



**MINUTES OF THE REGULAR MEETING  
OF THE  
NYPA AND CANAL AUDIT COMMITTEE  
March 18, 2022**

---

**Table of Contents**

<b><u>Subject</u></b>	<b><u>Page No.</u></b>
<b>Introduction</b>	<b>2</b>
<b>1. Adoption of the March 18, 2022 Proposed Meeting Agenda</b>	<b>2</b>
<b>2. Motion to Conduct an Executive Session</b>	<b>2</b>
<b>3. Motion to Resume Meeting in Open Session</b>	<b>2</b>
<b>4. DISCUSSION AGENDA:</b>	<b>2</b>
a. New York Power Authority Year-end 2021 Financial Report	<b>2</b>
b. New York Power Authority 2021 Annual Audit Results	<b>3</b>
c. New York Power Authority and Canal Corporation Internal Audit Update	<b>7</b>
d. New York Power Authority and Canal Corporation 2022 Environmental, Health and Safety Compliance Audit Plan	<b>8</b>
<b>5. CONSENT AGENDA:</b>	<b>9</b>
a. Approval of the Joint Minutes of the Regular Meeting held on December 7, 2021	<b>9</b>
<b>6. Motion to Conduct an Executive Session</b>	<b>10</b>
<b>7. Motion to Resume Meeting in Open Session</b>	<b>10</b>
<b>8. Next Meeting</b>	<b>10</b>
<b>Closing</b>	<b>10</b>

March 18, 2022

Minutes of the meeting of the New York Power Authority and Canal Corporation's Audit Committee, held via videoconference, at approximately 8:00 a.m.

**The following Members of the Audit Committee were present:**

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

**Also in attendance were:**

Justin E. Driscoll	Interim President and Chief Executive Officer
Phil Toia	President NYPA Development
Adam Barsky	Executive Vice President and Chief Financial Officer
Joseph Kessler	Executive Vice President and Chief Operating Officer
Kristine Pizzo	Executive Vice President and Chief Human Resources & Administrative Officer
Lori Alesio	Interim Executive Vice President and General Counsel
Sarah Salati	Executive Vice President Chief Commercial Officer
Daniella Piper	Regional Manager and Senior Vice President
Yves Noel	Senior Vice President and Chief Strategy Officer
Robert Piascik	Senior Vice President and Chief Information & Technology Officer
Angela Gonzalez	Senior Vice President – Internal Audit
Patricia Lombardi	Senior Vice President – Project Delivery
Scott Tetenman	Senior Vice President – Finance
Adrienne Lotto Walker	Vice President and Chief Risk & Resilience Officer
Eric Meyers	Vice President and Chief Information Security Officer
Andrew Boulais	Vice President – Project & Construction Management
John Canale	Vice President – Strategic Supply Management
Joseph Gryzlo	VP and Chief Ethics & Compliance Officer
Shirley Marine	Vice President – Enterprise Shared Services
Fabio Mantovani	Vice President – Head of e-Mobility
Victor Costanza	Senior Director – Cyber Security & Deputy CISO
Earl Faunlagui	Senior Director – Market & Commodities Risk
Joseph Rende	Senior Director Key Account Management
Kandapa Jinvit	Senior Director Internal Business Controls
John Markowitz	Senior Director eMobility
Sundeeep Thakur	Controller
Carley Hume	Chief of Staff
Eric Rotfeld	Principal Attorney II
Glenn Haake	Special Counsel 1
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Quatrocci	Associate Corporate Secretary
Michele Stockwell	Project Coordinator - Corporate Secretary
Christopher DaVanzo	Lead Senior Audit Manager (KPMG)
Mr. Scott Heiser	Lead Audit Manage (KPMG)

---

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

**Introduction**

Chairman Nicandri welcomed committee members and senior staff to the meeting. He said the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to section B(4) of the Audit Committee Charter.

**1. Adoption of the March 18, 2022 Proposed Meeting Agenda**

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

**Conflicts of Interest**

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

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

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

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

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

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

**4. DISCUSSION AGENDA:**

**a. New York Power Authority Year-End 2021 Financial Report**

Mr. Adam Barsky, Executive Vice President and Chief Financial Officer, provided highlights of the Financial Report for the year ended December 31, 2021 to the members.

**2021 Consolidated Net Income – Actual vs. Budgeted**

As reported at the last meeting, the Authority ended the year with a Net Income of \$72 million; this is ahead of the budget by \$31 million.

EBIDA showed an improvement on the Income Statement with \$491 million versus \$428; the difference being the increase in depreciation and non-cash items.

Comparing year 2021 to 2020, Actuals were significantly better by \$89 million; last year there was a \$17 million loss. There was also significant improvement in EBIDA, \$126 million.

### **Summary of Consolidated State of Net Position**

The Balance Sheet remains very strong with robust liquidity, meeting or exceeding all the Authority's debt ratios, which is used to maintain its AA ratings. The Authority has ample liquidity and sufficient funds to continue to manage and fund its capital programs as well as its other business operations. In addition, the changes made to OPEB, integration of the Canals and the Medicare Advantage resulted in a decrease in liabilities, further strengthening the Balance Sheet,

### **2021 Financial Highlights**

- Variance – the high points remain the same that revenues did better because of the increased or improved energy pricing on the Authority's portfolio. This was somewhat offset by increased O&M expenses and higher depreciation, and also lowered expenses from the impact of the OPEB integration and the Medicare Advantage.
- Investment income – lower than the originally forecasted by \$9 million.
- Total Assets increased - \$341million; Liabilities decreased by \$269 million.
- The Authority received payment of \$43 million during the year from the State for payment of the temporary asset transfer. Based on the original \$318 million that was transferred, only \$43 million remains to be paid, after which the asset transfer will be fully paid.

***On motion made by member Anthony Picente and seconded by member Bethaida González, the New York Power Authority's Year-End 2021 Financial Report as submitted by the Executive Vice President and Chief Financial Officer, was unanimously approved by the members of the Audit Committee.***

### **b. New York Power Authority 2021 Annual Audit Results**

Mr. Scott Heiser, KPMG's Lead Audit Manager, and Mr. Christopher DaVanzo, Lead Senior Audit Manager, presented KPMG's 2021 Annual Audit Results to the committee. He said that KPMG has the same Client Service team that was communicated to the committee in December.

### **OPEB Update**

At the election of the Authority, the measurement date to the OPEB Plan was changed to June 30, 2021. The merger of the NYPA and Canal plan required extra efforts on the fiduciary audits, Actuary involvement, changing of discount rate and changing of assumptions. However, based on the procedures performed, KPMG is comfortable with management's accounting.

### **Allowance for Funds Used During Construction**

The management did an assessment of the Allowance for Funds used during Construction ("AFUDC"), related to the equity component, regulatory concept for amounts that the Authority is ultimately allowed to recover. KPMG did an assessment and is comfortable with the amount that has been recorded by NYPA.

### **Audit Findings**

KPMG's final communication, its standard letter, will mention two audit differences, one related to AFUDC and the impacts of the prior year that management corrected this year and a carry-forward of last year's entry. KPMG has no audit adjustments as relates to the 2021 audit.

Mr. DaVanzo provided highlights of the Audit Results. He said that KPMG expects to be in a position to issue its reports in connection with the Authority's consolidated financial statements on or about March 30.

To date, the following matters are outstanding:

- Completion of the final audit procedures, including reviews;
- Populating the audit misstatements and the evaluation related to this matter;
- Final tie-out and review of the Authority's financial statements; and
- Receipt of the management representation letter, external legal confirmations, and documents.

Upon completion, KPMG will be issuing an Independent Auditors' Report; a Report on Internal Controls in accordance with Government Auditing Standards; and a Report on Investment Compliance which are consistent with its deliverables in prior years.

### **Audit Results, Required Communications and Other Matters:**

#### **Audit Results**

- An uncorrected audit misstatement related to the AFUDC will be included in a schedule provided to NYPA upon issuance.
- There are no matters to report as it relates to:
  - o Changes in the Risk Assessment and Planned Audit Strategy.
  - o Non-compliance with laws and regulations or significant difficulties encountered during the audit.
  - o Disagreements with Management.
  - o Independence. KPMG assessed its independence throughout the period of the audit and will provide an update as of the issuance date.

#### **Internal Controls**

KPMG considered internal controls in the performance of its audit, but they are not expressing an opinion on the effectiveness of internal controls.

#### **Significant Risks**

##### Management Override of Controls

Management override of internal controls is present at all entities. KPMG tested the design implementation, the operating effectiveness of controls over manual journal entries and any post-closing adjustments. In response, the team examined journal entries throughout the performance of the procedures ensuring that appropriate supporting documentation is included with each journal entry and reviewed accounting estimates for any bias. As it relates to management override of controls, the engagement team has determined that there are no matters to be reported as of December 31, 2021.

#### **Accounting Estimates**

- Other Post Retirement Benefits (OPEB) is accounted for in accordance with GASB 75. Management uses a third-party expert, Buck Consultants, to determine other post-retirement obligations.
- KPMG engaged an Actuary to review the Authority's actuarial valuation as of December 31, 2021, including the key assumptions.
- KPMG tested census data provided by the Authority.

- KPMG tested the fair value of the Authority's plan assets using the National Pricing Desk, KPMG's internal investment valuation specialist.
- KPMG Confirmed the value of the Authority's plan assets.

#### OPEB Update

There were three main changes to the OPEB Plan, namely, combining and integrating Canals into the NYPA plan; the change to the measurement date to June 30, 2021; and the Medicare Advantage Plan which was implemented.

#### Pensions (GASB 68)

- NYPA participates in the New York State Pension Plan and reports its pension expense, pension liability, deferred outflows, and deferred inflows as a proportionate share of the State Plan.
- KPMG procedures involve engaging an Actuary to review the assumptions of the State Plan and evaluation of the Plan. The engagement team recalculated pension expense based on that proportionate share.

#### Valuation of Marketable Securities

##### **Management Process used to develop the estimates:**

- The management process used to develop the estimates is to record investments at fair value and mark those to market at year's end.
- KPMG confirmed all these investment balances as of year's end.
- KPMG also engaged the National Pricing Desk to price these investments.
- KPMG performed procedures over the Power Authority's investment compliance, ensuring that investments were in compliance with the Board's approved policies.

#### Valuation of Derivatives

##### **Management Process used to develop the estimates:**

The valuation of derivatives is recorded at fair value and is accounted for under GASB 53.

- KPMG confirmed the Power Authority's open positions as of December 31, 2021.
- KPMG reconciled those open positions to the presentation on the financial statements as assets and liabilities.
- KPMG engaged a specialist to independently test the fair value using market prices at year's end which are being used to record the derivative at fair value.

#### Significant audit areas

##### **Long-term debt**

- The engagement team confirmed outstanding long-term debt obligations, short-term obligations, and the line of credit.
- The team tested materials activities such as debt repayments, during the period. They also recalculated interest expense for the 12-month period ended December 31, 2021.

### **Capital Assets and Allowance for Funds Used During Construction**

The engagement team performed the following procedures:

- Roll-forward of Construction Work-in-Progress and Plant-in-Service balances from prior year to current year.
- Tested material activity, such as additions to capital projects. The team placed emphasis on the capitalization of those projects, making sure that the items were appropriately capitalizable.
- As it relates to items placed into service during the year, the team ensured that they were timely transferred, validating that depreciation was starting at the correct point in time and that the asset grouping was appropriate for those assets that were placed in service.
- Performed substantive analytical procedures over depreciation expense for the 12-month period ended December 31, 2021.
- The procedures related to AFUDC were audited for the period 2016 to 2020. The team tested inputs utilized in the calculation such as CWIP balance and the AFUDC Rate. They also recalculated the total amount of AFUDC recorded in 2021 for those prior years.
- Reviewed and performed procedures over the Power Authority's adoption of GASB 89, implemented this year, which is a presentation issue of interest capitalized during construction.

### **Revenue**

The engagement team performed the following procedures:

- Confirmed accounts receivables with the NYISO and SENY/Wholesale customers as of December 31, 2021.
- Performed detailed test work over the revenue transactions with SENY/Wholesale customers and NYISO and agreeing cash receipts for those revenue transactions.
- Performed detailed recalculations of those invoices by taking the prices charged to customers and agreeing them back to approved tariffs.
- No matters to report related to revenue as of December 31, 2021.

### **Newly Effective Accounting Standards**

GASB Statement No. 89 was adopted this year and states that interest incurred before the end of the construction period can no longer be capitalized; however, there is an exception for public utilities which states that a public utility can record it, but it can no longer record it in the asset group. It needs to be broken out separately as a regulatory asset, which the Power Authority has appropriately adopted for this year.

GASB Statement No. 87, Leases, and GASB Statement No. 91, Conduit Debt Obligations, will have an impact on the Authority and are being evaluated by the engagement team. The other statements will be evaluated but are not expected to have a material impact on the Authority's financial statements.

### **New Auditor Reporting Standards**

KPMG provided a draft of the Auditor Report which it expects to issue at the end of the month. Mr. Heiser then highlighted some changes in the report as follows:

- The Opinion Section is presented first, followed by the basis for the opinion section.
- Statements documenting that the auditor is required to be independent of the entity is included.
- It expands on the management's responsibility as it relates to a going concern as well as the auditors' responsibility for identifying conditions that are indicative of a going concern issue.

Mr. Heiser ended that, included in the Appendix of the presentation is information on the diversity goals of KPMG and a transparency report related to its commitment to audit quality.

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

Ms. Angela Gonzalez, Senior Vice President of Internal Audit, provided an update on the New York Power Authority and Canal Corporation Internal Audit Plan.

**2022 Audit Plan Status**

- 42 projects are included in the NYPA and Canals Audit Plan. To date, no changes have been made to the Plan. Based on IA's quarterly review of upcoming audits for Q2, it was found that the audits scheduled are still relevant to be addressed.
- Two audit reports have been issued, to date. Three have been moved to the reporting stage and are expected to be issued within the next week.
- Two audits are in field work and will be issued by the end of the month or early April.
- Planning for six audits are in progress.

Internal Audit has made a good start executing the Audit Plan.

**2021 Environmental, Health & Safety Compliance Audit Plan Status**

- The audit year for the EH&S Plan extends from April to March.
- 4 compliance audits are included in the Audit Plan which will be completed by the end of March.
- 2 audit reports were recently issued, to date, and 2 are in the reporting stage. IA is on target to issue the last report by the end of March.

**2021 Observations Summary Status – NYPA and Canals**

- In 2021, 98 observations were identified 36 of which were open as of March 10, 2022. One 2020 observation remains open for NYPA. This observation is medium-rated and due to close on September 30, 2022 to allow for implementation of automation necessary for remediation.
- 63% percent of the 2021 open observations have been closed ahead of time or on time. This signifies management's efforts towards risk mitigation and remediation with minimal observation extensions. All observations are on track to close within their due dates.

**2021 Open Observation Summary Status – Environmental, Health & Safety Compliance**

- As of March 10, 2022, 10 observations remain open.
- A total of 27 observations were identified 10 of which were rated high and 17 rated medium. There were no low-rated observations. Of the 27 observations, Site Management closed 17 observations (7 high and 10 medium). There were no violations of external laws and regulations that resulted in substantial risk to the environment, health and safety to the employees or customers that could lead to any legal penalties.
- All 2021 open observations are also on track to close within the three- to nine-month timeframe.

**Internal Audit Strategy**



### Data Analytics

The Data Analytics team is working on tasks to run data analytics routines. This represents the move towards continuous auditing; the more routines that the team creates, the more they will observe if there are any outliers that they need to pay attention to. The team is in the process of building two more routines at this time.

### GRC Optimization

- The Observation Management model is in production. All 2022 audit observations will be recorded in that module. The team will be tracking closures in the module as well.
- Tracking for all 2021 and one open 2020 observation will continue in SharePoint until all observations are closed.

CAE Required Communications to the Audit Committee are the standard communication requirements to the Audit Committee.

#### **d. New York Power Authority and Canal Corporation 2022 Environmental, Health and Safety Compliance Audit Plan**

Ms. Angela Gonzalez, Senior Vice President of Internal Audit, provided an update on the Authority's and Canal Corporation's 2022 Environmental, Health and Safety ("EH&S") Compliance Audit Plan. She said that the 2022 EH&S Compliance Audit Plan reflects a defined risk-scored universe and has eight entities in the universe. All of the projects that make-up the Plan are based on the risk ranking of the audit entity, the last audit year, and emerging risks.

Internal Audit engaged with key stakeholders, Risk Management, and other Business Units to get their input on potential risks in this space. The Plan is aligned to Internal Audit's ESG Foundational Pillar as well as its Workforce, Health and Safety top enterprise risk. Internal Audit have expanded the program to include Commercial Operations' construction projects.

Internal Audit is requesting that the Audit Committee approve the 2022 EH&S Compliance Audit Plan.

### **2022 Risk Assessment and Annual EH&S Compliance Audit Planning**

The 2022 Risk Assessment and Audit Planning process include:

- **Internal Inputs** - reviewing prior audit results and observations; strategic initiatives and top enterprise risks.
- **Key Stakeholders** - engaging NYPA/Canals stakeholders to get their input on EH&S requirement changes.
- **External inputs** – reviewing for changes in industry regulations. Consulting with third-party vendors that are experts in EH&S auditing.
- **Audit Universe Development** - creating the audit universe – eight entities created.
- **Audit Plan** – Audit Plan created based on available resources.
- **EH&S Subcommittee / Audit Committee** – The Subcommittee includes personnel from EH&S, Law, Ethics and Compliance, and Utility Operations departments to obtain their input on the Plan.

The Plan is presented to the Audit Committee for the members' review and approval.

## **Audit Universe and 2022 EH&S Compliance Audit Plan**

### **Audit Universe**

The Environmental, Health & Safety (“EH&S”) Audit Universe contains eight entities (NYPA 6 and Canals 2). The entities are categorized by type and size of the facility and the construction projects at the facilities. Internal Audit used a risk model to arrive at risk scores which include risk factors such as Legal, Operations, Environmental, Health and Safety, facility size, project size, EH&S compliance budget, technology, and control risks.

### **Audit Universe Cycle**

Internal Audit applied an audit cycle to the overall EH&S Audit Universe which is based on a six-year cycle. Audit projects in each year’s plan will focus on high, medium, and low-rated audit entities and will allow Internal Audit to cover NYPA’s compliance with the EH&S regulatory and internal requirements.

### **EH&S Compliance Audit Plan Summary**

The EH&S 2022 Compliance Audit Plan includes five projects, two of which are related to Hydro Generating Facilities - Niagara and St. Lawrence; three are Construction Projects - Niagara Transmission Life Extension & Modernization Project, construction at Canals Lockport site, and one Commercial Operations energy efficiency project.

The EH&S Compliance Audit Program has been further expanded to include Commercial Operations energy efficiency, e-Mobility, and New York Energy Manager construction projects.

### **2022 EH&S Compliance Audit Plan Approval Request**

Internal Audit requests that the Audit Committee approve the 2022 Environmental, Health & Safety Compliance Audit Plan.

On motion made by member John Koelmel and seconded by member Anthony Picente, the 2022 Environmental Health & Safety Compliance Audit Plan was unanimously approved.

## **5. CONSENT AGENDA:**

On motion made by member John Koelmel and seconded by member Bethaida González, the Consent Agenda was unanimously approved.

### **a. Approval of the Joint Minutes of the Regular Meeting held on December 7, 2021**

On motion made and seconded, the Minutes of the Regular Meeting of the Audit Committee held on December 7, 2021 was unanimously approved.

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

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

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

On Motion made by member John Koelmel and seconded by member Bethaida González, the meeting resumed in open session.

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

**8. Next Meeting**

Chairperson Nicandri said that the next regular meeting of the Audit Committee will be held on July 14, 2022 at a time to be determined.

**Closing**

On motion made by Member Anthony Picente and seconded by Member Bethaida González, the meeting was adjourned at approximately 10:00 a.m.

*Karen Delince*  
Karen Delince  
Corporate Secretary