approval of audit and non-auditing services as appropriate, all auditing services and non-audit services to be performed by independent auditors will be presented to and pre-approved by the Committee:
 1. External Audit Approach Plans: Independent auditor presents approach/service plan, which is to be submitted to the Committee electronically;
 2. Internal Audit Activity Report: CAE provides overview of Internal Audit activities; and
 3. Risk Management: CRO provides an overview of Risk Management activities.
- e. Follow-up items including communications to the Committee of the current status of selected open issues, concerns, or matters previously brought to the Committee's attention or requested by the Committee.

- f. Status of audit activities, as appropriate; representatives of the certified independent accounting firm or agency management will discuss with the Committee significant audit findings/issues, the status of on-going audits, and the actions taken by agency management to implement audit recommendations.
- g. Copies of handouts or materials presented to the Committee.

Any meeting of the Committee may be conducted by video conferencing. To the extent permitted by law, the Committee may hold meetings or portions of meetings in executive session.

C. FUNCTIONS AND POWERS

The Committee has the following responsibilities:

(1) General Powers

The Committee may call upon the resources of the Authority to assist the Committee in the discharge of its oversight functions. Such assistance may include the assignment of Authority staff and the retention of external advisors subject to the requirements of the Public Authorities Law and the Authority's Expenditure Authorization Procedures. The Committee may communicate directly with the CEO.

The Committee may direct any Authority employee to make oral or written reports to the Committee on issues and items within the Committee's purview.

The Committee may direct the Authority's internal auditors to conduct special audits of items and issues of concern to the Committee.

(2) Accounting, Financial Reporting, and Oversight of Independent Accountants and Controller

The Committee will seek to enhance the integrity, quality, reliability, and accuracy of the Authority's financial statements and notes, and will oversee the relationship with the Authority's independent accountants. To accomplish these objectives, the Committee will:

- a. Provide advice to the Trustees on the selection, engagement, compensation, evaluation, and discharge of the independent accountants.
- b. Review and discuss as necessary the Authority's financial statements including any material changes in accounting principles and practices with the independent accountants, the Controller, or members of Authority management.
- c. Review and approve the Authority's annual audited financial statements (including the independent accountants' associated management letter).
- d. Oversee the establishment of procedures for the effective receipt and treatment of (i) complaints regarding auditing, internal auditing, and accounting matters, and (ii) the confidential submission of concerns raised by whistleblowers and other persons regarding accounting or auditing practices.

- e. Review at least annually the scope, objectives, and results of the independent auditors' examination of the annual financial statements and notes, and report to the Trustees on the Committee's findings.
- f. Assure the independence of the independent accountants by approving any non-audit work by them for the Authority and examining the independent auditor's relationship with the Authority.
- g. Report to the Trustees on any matters relevant to the audit process or independent accountant communications and make such recommendations as the Committee deems appropriate.

(3) Risk Management, Internal Controls and Oversight of the Internal Audit Department

The Committee will seek to enhance the Authority's risk management infrastructure and ensure timely and effective identification and mitigation of critical business risks. To accomplish these objectives, the Committee will:

- a. Have authority over appointment, dismissal, compensation, and performance reviews of the CAE. The CAE will report directly to the Committee.
- b. Review the charter, activities, staffing and organizational structure of the Internal Audit Department with management and the CAE.
- c. Ensure that the Internal Audit Department is organizationally independent from Authority operations.
- d. Provide oversight of the Internal Audit Department and its resources and activities to facilitate the Internal Audit Department's improvement of internal controls.
- e. Review Internal Audit reports and recommendations of the CAE. This review will include a discussion of significant risks reported in the Internal Audit reports, and an assessment of the responsiveness and timeliness of management's follow-up activities pertaining to the same.
- f. Require the CAE to attend any meeting of the Committee and to prepare and deliver such reports as the Committee requests.
- g. Provide guidance to the Authority's CRO and enterprise risk management program on critical business objectives, risks and philosophy and tolerance for risk mitigation, and establish requirements for the CRO to report to the Committee.
- h. Report at least annually to the Board of Trustees on matters relating to the internal audit function and the enterprise risk management program and make such recommendations as the Committee deems appropriate.
- i. Present periodic reporting to the Board on how the Committee has discharged its duties and met its responsibilities, and regularly report activities, issues, and recommendations.
- j. Review the Committee's charter annually, reassess its adequacy, and recommend any proposed changes to the Board.

- k. Conduct an annual self-evaluation of performance, including its effectiveness and compliance with the charter.

Standards Conformance

- l. Inquire of the CAE about steps taken to ensure that the internal audit activity conforms with the IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- m. Ensure that the internal audit activity has a quality assurance and improvement program and that the results of these periodic assessments are presented to the Audit Committee.
- n. Ensure that the internal audit activity has an external quality assurance review every five years.
- o. Review the results of the independent external quality assurance review and monitor the implementation of the internal audit activity's action plans to address any recommendations.
- p. Advise the Board about any recommendations for the continuous improvement of the internal audit activity.

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Exhibit 5b-B

NEW YORK STATE CANAL CORPORATION **AUDIT COMMITTEE CHARTER**

A. PURPOSE

The Audit Committee (“Committee”) oversees the work of the Internal Audit Department and monitors all internal audits and external audits performed by the Independent Auditor and other external agencies as well as management’s corrective action and implementation plans to all audit findings.

The responsibilities of the Committee are to: recommend to the Board the hiring of a certified independent accounting firm for the New York State Canal Corporation (“Corporation”), establish the compensation to be paid to the accounting firm and provide direct oversight of the performance of the independent audit conducted by the accounting firm hired for such purposes, provide direct oversight of the Internal Audit Department, and perform such other responsibilities as the Board may assign it.

B. MEMBERSHIP AND ORGANIZATION

(1) Committee Composition

The Committee will be comprised of at least three independent members of the Board, who possess the necessary skills to understand the duties and functions of the Committee and be familiar with corporate finance and accounting. Committee members and the Committee Chair will be selected by a vote of the Board.

Committee members are prohibited from being an employee of the Corporation or an immediate family member of an employee of the Corporation. In addition, Committee members shall not engage in any private business transactions with the Corporation or receive compensation from any private entity that has material business relationships with the Corporation, or be an immediate family member of an individual that engages in private business transactions with the Corporation or receives compensation from an entity that has material business relationships with the Corporation.

(2) Term

Committee members will serve for a period of five years subject to their term of office under Public Authorities Law § 1003. Committee members may be reelected to serve for additional periods of five years subject to their term of office. A Committee member may resign his or her position on the Committee while continuing to serve as a member of the Board. In the event of a vacancy on the Committee due to death, resignation or otherwise, a successor will be selected to serve in the manner and for the term described above.



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(3) Removal

A Committee member may be removed if he or she is removed as a member of the Board for cause, subject to Public Authorities Law § 2827, or is no longer eligible to serve as a Committee member.

(4) Meetings and Quorum

The quorum of the Committee is a majority of the number of Committee members selected by the Board.

A majority vote of all Committee members present is required to take action on a matter.

The Committee shall hold regularly scheduled meetings at least twice per year. A Committee member may call a special meeting of the Committee individually, or upon the request of the Corporation's President and Chief Executive Officer ("CEO"), Executive Vice President and Chief Operating Officer ("COO"), Executive Vice President and General Counsel ("GC"), Executive Vice President and Chief Financial Officer ("CFO"), Chief Risk Officer ("CRO"), Controller, or Chief Audit Executive of the Internal Audit Department ("CAE"). The notice of meeting need not state the purpose for which the meeting has been called. In order to transact business, a quorum must be present.

In addition, the Committee: (1) will meet at least twice a year with the CAE for the purpose of reviewing audit activities, audit findings, management's response, remediation action plans, and providing the CAE with an opportunity to discuss items and topics of relevance with the Committee; (2) will meet at least twice a year with the Corporation's independent auditors to discuss the audit work plans, objectives, results and recommendations; and (3) may meet independently with the Corporation's CEO, COO, GC, CFO, CRO, Controller, or CAE on matters or issues and items within the Committee's purview as it deems necessary. These meetings may be held as part of a regular or special meeting at the Committee's discretion.

An agenda will be prepared and distributed to each Committee member prior to each meeting and minutes of each meeting will be prepared in accordance with the New York Open Meetings Law. Minutes of the meeting should include, at a minimum:

- a. Date; location; time meeting was called to order and adjourned; and if other Board committee (e.g., Finance Committee) is meeting simultaneously.
- b. Title and name of attendees; public comments period; title and name of public speakers.
- c. Approval of the official proceedings of the previous month's Committee meeting.
- d. Pre-Approval of audit and non-auditing services as appropriate, all auditing services and non-audit services to be performed by independent auditors will be presented to and pre-approved by the Committee:
 1. External Audit Approach Plans: Independent auditor presents approach/service plan, which is to be submitted to the Committee electronically;

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2. Internal Audit Activity Report: CAE provides overview of Internal Audit activities; and
 3. Risk Management: CRO provides an overview of Risk Management activities.
- e. Follow-up items including communications to the Committee of the current status of selected open issues, concerns, or matters previously brought to the Committee's attention or requested by the Committee.
 - f. Status of audit activities, as appropriate; representatives of the certified independent accounting firm or Corporation management will discuss with the Committee significant audit findings/issues, the status of on-going audits, and the actions taken by Corporation management to implement audit recommendations.
 - g. Copies of handouts or materials presented to the Committee.

Any meeting of the Committee may be conducted by video conferencing. To the extent permitted by law, the Committee may hold meetings or portions of meetings in executive session.

C. FUNCTIONS AND POWERS

The Committee has the following responsibilities:

(1) General Powers

The Committee may call upon the resources of the Corporation to assist the Committee in the discharge of its oversight functions. Such assistance may include the assignment of Corporation staff and the retention of external advisors subject to the requirements of the Public Authorities Law and the Corporation's Expenditure Authorization Procedures. The Committee may communicate directly with the CEO.

The Committee may direct any Corporation employee to make oral or written reports to the Committee on issues and items within the Committee's purview.

The Committee may direct the Corporation's internal auditors to conduct special audits of items and issues of concern to the Committee.

(2) Accounting, Financial Reporting, and Oversight of Independent Accountants and Controller

The Committee will seek to enhance the integrity, quality, reliability, and accuracy of the Corporation's financial statements and notes, and will oversee the relationship with the Corporation's independent accountants. To accomplish these objectives, the Committee will:

- a. Provide advice to the Board on the selection, engagement, compensation, evaluation, and discharge of the independent accountants.

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- b. Review and discuss as necessary the Corporation's financial statements including any material changes in accounting principles and practices with the independent accountants, the Controller, or members of Corporation management.
- c. Review and approve the Corporation's annual audited financial statements (including the independent accountants' associated management letter).
- d. Oversee the establishment of procedures for the effective receipt and treatment of (i) complaints regarding auditing, internal auditing, and accounting matters, and (ii) the confidential submission of concerns raised by whistleblowers and other persons regarding accounting or auditing practices.
- e. Review at least annually the scope, objectives, and results of the independent auditors' examination of the annual financial statements and accompanying notes, and report to the Board on the Committee's findings.
- f. Assure the independence of the independent accountants by approving any non-audit work by them for the Corporation and examining the independent auditor's relationship with the Corporation.
- g. Report to the Board on any matters relevant to the audit process or independent accountant communications and make such recommendations as the Committee deems appropriate.

(3) Risk Management, Internal Controls and Oversight of the Internal Audit Department

The Committee will seek to enhance the Corporation's risk management infrastructure and ensure timely and effective identification and mitigation of critical business risks. To accomplish these objectives, the Committee will:

- a. Have authority over appointment, dismissal, compensation, and performance reviews of the CAE. The CAE will report directly to the Committee.
- b. Review the charter, activities, staffing and organizational structure of the Internal Audit Department with Corporation management and the CAE.
- c. Ensure that the Internal Audit Department is organizationally independent from Corporation operations.
- d. Provide oversight of the Internal Audit Department and its resources and activities to facilitate the Internal Audit Department's improvement of internal controls.
- e. Review Internal Audit reports and recommendations of the CAE. This review will include a discussion of significant risks reported in the Internal Audit reports, and an assessment of the responsiveness and timeliness of management's follow-up activities pertaining to the same.



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- f. Require the CAE to attend any meeting of the Committee and to prepare and deliver such reports as the Committee requests.
- g. Provide guidance to the Corporation's CRO and enterprise risk management program on critical business objectives, risks and philosophy and tolerance for risk mitigation, and establish requirements for the CRO to report to the Committee.
- h. Report at least annually to the Board on matters relating to the internal audit function and the enterprise risk management program and make such recommendations as the Committee deems appropriate.
- i. Present periodic reporting to the Board on how the Committee has discharged its duties and met its responsibilities, and regularly report activities, issues and recommendations.
- j. Review the Committee's charter annually, reassess its adequacy, and recommend any proposed changes to the Board.
- k. Conduct an annual self-evaluation of performance, including its effectiveness and compliance with the charter.

Standards Conformance

- l. Inquire of the CAE about steps taken to ensure that the internal audit activity conforms with the IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- m. Ensure that the internal audit activity has a quality assurance and improvement program and that the results of these periodic assessments are presented to the Audit Committee.
- n. Ensure that the internal audit activity has an external quality assurance review every five years.
- o. Review the results of the independent external quality assurance review and monitor the implementation of the internal audit activity's action plans to address any recommendations.
- p. Advise the Board about any recommendations for the continuous improvement of the internal audit activity.

Internal Audit Charter

Note: Revision # should be listed in descending order starting with most recent version at the top.

Revision Date(For BCG Use Only)	Revision #	Description/Modification	Revision Section (s)	Author
6/9/2020	2	Update to Charter to align with the Institute of Internal Auditors International Professional Practices Framework (IPPF)	Various Sections	Angela Gonzalez SVP Internal Audit
10/5/2018	1	Update to Charter	Various Sections	Angela Gonzalez SVP Internal Audit
12/17/2015	0	Creation of Charter This Charter replaces the Internal Audit Program Company Policy 5-1. There were 5 prior versions of the previous policy	N/A	Jennifer Faulkner SVP of Internal Audit

PURPOSE

Purpose

The mission of the Internal Audit (IA) function is to provide independent, objective audit and advisory services designed to add value, manage risks, and improve NYPA and Canal Corporation (NYPA and Canals) operations. IA helps the organization accomplish its objectives by bringing a systemic and disciplined approach to evaluating and improving the effectiveness of NYPA and Canals governance, risk management, and internal controls. This includes processes designed to evaluate the effectiveness and efficiency of operations, ability to execute on strategic initiatives, reliability of financial reporting, and compliance with applicable laws and regulations.

Standards for the Professional Practice of Internal Auditing

IA will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Executive (CAE) will report periodically to senior management and the Audit Committee of the Board of Trustees (Audit Committee) regarding the IA department's conformance to the Code of Ethics and the Standards.

Authority

The CAE will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Executive Vice President & General Counsel. To establish, maintain, and assure that NYPA and Canals' IA department has sufficient authority to fulfill its duties, the Audit Committee will:

- Approve the IA department's charter.
- Approve the risk-based IA plan.
- Approve the IA department's budget and resource plan.
- Receive communications from the CAE on the IA department's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the CAE.
- Approve the remuneration of the CAE.
- Make appropriate inquiries of management and the CAE to determine whether there is inappropriate scope or resource limitations.

The CAE will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including private meetings without management present. The CAE will also have access to the Executive Management Committee (EMC).

The Audit Committee authorizes the IA department to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary NYPA and Canals personnel, as well as other specialized services from within or outside NYPA and Canals, to complete the engagement.

Responsibilities

The CAE has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in NYPA and Canals' business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement observations and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the IA department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the IA charter.
- Ensure trends and emerging issues that could impact NYPA and Canals are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the IA department.
- Ensure adherence to NYPA and Canals' relevant policies and procedures, unless such policies and procedures conflict with the IA charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Ensure conformance of the IA department with the IIA Standards (Standards), with the following qualifications:
 - If the IA department is prohibited by law or regulation from conformance with certain parts of the Standards, the CAE will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.

- If the Standards are used in conjunction with requirements issued by other authoritative bodies, the CAE will ensure that the IA department conforms with the Standards, even if the IA department also conforms with the more restrictive requirements of other authoritative bodies.

INDEPENDENCE AND OBJECTIVITY

Independence and Objectivity

The CAE will ensure that the IA department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CAE determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased approach that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for NYPA and Canals or their affiliates.
- Initiating or approving transactions external to the IA department.
- Directing the activities of any NYPA and Canals employee not employed by the IA department, except to the extent that such employees have been appropriately assigned to audit teams or to otherwise assist internal auditors.

Where the CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process under examination.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest or undue influence with their own interests or by others in forming judgments.

The CAE will confirm to the Audit Committee, at least annually, the organizational independence of the IA department.

The CAE will disclose to the Audit Committee any interference or undue influence and their related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for NYPA and Canals. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of NYPA and Canals' strategic objectives are appropriately identified and managed.
- The actions of NYPA and Canals' officers, directors, employees, contingent workers and contractors are in compliance with NYPA and Canals' policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact NYPA and Canals.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.
- Collaboration occurs among IA, Enterprise Risk Management and the Ethics and Compliance Office to report significant risk exposures and control issues, including fraud risks and governance issues.

The CAE also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The IA department may perform advisory and related client service activities, the nature and scope of which will be agreed upon with the client, provided the IA department does not assume management responsibility.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

IA will maintain a Quality Assurance and Improvement Program that covers all aspects of the IA function. The program will include an evaluation of the IA department's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the IA department and identify opportunities for improvement.

The CAE will communicate to senior management and the Audit Committee on the IA department's Quality Assurance and Improvement Program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside NYPA and Canals.

MANAGING THE INTERNAL AUDIT FUNCTION

The CAE is delegated the authority and discretion to perform audit and advisory services and to oversee the IA function. The CAE will promote a strong control environment and emulate appropriate "tone at the top." The CAE will also be responsible for maintaining a

professional IA department which possess sufficient knowledge, skills, experience, and professional qualifications to meet the requirements of the IA charter.

In addition, the CAE will be responsible for overseeing the following aspects of the IA function:

- Developing and overseeing the execution of IA work programs which should address the appropriate scope and techniques required to achieve the audit objectives.
- Overseeing the development of work papers that meet the quality standards required by management and are consistent with audit professional standards.
- Coordinating alignment with other risk management and compliance functions.
- Serving as a business partner to proactively identify risks and support execution of NYPA and Canals strategies.
- Maintaining updated job descriptions, roles, and competencies for each staff level and updating the organizational chart as necessary.
- Periodically reviewing critical hiring and recruiting needs as well as competency gaps.
- Developing staff with skills that can be transferred to other areas of the business.
- Aligning to professional standards and serving as a training and talent development organization within NYPA and Canals.
- Effectively onboarding IA new hires and providing core training materials as well as ongoing training and development that correlates to competency and career planning.
- Developing and deploying effective methodologies to execute the function's mandate.
- Assessing and identifying appropriate technologies required to support the function and add value to NYPA and Canals.

NATURE OF WORK

IA will develop an annual audit plan based on the prioritization of the audit universe, an appropriate risk-based methodology, and input from management and the Audit Committee. The established audit universe defines the auditable entities and risks that IA will monitor and mitigate. These elements will include operational, financial, compliance and strategic risk, as well as information technology. IA will generally perform three categories of IA activities:

- **Audits** – IA will provide independent assurance activities of the performance of NYPA and Canals governance, risk management and control processes.
- **Assessments** – IA will provide independent assessment activities focused on process improvement opportunities, risk identification and mitigation within new processes and initiatives.
- **Advisory** – IA will provide various consulting activities in either documented form or real-time feedback applied to new processes, initiatives, or other identified management requests. IA is considered a partner and trusted advisor in these efforts.

ENGAGEMENT PLANNING AND AUDIT PERFORMANCE

IA will perform an annual risk assessment to create an Internal Audit plan. As part of the risk assessment, IA will consider feedback from management at various levels, emerging risks, strategic objectives, prior years' internal audit results, and significant upcoming

industry and organizational changes, among others, to understand risks faced by NYPA and Canals. In addition to the development and execution of the Internal Audit plan, IA will be responsible for budget and resource allocation, managing personnel assigned to projects, scope determination, and communication protocols with management for each of its projects.

IA will execute the annual audit plan, including as appropriate, any special projects requested by the Audit Committee, the CEO and/or applicable members of management. As part of audit execution, IA will be responsible for:

- Establishing end-to-end audit timelines including ongoing risk monitoring activities, planning, and fieldwork, required status meetings and reporting.
- Establishing an understanding with the business regarding audit objectives, scope, timelines, and reporting of observations and recommendations.
- Using all records, personnel, and physical properties within NYPA and Canals in an ethical manner, and in accordance with NYPA and Canals policies and procedures, to avoid undue interruption of normal operations.
- Taking responsibility for employee privacy and confidentiality of information obtained during audit projects.

COMMUNICATING RESULTS

The CAE will report periodically to senior management and the Audit Committee regarding:

- The IA department's purpose, authority, and responsibility.
- The IA department's plan and performance relative to its plan.
- The IA department's conformance with the IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to NYPA and Canals.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

IA will review IA reports and communicate all observations with appropriate management in a manner that will allow management to assess the adequacy of internal controls and understand remediation factors that should take place. All observations will be agreed upon with management prior to report issuance. In addition, IA will execute a report rating process whereby observations and reports will be rated against a scale of pre-defined criteria. Observations will be rated on a scale of High, Medium, and Low, and reports will be evaluated as Good, Satisfactory, Needs Improvement and Unsatisfactory. Ratings will be relative to the individual observation, risk categories, or risks to NYPA and Canals and may consider materiality or potential impact.

IA will provide reasonable and appropriate recommendations for corrective action plans (i.e., management action plans and/or management recommendations) which management will agree to and provide IA with an action owner and timeline by which remediation is

expected.

MONITORING PROCESS

Management action plans will be monitored on a monthly basis. Any recommended action that, in the judgment of IA, does not receive adequate attention will be escalated to an appropriate level of management for resolution. The escalation process may involve successive levels of management and may include the EMC, the CEO, and the Audit Committee in the event a high rated observation is not timely or satisfactorily resolved. Management of the audited organization shall be notified of the intent to escalate a particular issue and will be encouraged to participate in its resolution.

Approval/Signatures

Angela Gonzalez

6/8/2020

Chief Audit Executive

Date

Board/Audit Committee Chair

Date

Chief Executive Officer

Date