

**MINUTES OF THE REGULAR MEETING
OF THE
AUDIT COMMITTEE**

December 11, 2014

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December 11, 2014

Minutes of the regular meeting of the New York Power Authority's Audit Committee held via video conference at the following participating locations, at approximately 10:00 a.m.:

New York Power Authority, 123 Main Street, White Plains, NY
New York Power Authority, 95 Perry St., Suite 401, Buffalo, NY

The following Members of the Audit Committee were present:

Trustee Eugene Nicandri, Chairperson
Trustee Jonathan Foster

Member, Trustee Terrance Flynn – excused from the meeting

Also in attendance were:

Justin Driscoll	Executive Vice President and General Counsel
Robert Lurie	Executive Vice President and Chief Financial Officer
Karen Delince	Corporate Secretary
Brian McElroy	Treasurer
Thomas Concadoro	Vice President and Controller
Joseph Gryzlo	Vice President and Chief Ethics & Compliance Officer
Lorna Johnson	Associate Corporate Secretary
Sheila Baughman	Assistant Corporate Secretary
Peter Prunty	Director – Infrastructure
Greg Jablonsky	Manager – Network Services
Glen Martinez	Senior Network Analyst
Anna Levine	Executive Director, Advisory Services – Ernst & Young
Lynne Coviello	Senior Manager, Advisory Services – Ernst & Young
Todd Fowler	Lead Engagement Audit Partner – KPMG
Nicholas DiVirgilio	Lead Engagement Audit Manager – KPMG

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

Introduction

Chairman Nicandri welcomed committee member, Trustee Jonathan Foster, senior staff and outside consultants 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

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

2. **CONSENT AGENDA**

Upon motion made and seconded the Consent Agenda was approved.

a. **Approval of the Minutes**

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting held on July 29, 2014 were approved.

DISCUSSION AGENDA

3. Presentation of Audit Plan

Mr. Todd Fowler, KPMG's Audit Engagement Partner, presented the Audit Plan for the Authority's 2014 financial statements to the Committee (Exhibit "3-A"). He said the Audit Plan is consistent with the proposal that was previously submitted to the Committee. He outlined the client service team for the engagement, pointing out that, in keeping with the requirements of the Request for Proposal ("RFP"), KPMG has engaged Minority-Owned and Women-Owned Business firms as part of the team. Mr. Fowler then provided an overview of the objective of the audit; the risk assessment based on the significant risks identified relative to the Authority's financial statements; and the Audit Plan. He said, to date, KPMG has completed a significant amount of its interim internal control testing as well as the interim standard audit procedures. He ended by saying that at this time there were no issues from the audit that require the Committee's attention. KPMG will continue its testing in January and February and report to the Committee in March.

In response to a question from Trustee Foster, Mr. Fowler said he discussed the Audit Plan with Mr. Lurie prior to the meeting. In response to a question from Chairman Nicandri, Mr. Lurie said no concerns were raised during the discussions and all comments from the discussions have been incorporated into the Audit Plan.

4. **Internal Audit Update**

Audit Activity Update

Ms. Anna Devine, Ernst & Young's ("EY") Executive Director of Advisory Services, provided an update of the Internal Audit Activity to the Committee (Exhibit "4-A"). She said during the audits EY received full cooperation from Authority staff and this was helpful in moving forward with the 2014 Audit Plan as well as the Risk Assessment process. She continued that, at the direction of the Committee, EY reviewed the Audit Committee Charter and will discuss their recommendations with the Authority's management and Chief Audit Executive when that position is filled. She further stated that EY also discussed "report ratings" for the individual audit reports with the Authority's Executive Management Committee ("EMC"). The EMC has accepted their recommendations; therefore, those ratings will be part of the 2015 Internal Audit Plan.

Ms. Devine also reported that there are still vacancies in the Internal Audit Department, namely, Chief Audit Executive, Audit Manager, Auditor Supervisor, and two Senior Auditors. She said the Authority's management is pursuing various ways of filling those vacancies.

In response to a question from Trustee Foster, Ms. Devine said there are currently two Audit managers and four Auditors within the Internal Audit group. EY has brought on additional resources support the accomplishment of the Plan. Ms. Coviello added that, in addition to Ms. Devine and herself, there are four core team members that work at the Authority on a daily basis, plus a variety of subject matter resources for specific audits, as needed. In response to further questioning from Trustee Foster, Ms. Devine said Ms. Coviello and herself are at the Authority at least two days per week.

Status of the 2014 Internal Audit Plan

Ms. Devine provided highlights on the status of the 2014 Internal Audit Plan. She said since their last meeting with the Board of Trustees on October 15, they have issued 5 audits and several more will be completed by December 31st. In response to a question from Trustee Foster, Ms. Devine said, as indicated in the report provided to the Committee, 22 audits will have reports issued by the end of the year; 9 will have fieldwork completed with final reports pending issuance; and 5, which were started in late November, will be carried over to January 2015 and will be completed early in the calendar year.

2015 Report Rating Process

Ms. Lynne Coviello, EY's Senior Manager of Advisory Services, provided highlights on the Report Ratings process for the 2015 Audit Plan which was presented to the Authority's Executive Management Committee and senior staff for their consideration and approval. The Plan was subsequently approved and it will also be incorporated into the Internal Audit Charter which is being revised. She said individual observations will be rated as "Low," "Moderate" or "High" and then aggregated to an overall rating of "Good," "Satisfactory," "Improvement Needed" or "Unsatisfactory." Management action plans will be based on those ratings.

2015 Risk Assessment and Proposed Internal Audit Plan

Ms. Coviello provided an overview of the Risk Assessment process and also a proposal for the Internal Audit plan for next year. In response to a question from Trustee Foster, Ms. Coviello said the Audit Plan reflects not only emerging risks and industry trends, but also rotational audits as well as areas where they are linked to the strategic objective of the organization. In response to further questioning from Trustee Foster Ms. Coviello said EY received full cooperation from staff during the interviews. In response to still further questioning from Trustee Foster, Ms. Coviello said although they are currently providing oversight to the Internal Audit department, they work closely with the Audit Managers and are in direct communication with the staff on a daily basis. The Audit Managers are also part of the risk assessment process providing feedback.

Proposed 2015 Internal Audit Plan

Ms. Coviello provided highlights of the 2015 Internal Audit Plan to the Committee. In response to a question from Chairman Nicandri, Ms. Coviello said that as part of the "Contractor Tenure" audit indicated in the proposed Plan, EY would examine management's decision-making process to use contractors versus hiring fulltime employees, as opposed to performing an analysis of the economics of using contractors versus additional employees. Mr. Lurie added that, taking into account that a number of employees are eligible for retirement, NYPA plans to undertake such an analysis, hiring long-term employees to back fill those positions as opposed to utilizing contractors, and that is high on staff's priority list for next year.

Upon motion made and seconded the Proposed Audit Plan for 2015 was approved.

The following resolution, as submitted by Ernst & Young, was unanimously approved.

RESOLVED, That pursuant to the Audit Committee Charter adopted by the Authority on February 23, 2010, the Audit Committee recommends that the proposed 2015 Internal Audit Plan be approved.

5. Risk Controls Update

Mr. Robert Lurie provided an update on the Risk Controls Work Plan. He said the Executive Management Committee is currently working with Ernst & Young on a process to improve the Authority's inventory of risks and have that inventory inform the Authority's strategic planning process during 2015. He will update the Committee on the process as it develops.

Mr. Lurie continued that the Executive Management team is also working on the organization of the various risk functions and the management of them. He said there are various places in the organization which risk controls are being managed and the Authority wants to make sure that there is a clear delineation of responsibilities and employees understand their individual responsibilities. The Authority's goal is to avoid redundancies and also ascertain there are no gaps in the coverage of its risks and controls. Ernst & Young is assisting the Authority in identifying best practices in that area and to ensure that they are applied in the most appropriate way for the benefit of the Authority. He ended by saying that staff intends to provide recommendations for the Committee's consideration at their meeting in March.

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

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

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

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

8. **Next Meeting**

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

December 11, 2014

Closing

Upon motion made and seconded, the meeting was adjourned by the Chairman at approximately 11:35 a.m.

Karen Delince
Corporate Secretary

December 11, 2014

EXHIBITS

For

December 11, 2014

Meeting Minutes



cutting through complexity

New York Power Authority Audit Plan December 31, 2014

This presentation to the Audit Committee is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

December 11, 2014

Agenda

Presentation

- 1.0 Client service team
- 2.0 Objective of an audit
- 3.0 Risk assessment
- 4.0 Audit plan

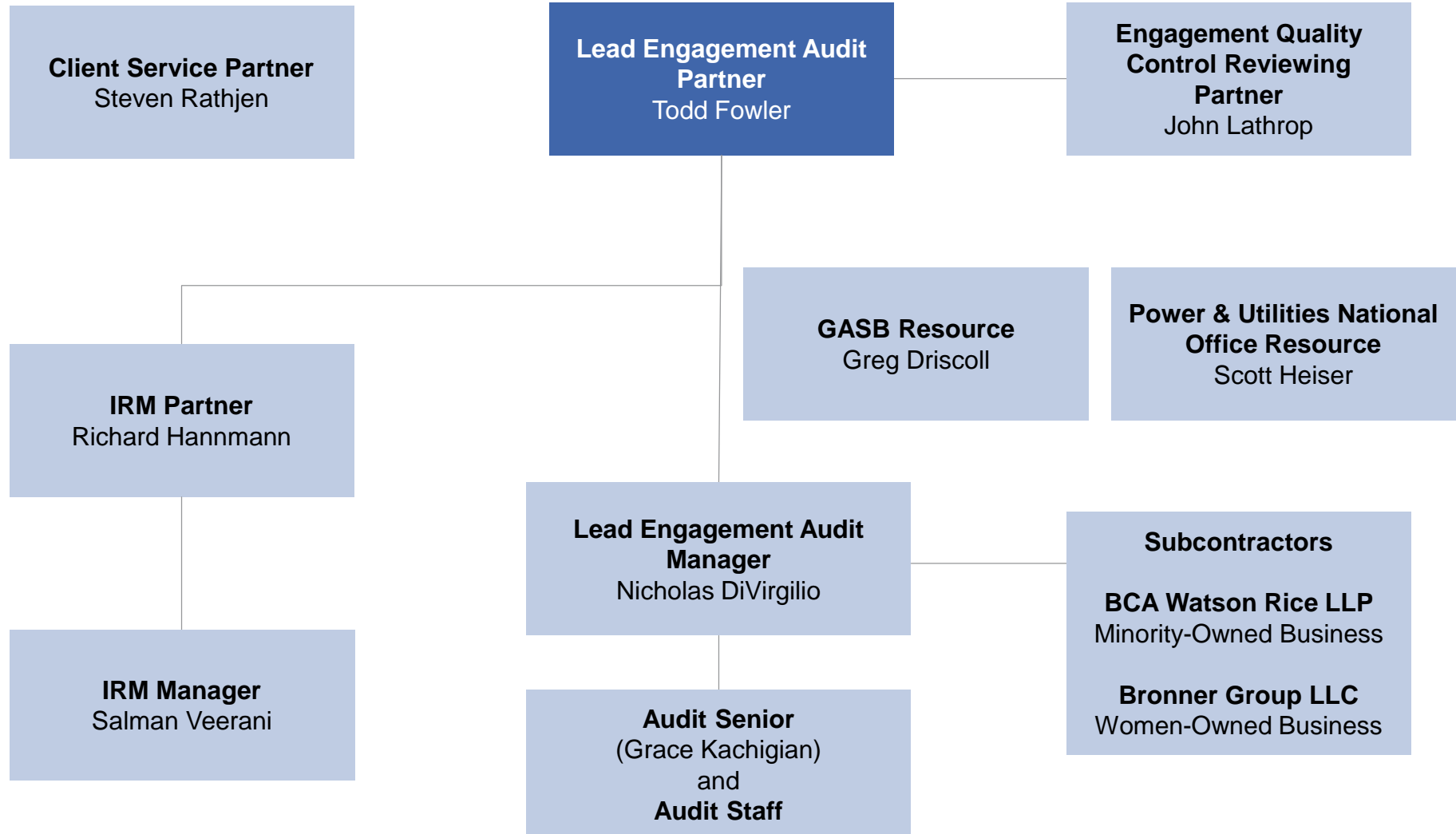
Appendices

- A.1 Responsibilities
- A.2 KPMG's audit approach and methodology
- A.3 Materiality
- A.4 Auditing and accounting matters
- A.5 Audit fees
- A.6 Independence
- A.7 KPMG's Audit Committee Institute

1.0

Client service team

Client service team



2.0

Objective of an audit

Objective and scope of the audit

- The objective of an audit of the financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP), including Government Accounting Standards, as issued by the Government Accounting Standards Board (GASB).
- We plan and perform the audit to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. Although not absolute assurance, reasonable assurance is a high level of assurance. We perform our audit in accordance with:
 - Auditing standards generally accepted in the United States of America as issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (U.S. GAAS).
 - Government Auditing Standards issued by the Comptroller of the United States.
- Our audit includes:
 - Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement, to provide a reasonable basis for our opinion.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall presentation of the financial statements.
- Reports to be issued:
 - Opinion on the financial statements of the Authority as of and for the two-year period ended December 31, 2014
 - Report on Internal Controls and Other Matters as of December 31, 2014
 - Report on Investment Compliance as of December 31, 2014

3.0

Risk assessment

Risk assessment

Based on our understanding of the entity's business, industry, and environment, the following are significant risks that may result in a material misstatement (due to fraud or error) in the financial statements and our planned audit approach in response to such risks:

Significant risk	Financial statement impact	Planned audit approach
Revenue recognition	Appropriate recognition of revenue as power is delivered.	<ul style="list-style-type: none"> • Test key internal controls over the revenue process • Confirmation of receivables and detail testing of SENY/Wholesale revenue • Agree SENY/Wholesale billed rates to the approved tariffs • Confirmation and detail testing of Revenue/Receivables with NYISO
Derivative valuation and hedge effectiveness	Appropriate valuation and disclosure of derivative contract, including appropriate conclusions regarding hedge effectiveness	<ul style="list-style-type: none"> • Test management's determination of the fair value of derivatives utilizing firm valuation specialists • Confirm open derivative contracts and key terms with counterparties • Test management's determination of hedge effectiveness utilizing firm specialists
Regulatory accounting	Appropriate assessment of the recoverability of amounts deferred	<ul style="list-style-type: none"> • Detail test additions to deferred charges/regulatory assets throughout the year • Assess the recoverability of the charges to ensure they are appropriately deferred

Risk assessment (continued)

Significant audit areas	Significant estimates	Significant unusual transactions/other items	Information technology matters
<ul style="list-style-type: none"> ■ Revenue recognition ■ Derivatives and hedging ■ Regulatory accounting ■ Long term debt ■ Capital assets ■ Investments (including Nuclear Decommissioning Trust) 	<ul style="list-style-type: none"> ■ Asset retirement obligations ■ Derivative valuations ■ Other post-employment benefits ■ Accounting for rate regulation 	<ul style="list-style-type: none"> ■ Loan to the State of New York ■ Litigation matters and inquiries with general counsel 	<ul style="list-style-type: none"> ■ General information technology environment

4.0 Audit plan

Audit plan – Deliverables and time line

October – November 2014		December 2014	January – February 2014	March 2014
<ul style="list-style-type: none"> Identify specific and pervasive financial statement fraud risks and assess the effect on the audit plan Perform risk assessment procedures and identify risks Assessment of audit risk and planning of substantive audit procedures Determine audit strategy and identify critical accounting matters Plan audit procedures Finalize planned audit approach 	<ul style="list-style-type: none"> Perform walkthroughs of internal control processes Test entity-wide and monitoring controls Evaluate design of selected key controls Test IT general controls Test operating effectiveness of selected key controls Perform interim substantive procedures Evaluation of interim results and establish plan for performance of substantive audit procedures 	<ul style="list-style-type: none"> Present 2014 Audit Plan to the Audit Committee Perform/send year-end confirmations (e.g. legal, debt, cash, investments, accounts receivable, revenue and derivatives) Inventory observation attendance 	<ul style="list-style-type: none"> Meetings with management to discuss key issues Test operating effectiveness of selected year-end controls Perform substantive procedures and tests of detail Perform procedures related to the Authority's investment compliance with the State of New York guidelines Consider if audit evidence is sufficient and appropriate Conclude on critical accounting matters and issues 	<ul style="list-style-type: none"> Confirm completion procedures Form audit conclusions Perform overall evaluation of financial statements and disclosures Present required communications to Audit Committee Form audit opinion on financial statements Report on Internal Control over Financial Reporting and Compliance on Other Matters Report on Investment Compliance Finalize all deliverables Prepare management letter comments, if applicable

Appendices

A.1

Responsibilities

Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements, including disclosures, in conformity with GAAP
- Establishing and maintaining effective internal control over financial reporting (ICFR), including programs and controls to prevent, deter, and detect fraud
- Identifying and ensuring that the Company complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations
- Making all financial records and related information available to the auditor
- Providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence
- Adjusting the financial statements to correct material misstatements
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Company's financial reporting
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud
 - Affirmation that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent, deter, and detect fraud

Management and the Audit Committee are responsible for:

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of the Audit Committee, are presented fairly, in all material respects, in conformity with GAAP
- Planning and performing the audit with an attitude of professional skepticism
- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention

A.2

**KPMG's audit approach
and methodology**

KPMG's audit approach and methodology

Technology enabled audit work flow

Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Perform overall evaluation of results and the financial statements
- Form and issue audit opinion on the financial statements
- Obtain written representations from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

- Understand your business and financial processes
- Identify significant risks
- Plan involvement of specialists and others including experts, internal auditors, service organizations, and other auditors
- Determine audit approach
- Evaluate design and implementation of your internal controls

Testing

- Test effectiveness of internal controls, as applicable
- Perform substantive tests

A.3

Materiality

Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

A.4

**Auditing and accounting
matters**

Auditing and accounting matters

Other matters for discussion with the Audit Committee include their views about:

- The appropriate person (Audit Committee Chair or full committee) for communication of audit matters during the audit
- Allocation of responsibilities between management and the Audit Committee
- Entity's objectives and strategies and related business risks
- Areas that warrant particular attention during the audit and additional procedures to be undertaken
- The nature and extent of communications expected with the Audit Committee about misappropriations perpetrated by lower-level employees
- Significant communications with the regulators
- The attitudes, awareness, and actions concerning (a) the entity's internal controls and its importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud
- The actions in response to developments in law, accounting standards, corporate governance, and other related matters
- The actions in responses to previous communications with the auditor

A.5

Audit fees

Audit fees

	2014	2013
Audit fees		
Financial statements and related notes to the financial statements		
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Accounting Standards</i>	\$279,000*	\$271,500
Investment Compliance Report		

* 2014 fees will be based on the actual number of hours incurred at the applicable hourly rates set out in our agreement. This represents the amount not to exceed for the 2014 audit.

A.6

Independence

KPMG Independence Quality Controls

KPMG maintains a comprehensive system of quality controls designed to maintain our independence

- Pre-approval of all worldwide engagements by the audit engagement team through Sentinel, a KPMG independence verification system
- Monitoring employment relationships
- Tracking partner rotation requirements using PRS, the firm's automated partner rotation tracking system
- Automated investment tracking system used by all KPMG member firms (KICS)
- Training and awareness programs
- Compliance testing programs
- Annual reporting to the Audit Committee

In our professional judgment, we are independent with respect to the Power Authority of the State of New York, as that term is defined by the professional standards.

A.7

**KPMG's Audit Committee
Institute**

KPMG's Audit Committee Institute (ACI)

In depth insights. In time to matter.

Upcoming events

- 11th Annual Audit Committee Issues Conference
 - East Coast – February 2-3, 2015, Miami, FL
 - This conference brings together audit committee members from around the country to discuss challenges, practices, and priorities shaping audit committees and board agendas.

Webcasts on demand

- [Cyber Insecurity: How Safe Can the Company's Data Assets Be?](#)
- [Revenue Recognition Industry Supplement – Power and Utilities](#)
- [CFO Financial Forum Webcast: KPMG's Quarterly Outlook for Accounting and Financial Reporting Matters – March 2014](#)

Suggested Publications (available for download at www.kpmg.com/aci)

- Directors Quarterly
- Global Boardroom Insights
- 2014 Audit Committee Priorities
- 2014 Global Audit Committee Survey

Resources

- ACI Web site: www.kpmg.com/aci
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)



cutting through complexity

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New York Power Authority *Internal Audit (IA) Update*

December 11, 2014

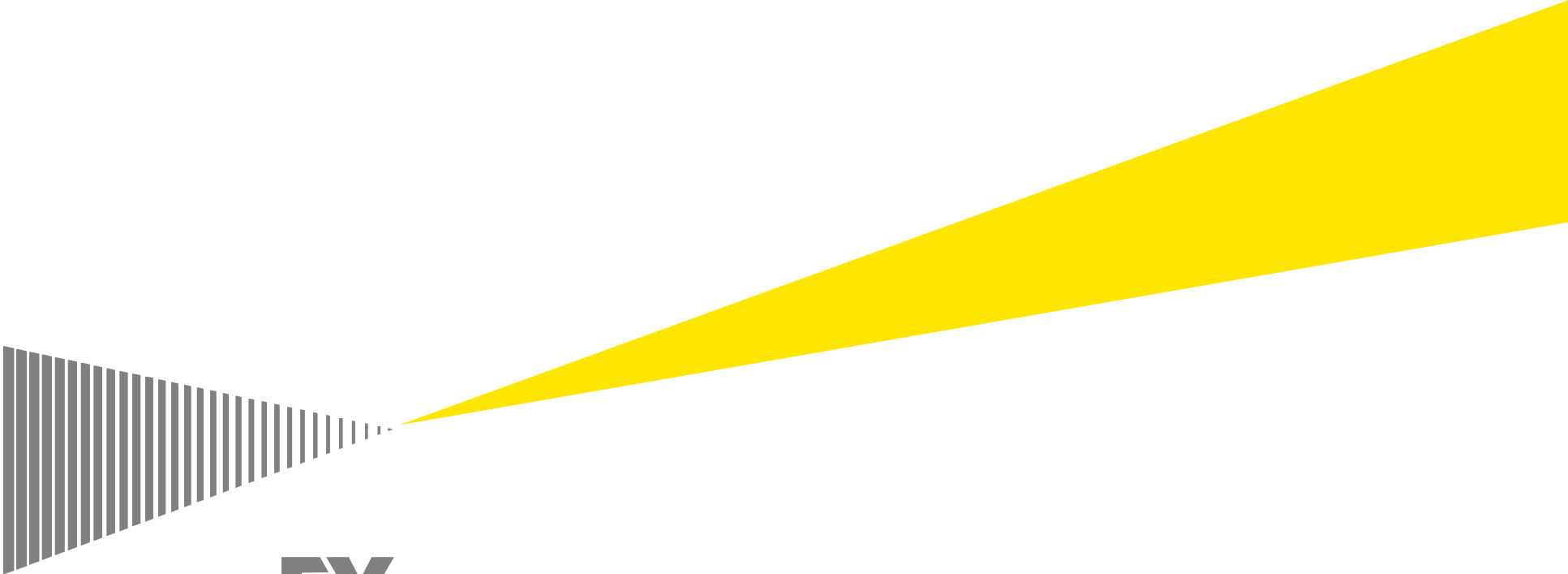


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- ▶ Executive Summary
- ▶ Status of 2014 IA Plan Execution
- ▶ 2015 Report Rating Process
- ▶ 2015 Risk Assessment and Proposed IA Plan
- ▶ Appendix A – Proposed 2015 IA Plan
- ▶ Appendix B – 2014 IA Plan

Executive Summary

- ▶ Receiving continued cooperation from NYPA Senior Staff and Department Managers with regard to the IA Teaming arrangement with EY
- ▶ Search is ongoing for CAE, Audit Manager (1), Supervisory Senior IT Auditor (1), and Senior Auditors (2) vacancies;
 - An offer has been extended for one of the Senior Auditor positions
- ▶ IA department improvements are in progress, including:
 - Report and observation rating categories and criteria were presented and agreed with the Executive Management Committee (EMC) members and will be instituted for the 2015 IA plan
 - Feedback has been developed on enhancements to the internal audit charter and suggested amendments pending review by the CAE/management and the Audit Committee prior to implementation
- ▶ The proposed 2015 IA plan has been developed and is pending discussion/approval

Status of 2014 IA Plan

- ▶ The following reflects the status of audits in the 2014 IA Plan:





Status	As of September 8 th	As of October 15 th	As of November 17 th	As of December 31 st (projected)
Report Issued	7	7	12	22
Report Pending Issuance	4	10	10	9
Fieldwork In Progress	13	9	8	5
Audit Planning	9	10	6	-
Not Started	6	2	-	-
Moved to 2015 IA Plan *	-	1	3	3
Total	39	39	39	39

Note*: NYISO Energy Settlements – Generation, Network ITGC and Load Forecasting have been postponed to 2015 due to system / process changes.

- ▶ Since the last Audit Committee Meeting on October 15, 2014, the IA Department has completed the following audits:
 - Operational Planning – Asset Investment Planning (OPR14070) - 2014
 - Purchasing/Warehousing – Niagara (FIN14950) - 2014
 - Purchasing/Warehousing – St. Lawrence (FIN14600) - 2014
 - Cash Management & Treasury Operations (FIN14120) – 2014
 - Social Media Governance (OPR14090) - 2014
- ▶ Fieldwork wrap-up and reporting for remaining 2014 audits will not impact the focus and timing of the 2015 IA Plan through adjustments to resource planning and coordination.

2015 Report Rating Process

- ▶ The report rating process was presented to the EMC and agreed upon in October 2014
- ▶ Report ratings and observation ratings will be utilized beginning with audits on the 2015 IA Plan
- ▶ Management action plans will be monitored based on ratings

Overall Report Rating	Description	Aggregation
Good 	Our procedures resulted in no significant findings related to the design of internal controls or to the proper functioning of controls as designed.	There are minimal observations which are all rated low.
Satisfactory 	Our procedures resulted in no significant findings related to the design of internal controls or to the proper functioning of controls as designed. Controls are generally functioning as intended, but some changes are necessary to make the control environment more efficient and effective.	Observations are predominantly rated low.
Improvement Needed 	Our procedures resulted in findings, some of which are significant, related to the design of internal controls and/or to the proper functioning of controls as designed. These control deficiencies should be addressed by management to further strengthen the system of internal control.	Observations are predominantly rated moderate and/or may have high-rated observations.
Unsatisfactory 	Based on our procedures performed, either the design of internal controls does not appropriately mitigate specific identified risks or numerous exceptions were noted in our testing indicating that controls were not functioning as designed. Management should take immediate action to address these findings by instituting new control procedures or modifying existing procedures.	Observations are predominantly rated moderate and/or high.

Individualized Observation Ratings	
Low	A minor weakness that when addressed will strengthen the control process and/or is of lower importance to business success/achievement of goals.
Moderate	Moderate risk of an error or incident occurring that may contribute to the non-achievement of a control objective and/or is important for business achievement of goals. Management action is required to address the identified deficiencies.
High	High risk of an error or incident occurring that may contribute to the non-achievement of a control objective and/or is a key focus for business success/achievement of goals. Immediate management action needs to be taken to address the identified deficiencies.

2015 Risk Assessment and Proposed IA Plan

Risk Assessment & IA Planning Overview

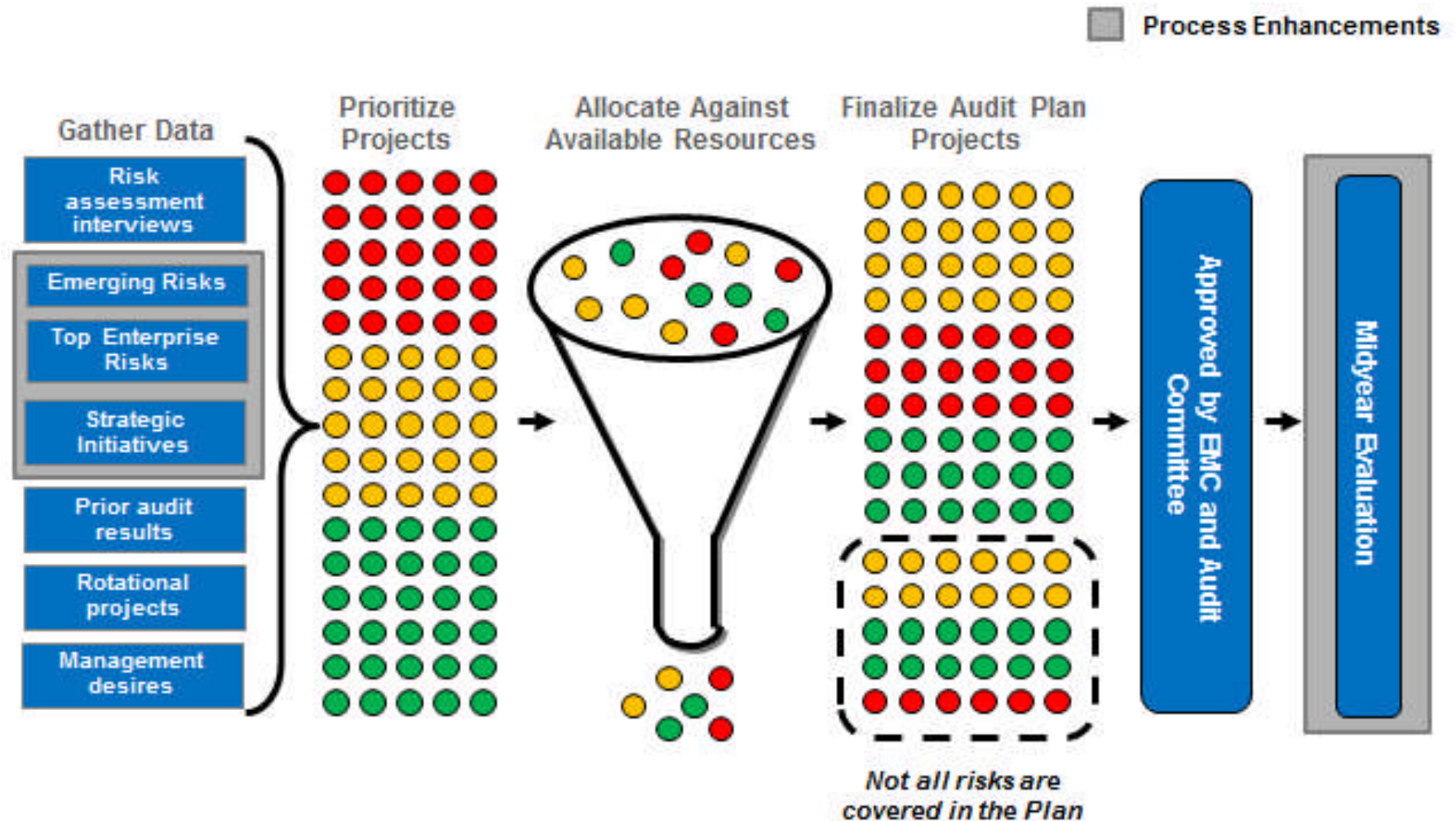
- ▶ Risk Assessment Process:
 - Interviewed 56 individuals across management and the Audit Committee
 - Obtained feedback on strategic and critical business objectives and the risks to achieving those objectives
 - Reviewed the strategic plan, emerging risks and industry trends
 - Identified and prioritized risk areas based on risk assessment criteria to develop the proposed internal audit plan

- ▶ Types of Internal Audit Projects Proposed:
 - **Audit:** Projects designed to evaluate the design and effectiveness of current processes and related control activities; generally considered a “look-back” review. Consideration will also be given to leading practices within the current processes.
 - **Consultative:** Projects designed to evaluate the design of new processes and related control activities; generally considered an assessment of future state operations. Consideration will also be given to leading practices within the new processes or initiatives.

- ▶ Risk Area Coverage:
 - **Financial Risk:** May result in a financial impact
 - **Operational Risk:** May result in an interruption to business operations
 - **Compliance Risk:** May result in compliance and/or legal issues
 - **Strategic Risk:** May impact corporate initiatives and/or reputation

2015 Risk Assessment and Proposed IA Plan

Risk Assessment & IA Planning Overview



2015 Risk Assessment and Proposed IA Plan

Key Themes for Discussion

► Summary of the proposed 2015 IA Plan (Appendix A) :

Lead Business Unit	Q1	Q2	Q3	Q4	Total
Business Services	3	4	3		10
Enterprise Shared Services	6	6		3	15
Law Department		1			1
Public & Regulatory Affairs				1	1
Operations		2		3	5
Economic Development & Efficiency		1	1		2
Total	9	14	4	7	34

Audit Type	FY15	FY14
Non-IT *	19	22
Integrated	6	5
IT	9	9
Total	34	36

Subject-Matter ("SM") Involvement	FY15	FY14
SM Led	9	9
SM Support	12	6
IA Led	13	21
Total	34	36

*Note that several of the non-IT audits will include a limited review of IT general controls, segregation of duties and access rights.

Appendix A – Proposed 2015 IA Plan

Internal Audit Plan

#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
1	Cyber Security - Maturity Assessment	Audit	Enterprise Shared Services	IT	Perform a cyber-security maturity assessment based on ES-C2M2	Q2	Subject Matter Led
2	Cyber Security - Network Discovery	Audit	Enterprise Shared Services	IT	Perform a network discovery assessment which will include but not be limited to, a logical configuration review of touch points between IT and OT and firewall rule-set review.	Q1	Subject Matter Led
3	Pre Implementation review: CIMS to Maximo Migration	Audit	Enterprise Shared Services	IT	Perform a pre implementation review of the data conversion from CIMS to Maximo and appropriateness of technical security role set up.	Q1	Internal Audit Led
4	Incident Response Plan Phase 2	Audit	Enterprise Shared Services	IT	Based on the results of the 2014 incident response internal audit report, perform a simulated attack and assess how the incident response plan is executed in practice.	Q4	Internal Audit Led
5	Access Control Repository	Audit	Enterprise Shared Services	IT	Perform a pre-implementation review of the access control repository and perform a walkthrough and testing of the new process post implementation to assess design and effectiveness of the new controls related to the new access management process	Q1	Internal Audit Led

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Internal Audit Plan

#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
6	Network ITGC	Audit	Enterprise Shared Services	IT	Test and evaluate the NYPA Network to determine if it is adequately protected from unauthorized access, use, disclosure or modifications, damage or loss using best security practices. Review, test and evaluate the controls and control procedures over the changes to network software and their testing and approval by users prior to their placement in production.	Q1	Internal Audit Led
7	Data Loss Prevention	Audit	Enterprise Shared Services	IT	Evaluate data loss prevention practices to determine whether a data classification process is in place and evaluate management's data classification scheme and capabilities to protect data across the full data lifecycle, including sharing of data with third parties.	Q2	Subject Matter Led
8	Ariba Procurement Solution	Consultative	Business Services	IT	Perform a pre-implementation review of the SAP cloud based solution for Sourcing, Contracts and Suppliers to facilitate NYPA Procurement activities.	Q3	Subject Matter Support
9	NYPA Customer Portal	Audit	Enterprise Shared Services	IT	Perform pre implementation review of the web-based NYPA customer portal to assess and evaluate the effectiveness of the controls around complete and accurate interface of the customer data including demographic, billing, payment data, and the usage data.	Q4	Subject Matter Support

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#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
10	NERC CIP 5 Collaboration	Audit	Operations	Integrated	Assist in performing a readiness assessment for NERC CIP 5 Compliance, including but not limited to, governance over asset maintenance, procedures for new asset additions and completeness and accuracy of asset classifications utilized. Assist the technical compliance group in performing Reliability Standards Compliance (RSC) Assessments internally.	Q2	Subject Matter Led
11	Asset Accounting / Maximo Post Implementation	Audit	Enterprise Shared Services	Integrated	Utilizing analytics perform an assessment of the asset management lifecycle to determine processes, procedures and controls in place from the point at which an asset is entered into Maximo, and configured for depreciation. Assess whether process and controls are operating as designed, and perform post implementation procedures of the Maximo application.	Q2	Internal Audit Led

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#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
12	IT Project Management Office ('PMO')	Audit	Enterprise Shared Services	Integrated	Evaluate the adequacy and effectiveness of project management governance controls within IT. This should include the setting and monitoring of projects against milestones throughout the project lifecycle, processes and procedures followed by IT to accept or reject capital project requests (i.e., business requirements), new system governance (i.e., who can procure a system, who must approve the procurement, when IT gets involved), communication with the business, timelines, prioritization, etc.	Q1	Subject Matter Support
13	Energy Settlements, Scheduling and Load Forecasting	Audit	Economic Developm't & Efficiency	Integrated	Assess the processes and controls related to Market Analysis & Administration groups' NYISO scheduling processes. Specifically, assess the current state processes and controls, post-implementation of the automated Scheduling Automation project. Additionally, assess the processes and controls related to the cross-functional area ISO generation, physical transaction, and financial transaction settlements processes, including but not limited to governance of the functions, organizational alignment of the functions, and the processes and controls of the respective settlements functions. In addition, assess the processes and controls related to the Market Analysis & Administration group's development of customer load forecasts. Specifically, model/tool governance, data input controls, data output controls, general IT controls.	Q2	Subject Matter Led

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#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
14	Meter to Cash	Audit	Business Services	Non-IT	Perform an end to end assessment of the meter to cash process and evaluate the design and operating effectiveness of controls as identified. This assessment will include but not be limited to the systems used throughout the billing process, data interfaces between those systems and controls in place to secure accurate billing to customers.	Q1	Subject Matter Support
15	Y49 Cables	Audit	Operations	Non-IT	Perform a review of monitoring actions in place to prevent a failure in the Y49 cables and verify the risk is adequately mitigated.	Q2	Subject Matter Support

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#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
16	Fleet Operations	Audit	Enterprise Shared Services	Non-IT	Perform an end to end assessment of fleet operations including governance over the fleet operation, usage of each type of fleet vehicle, fleet maintenance, inventory management and roles and responsibilities of fleet personnel. Verify compliance with policies and procedures and measure preparedness against the asset management system (e.g., Maximo).	Q2	Internal Audit Led
17	Contractor Tenure	Audit	Business Services	Non-IT	Assess the current process, policies and procedures in place for utilizing contractors, including but not limited to an analysis of the volume of contractors used vs. full-time employees (FTE's), the decision making process for using contractors vs. hiring FTE's, and compliance with Department of Labor requirements.	Q2	Subject Matter Support
18	Budgeting and Forecasting	Audit	Business Services	Non-IT	Review the adequacy and effectiveness of the current budgeting process for both the operating and capital budget such as who is responsible for making budgeting decisions, how departments monitor budgets throughout the year (i.e., KPI's), how items within the budgets are prioritized and approval layers in place. In addition, review the adequacy and effectiveness of operating controls associated with the long range financial plan and ongoing operating forecasts including quality control procedures and disclosure of assumptions used.	Q2	Subject Matter Support

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#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
19	Energy Efficiency Controls	Consultative	Economic Developm't & Efficiency	Non-IT	Perform a pre-implementation assessment of the new energy efficiency program initiatives to identify whether adequate business controls are in place, or control gaps are identified which need to be addressed.	Q3	Subject Matter Led
20	Construction Projects	Audit	Business Services	Non-IT	Perform a governance and controls assessment and evaluation of controls in place throughout the duration of a construction project (i.e., from initiation of the project through project completion), including project management activities.	Q2	Subject Matter Led
21	Vendor Contracts Audit	Audit	Business Services	Non-IT	For selected procurement contracts, determine that services provided by the vendor are in agreement with contract terms and conditions.	Q2	Internal Audit Led

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#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
22	Compensation & Benefits	Audit	Enterprise Shared Services	Non-IT	Evaluate the adequacy and effectiveness of internal controls throughout the benefits program and newly developed Merit program and verify compliance with policies and procedures. Perform a benchmarking assessment of benefit options offered to NYPA employees against leading practice.	Q1	Internal Audit Led
23	O&M Cross Functionality	Consultative	Operations	Non-IT	Based on the results of prior year O&M internal audit reports, perform a comparative assessment of the operations across each of the site locations. Identify potential opportunities to enhance operations at the sites and leverage cross functional functionalities.	Q4	Internal Audit Led
24	Information Management	Audit	Enterprise Shared Services	Integrated	Verify that NYPA-wide policies and procedures exist to govern the classification and storage of internal documentation (e.g., usage of LiveLink, classification of confidential, private and public data), and these policies and procedures are adhered to. Verify the legal hold process is being implemented in accordance with Law Department written directives and prior audit recommendations have been implemented.	Q2	Internal Audit Led

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#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
25	Physical Security	Audit	Operations	Non-IT	Based on prior year physical security audit results, review the current state of physical security programs including inspections/ monitoring activities, guard services, capital improvement program, etc. impacting all NYPA locations (generation, transmission including substations, headquarters, etc.). Verify compliance with established NYPA policies and procedures and NERC, and remediation of prior year observations.	Q4	Internal Audit Led
26	IT/OT Integration at Sites	Consultative	Enterprise Shared Services	Integrated	Perform an assessment to understand how the IT/OT integration efforts have affected site operations. Understand how roles and responsibilities should be operating at the sites under the new model, verify they are operating as intended, and verify controls that have shifted ownership due to the change, are operating as intended.	Q2	Subject Matter Support
27	Strategic Plan Governance and Execution	Consultative	Business Services	Non-IT	Evaluate the adequacy and effectiveness of project management governance controls as it relates to the strategic initiatives, including the corporate communication strategy for the strategic initiatives (i.e., has communication has been effectively received by management), setting and monitoring of projects against milestones throughout the project lifecycle and appropriateness of metrics established at the enterprise, corporate and strategic levels.	Q1	Subject Matter Support

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#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
28	Licensing Operations	Audit	Public & Regulatory Affairs	Non-IT	Evaluate processes and controls associated with ensuring compliance with existing licenses (tracking, monitoring and performance), review licensing expenditures and related controls, and verify compliance with established NYPA policies and procedures.	Q4	Subject Matter Led
29	Finance & Accounting Niagara	Audit	Business Services	Non-IT	Review procedures, processes and controls over budget monitoring, accounts payable, payroll, travel and living expenses, and Human Resources, verify compliance with established NYPA policies and procedures and alignment to expectations at Corporate.	Q3	Internal Audit Led
30	Purchasing/Warehousing - BG	Audit	Business Services	Non-IT	Review processes and controls associated with purchasing and warehousing activities and verify compliance with established NYPA policies and procedures.	Q3	Internal Audit Led
31	Travel & Entertainment	Audit	Enterprise Shared Services	Non-IT	Perform a targeted assessment of travel and entertainment expenses on a rotational basis, such as: Procedures, processes and controls over Headquarters Business Expenses; Compliance with established NYPA policies, procedures and guidelines; Processes and controls over contractor expenditures submitted to and paid by NYPA.	Q4	Subject Matter support

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#	Proposed Audit Area	Project Type	Business Unit	Audit Type	Audit Description / Preliminary Audit Scope Target	Target Timing	Planned Resource Involvement
32	FERC Dam Safety	Audit	Operations	Non-IT	Perform a detailed review of policies, procedures and controls within the FERC Dam Safety program and verify accuracy and completeness of compliance reports.	Q4	Internal Audit Led
33	Fraud Awareness Risk Assessment	Consultative	Law Dep't	Non-IT	Perform a fraud risk assessment with select levels of management to understand the potential areas of fraud management believes are plausible based on a scale of impact and likelihood, and thus areas that need to be monitored more carefully.	Q2	Subject Matter Support
34	Cost Accounting Study	Consultative	Business Services	Non-IT	Evaluate current processes in place to determine the cost structure of products and how NYPA is recovering their costs. Assess whether current operations have the capacity to adapt to new programs and products, such as those proposed by the customer solutions initiative.	Q1	Subject Matter Led

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Ref.	Audit #	Audit	Business Unit	Audit Type	Issuance Date
Report Issued: 12					
1	OPR14016	Physical Security – St. Lawrence	Operations	Operational/Financial	03/14/14
2	OPR14110	Environmental, Health & Safety Audit Programs	Operations	Operational/Financial	03/11/14
3	IS014730	Patch Management	Enterprise Shared Services	Information Technology	06/19/14
4	OPR14007	Revenue Requirements – Hydro Customers	Business Services	Operational/Financial	07/08/14
5	FIN14100	Headquarters Accounts Payable	Business Services	Operational/Financial	08/20/14
6	OPR14017	Central Region O&M	Operations	Operational/Financial	09/02/14
7	FIN14113	Headquarters ProCard Expenses	Various	Operational/Financial	09/03/14
8	FIN14120	Cash Management & Treasury Operations	Business Services	Operational/Financial	10/23/14
9	OPR14070	Operational Planning - Asset Investment Planning	Operations	Operational/Financial	10/28/14
10	FIN14950	Purchasing/Warehousing – Niagara	Enterprise Shared Services	Operational/Financial	11/10/14
11	FIN14600	Purchasing/Warehousing – St. Lawrence	Enterprise Shared Services	Operational/Financial	11/10/14
12	OPR14090	Social Media Governance	Enterprise Shared Services	Operational/Financial	11/10/14
Fieldwork Complete – Report Pending Issuance: 10					
13	OPR14006	Northern Region O&M	Operations	Operational/Financial	
14	OPR14060	Enterprise Risk	Business Services	Operational/Financial	
15	FIN14627	Customer Revenues - Niagara	Business Services	Operational/Financial	
16	FIN14241	Western NY Economic Development Fund	Economic Development & Energy Efficiency	Operational/Financial	
17	IS014740	Cyber Security	Operations/Enterprise Shared Services	Information Technology	
18	IS014701	ITAC Process/IT Capital Projects	Enterprise Shared Services	Information Technology	
19	FIN14106	Generation Resource Management	Operations/Energy Resource Management	Operational/Financial	

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Ref.	Audit #	Audit	Business Unit	Audit Type	Issuance Date
20	OPR14080	Employee Information Concerns Line	Law	Operational/Financial	
21	FIN14295	SENY Cost of Service/ Long Term Agreements	Business Services	Operational/Financial	
22	IS014217	Virus Protection & Response	Enterprise Shared Services	Information Technology	
Fieldwork In Progress: 8					
23	OPR14130	Succession Planning/Retention Programs	Enterprise Shared Services	Operational/Financial	
24	FIN14105	Energy Efficiency Operations – Built Smart NY	Economic Development & Energy Efficiency	Operational/Financial	
25	FIN14305	Energy Efficiency Projects – Statewide Program	Economic Development & Energy Efficiency	Operational/Financial	
26	OPR14002	Public Authorities Law Compliance	Law/Various	Operational/Financial	
27	IS014720	IT Incident Response Plan	Enterprise Shared Services	Information Technology	
28	IS014710	Infrastructure Virtualization	Enterprise Shared Services	Information Technology	
29	OPR14200	Power System Operations/Energy Control Center	Operations	Operational/Financial	
30	IS014760	General Controls over SCADA - Northern & Central	Enterprise Shared Services	Information Technology	
Audit Planning In Progress: 6					
31	OPR14050	Human Resources Operations	Enterprise Shared Services	Operational/Financial	
32	OPR14101	Headquarters Procurement	Enterprise Shared Services	Operational/Financial	
33	OPR14095	Energy Trading Process & Controls Assessment	Business Services	Operational/Financial	
34	OPR14111	Quality Assurance/Code Compliance	Operations	Operational/Financial	
35	IS014207	Mobile Device Security & Controls	Enterprise Shared Services	Information Technology	
36	IS014210	IT Disaster Recovery - Governance	Enterprise Shared	Information Technology	

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Ref.	Audit #	Audit	Business Unit	Audit Type	Issuance Date
			Services		
Postponed - Moved to 2015 IA Plan: 3					
37	FIN14263	NYISO Energy Settlements – Generation	Operations	Operational/Financial	
38	FIN14260	Customer Load Forecasting	Economic Development & Energy Efficiency	Operational/Financial	
39	IS014750	Network ITGC Review - Security & Change Management	Enterprise Shared Services	Information Technology	

RESOLUTION

RESOLVED, That pursuant to the Audit Committee Charter adopted by the Authority on February 23, 2010, the Audit Committee recommends that the proposed 2015 Internal Audit Plan be approved.