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

July 30, 2015

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Minutes of the regular meeting of the New York Power Authority's Audit Committee held at the Clarence D. Rappleyea Building, 123 Main Street, White Plains, New York, at approximately 8:00 a.m.

The following Members of the Audit Committee were present:

Trustee Eugene Nicandri, Chairman
Trustee Jonathan Foster
Trustee Terrance Flynn

Also in attendance were:

John Koelmel	Chairman, NYPA
Anthony Picente, Jr.	Trustee, NYPA
Tracy McKibben	Trustee, NYPA
Gill Quiniones	President and Chief Executive Officer
Edward Welz	Chief Operating Officer
Justin Driscoll	Executive Vice President and General Counsel
Robert Lurie	Executive Vice President and Chief Financial Officer
Jill Anderson	Senior Vice President – Public Affairs and Business Development
Jennifer Faulkner	Senior Vice President – Internal Audit
James Pasquale	Senior Vice President – Economic Development and Energy Efficiency
Karen Delince	Vice President and Corporate Secretary
Vincent Esposito	Special Counsel – General Counsel – Law
Lorna Johnson	Associate Corporate Secretary
Sheila Baughman	Assistant Corporate Secretary
Peter Prunty	Director – Infrastructure
Greg Jablonsky	Manager – Network Services
Glen Martinez	Senior Network Analyst

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

Introduction

  Chairman Nicandri welcomed committee members, Trustees Jonathan Foster and Terrance Flynn, 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**

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

2. <u>**CONSENT AGENDA**</u>

Upon motion made and seconded the Consent Agenda was approved.

a. <u>**Approval of the Minutes**</u>

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting held on March 26, 2015 were approved.

DISCUSSION AGENDA:

3. <u>**Risk Management Update**</u>

    Mr. Robert Lurie, Chief Financial Officer, said the Risk Management Update will be provided by President Quiniones at the Board of Trustees' meeting following the Audit Committee meeting.

4.   Internal Audit Update

Ms. Jennifer Faulkner, Senior Vice President of Internal Audit, provided an update of the Internal Audit ("IA") activity to the Committee (Exhibit "4-A").

Audit Activity Update

Ms. Faulkner said IA completed all of the 2014 open audit reports in April. With regard to the 2015 audit reports, IA has completed 12 of the 33 reports scheduled. In addition, as part of its services to add value and real-time feedback to Business Units, IA staff has been engaged in 14 consulting and partnering arrangements with the Business Units. Consulting requests have exceeded IA staff's availability which is an indication that the changes being implemented, to be more of a business partner to the Business Units instead of purely an audit function, are being realized.

In response to a question from Trustee Foster, Ms. Faulkner said IA plans to complete all of the audits as outlined in the 2015 Audit Plan by November.

In response to further questioning from Trustee Foster, Ms. Faulkner said IA plans to "kick-off" the 2016 Risk Assessment between August and September and have the 2016 Audit Plan finalized and presented to the Committee at the next meeting. She also said it is estimated that IA staff can complete approximately 40 projects, while allowing time for consulting projects. To that end, IA staff will appropriate their time between the audit and consulting projects with the higher level staff performing more consulting engagements and the lower level staff allocating more time to day-to-day audit activities.

In response to still further questioning from Trustee Foster, Ms. Faulkner said an example of a consulting project is the Energy Efficiency ("EE") group that is in the process of documenting and rationalizing all of their controls to make them more efficient. Staff from Internal Audit is on that committee and reviews all of the changes EE plan to make, in order to ensure they have appropriate controls in place so that at the end of the process all risks would have been identified and mitigated.

Ms. Faulkner further stated that although 21 audits are open, they are in different phases of reporting progress and reiterated that IA plans to close the 2015 Audit Plan on schedule. She

further stated that changes have been made to the 2015 Plan as a result of updates to the strategic initiatives and evaluation of emerging risks. The Audit Plan initially had thirty-five audits; IA has added and removed three audits, respectively, from the Plan in response to emerging risks. IA has also moved two audits to the 2016 Plan because the audits will not be fully implemented in 2015.

In response to a question from NYPA Chairman Koelmel, Ms. Faulkner said the IT audits that were removed from the Plan were medium to low level risks. To date, IA staff has conducted two IT audits and have consulting engagements with the Cyber Security team. IA is comfortable with the schedule and the Audit Plan they now have.

Responding to further questioning from NYPA Chairman Koelmel, Ms. Faulkner said IA is working on the creation of a defined audit universe. To that end, IA plans to set up a special team to focus on creating an audit universe and risk universe for audit, using the current Risk Management audit universe model, with the goal of having a frequency schedule where all of the audits are done within a certain period of time.

Ms. Faulkner continued that IA will focus on strategy and compliance in addition to risk management type activities and spend less time on the lower risk areas such as Finance and Accounting; IA will continue to do a lot of work in the Operations area. And, as IA moves forward with the 2016 risk assessment to identify its 2016 Plan, it will be able to make sure it has the appropriate allocations of audits across all of the different segments. Ms. Faulkner said IA is also working closely with the new Chief Risk officer and have scheduled bi-weekly follow-up meetings as well.

Status of Audit Recommendations

Ms. Faulkner said since IA implemented "risk ratings" for its findings and the overall report ratings, it is now able to track all of the recommendations and be aware of what issues staff should be focusing its time and remediation. She said in the future, IA will report to the Committee regarding the progress on what recommendations have been closed or are overdue, and how many of the overdue issues will be high risk. To date, of the 35 recommendations for 2015, thirteen are high-risk, sixteen are medium risk, and six are low risk.

In response to a question from NYPA Chairman Koelmel, Ms. Faulkner said the Authority's management has been extremely responsive to her recommendations. She opined that management is pleased with the method of using "risk ratings" where they are able to identify what the highest priorities are and the areas they need to focus on.

In response to further questioning from NYPA Chairman Koelmel, Ms. Faulkner said IA has identified timelines for implementation of the findings within all of the audit reports. At the present time this is done manually, and is the reason why recommendations for 2012, 2013 and 2014 are still open. In the future, as IA aligns itself with other risk management units to select a technology solution enterprise-wide for risk management activities, it will have an automated system in place which will make it easier to follow-up on open recommendations.

In response to a question from Trustee Foster, Ms. Faulkner said President Quiniones has made her a full member of his Executive Management Committee, and this has allowed her to understand the Authority's initiatives, the current activities of the Business Units and where each unit is having issues so that IA will be able to make sure the Business Units' audit approach is aligned with IA's recommendations.

Department Transformation

Ms. Faulkner provided highlights of the IA department's transformation program. She said IA has been bucketing all of its activities in the three segments: people, process, and technology. As previously recommended by the Committee, IA is also in the process of preparing a Gant Chart in order to provide updates on the status of the audits, going forward. She said a new organizational chart with hierarchy which will allow for more efficient management of the team, as well as being able to focus on talent development of lower levels of staff members, has been completed and communicated to the Executive Management team and senior staff. The CEO has approved an additional six auditors for the Internal Audit team. Since IA plans to phase out the services of E&Y, a full resource analysis was done to determine the number of staff that would be needed to accomplish the audits, as well as the ancillary consulting services. IA is making progress in terms of hiring the team to help it achieve its goals. To date, one Director, one Manager, two Team Leaders and one Senior Auditor has been hired.

Ms. Faulkner then outlined some of the processes as follows:

- *Created an updated risk assessment, which resulted in some of the changes to the 2015 Audit Plan.*

- *Identified the formalized risk assessment process that can be used in the future.*

- *Revised the Internal Audit Charter. This will be presented to Committee at the next meeting.*

- *Revising and formalizing some of the department templates to be used across audits in order to drive consistency and quality.*

- *Deployed new report and finding ratings. This will help management focus on the high risk issues that need to be remediated immediately.*

- *Working on a new solution, such as SharePoint or a third-party solution, for documenting all of IA's IT requirements.*

- *Working with all of the other risk management units on an enterprise-wide solution to align overlapping responsibilities.*

In response to a question from Chairman Nicandri, Ms. Faulkner said IA has made some changes to its recruiting strategy which has helped it to get a better pool of candidates to choose from. In addition, IA expects to be making some offers of employment within the next few weeks.

In response to a question from NYPA Chairman Koelmel, Ms. Faulkner said IA has approximately ten open positions. She said President Quiniones and the management team have been very supportive with E&Y continuing its service to IA until the team is fully resourced. Since many of the candidates identified have internal audit experience, but not necessarily utility experience, E&Y will assist in their transition, teaching them the lessons they have learned, thereby creating an audit program that can be sustainable in the future. IA is also creating comprehensive on-boarding packages for the new members of the team so that they can learn about NYPA, its policies and processes, as well as learn about the general utility industry.

In response to further questioning from Chairman Nicandri, Ms. Faulkner said since IA plans to continue to outsource the IT, as well as specific subject matter expertise audits that are in the Audit Plan, IA will continue to have an arrangement with E&Y for the next year, while, at the

same time, providing the team with targeted specialized training to ensure that IA will be able to adequately perform those subject matter expertise audits in-house.

In response to a question from Chairman Nicandri, Ms. Faulkner said she estimates that E&Y will be phased out by the middle of next year.

Trustee Foster complimented Ms. Faulkner and the IA staff for the presentation. He suggested, and NYPA Chairman Koelmel agreed, that IA staff periodically attend the Committee meetings.

5.   <u>**Motion to Conduct an Executive Session**</u>

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.

6.   **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.

7.   <u>**Next Meeting**</u>

Chairman Nicandri said that the next regular meeting of the Audit Committee would be held on September 29, 2015 at the Clarence D. Rappleyea Building in White Plains, New York, at a time to be determined.

Closing

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

Karen Delince
Corporate Secretary

EXHIBITS

For

July 30, 2015

Meeting Minutes

Audit Committee Meeting
Internal Audit Update

07/30/2015

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- ➢ Status of 2015 IA Plan
- ➢ Changes to 2015 IA Plan
- ➢ Status of 2015 Audit Recommendations
- ➢ Ongoing Department Transformation
- ➢ Appendix A – 2015 IA Plan

Executive Summary

➤ 2014 Status: All 2014 audit reports have been issued.
➤ 2015 Status: 11 of 33 audits have been issued as of 7/15/15.

2015 Internal Audit Report	Report Rating	
Cyber Security – BG Operational Technology Network Discovery (IS015320)	Unsatisfactory	🔴
IT Project Management Office (IS015380)	Improvement Needed	🟡
Strategic Plan Governance & Execution (FIN15440)	Improvement Needed	🟡
Records Management (IS015390)	Improvement Needed	🟡
Fleet Operations (OPR15140)	Improvement Needed	🟡
Customer Energy Solution (CES) Cost Accounting Future State Assessment (FIN15450)	Improvement Needed	🟡
Construction Projects (OPR15220)	Improvement Needed	🟡
Cyber Security – Maturity Assessment with IT (IS015310)	Improvement Needed	🟡
Compensation and Benefits (FIN15400)	Satisfactory	🔵
Finance & Accounting Niagara (FIN15900)	Good	🟢
Fraud Awareness Risk Assessment (OPR15260)	N/A – Consulting Project	

➤ IA staff has been engaged in approximately 14 consulting and partnering arrangements that will result in documented feedback or real time verbal feedback.
➤ Consulting Project requests exceed staff availability. Projects are prioritized based on risk and impact to organization.

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Status of 2015 IA Plan

➢ The following reflects the status of audits in the 2015 IA Plan. Refer to next slides for further explanation:

2015 Audit Status	7/15/15
Total 2015 Audit Reports*	33*
Total Reports Completed on 3/26/15	0
Audit Reports Issued (refer to slide 2)	11
Open Audits at 7/13/15	22
Reports in Process Access Control Repository, O&M Cross Functionality, Budgeting & Forecasting, First Energy	4
Audits Fieldwork In Progress Physical Security, Licensing Operations, Contractor Tenure, Energy Efficiency Controls	4
Audit Planning In Progress Purchasing/Warehousing – BG, Cyber Security – Maturity Assessment with OT, Asset Accounting/Maximo Post Implementation, FERC Dam Safety, Incident Response Plan Phase 2, NERC CIP V5 Policy and Procedures Assessment, Disposal of Personal Property, Energy Settlements, Scheduling and Load Forecasting, Travel and Entertainment	9
Audit Planning Not Started Data Loss Prevention, Meter to Cash, Bulk Electric System Cyber System Categorization, Enterprise Architecture Review, HR Succession Planning	5

*Note – Total audit reports reflect changes presented on Slide 4.

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Changes to 2015 IA Plan

➢ Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams and discussions with leadership. As a result, the following changes have been made to the 2015 IA:

2015 Audit Status	7/15/15
Open 2015 Audit Committee Meeting 3/26/15	35
Audits Added to 2015 IA Plan Disposal of Personal Property, Enterprise Architecture Review, Cyber Security-Maturity Assessment (C2M2) with OT,	+3
Audit Removed from 2015 IA Plan (note: these audits are not depicted in 2015 IA Plan) Y49 Cables, Network ITGC, IT/OT Integration at Sites	-3
Audits Moved to 2015 IA Plan NYPA Customer Portal, Ariba Procurement Solution	-2
Total 2015 Reports	**33**

Audit Allocation by Business Unit

Legend: ■ Compliance ■ Finance & Accounting ■ Operations ■ Strategy

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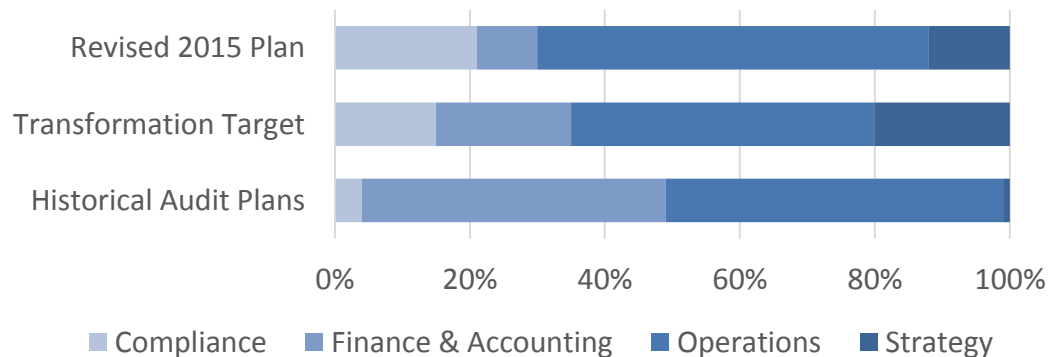
Changes to 2015 IA Plan

➤ The following reflects changes to the 2015 IA Plan:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Business Services	Meter to Cash	Timing	Process and organizational changes.	Q3	0
Economic Development & Energy Efficiency	Energy Settlements, Scheduling and Load Forecasting	Timing	Process and organizational changes.	Q4	0
Enterprise Shared Services	Information Management	Name	Name changed to Records Management to reflect detailed scope.	Completed	0
Operations	Y49 Cables	Removed from Plan	Enterprise Risk is monitoring this process as such IA is dedicating resources to other risks.	N/A	-1
Business Services	Contractor Tenure	Changed to Consulting Arrangement	During 2015, IA will monitor progress, obtain an understanding of changes and provide insight to process owners as applicable as well as evaluate control design through issuance of a control design assessment. Due to significant process changes in these areas, IA will perform operating effectiveness test work in FY2016.	2016	0
Economic Development & Energy Efficiency	Energy Efficiency Controls	Changed to Consulting Arrangement		2016	0
Business Services	Succession Planning	Changed to Design Review		2016	0
Finance	Disposal of Personal Property	New	Audit has been included due to newly identified risk as part of the Office of State Comptroller Audit.	Q3	+1

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Changes to 2015 IA Plan

| Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Enterprise Shared Services	Network ITGC	Removed from Plan	Audit eliminated from 2015 IA plan due to re-prioritization of emerging risks.	N/A	-1
Enterprise Shared Services	Ariba Procurement Solution	Postponed: Scope, timing	Project start date has not been defined by Management. Hours have been reallocated.	N/A	-1
Business Services	NYPA Customer Portal - Energy Efficiency	Postponed: Scope, timing	Project start date has not been defined by Management. Hours have been reallocated.	TBD	-1
Enterprise Shared Services/ Operations	IT/OT Integration at Sites*	Removed from Plan	Audit eliminated from 2015 IA plan due to re-prioritization of emerging risks.	Q4	-1
Enterprise Shared Services/ Operations	Enterprise Architecture Review	New	New audit based on IT-refresh.	Q4	+1
Operations	NERC CIP 5 Collaboration*	Scope	Name changed to NERC CIP V5 Policy and Procedures Assessment. New audit to assess the overall CIP V5 organizational structure. The scope is focused on discussion with process owners.	Q3	0
Operations	Cyber Security - Maturity Assessment (C2M2)	Scope	Cyber Security - Maturity Assessment (C2M2) with IT. Original audit was split into two audits. One for each impacted department.	Q3	+1
Operations	Cyber Security - Maturity Assessment (C2M2)*	New	Cyber Security - Maturity Assessment (C2M2) with OT. Previous assessment only focused on IT.	Q3	+1
Enterprise Shared Services	CIP VERSION 5 Transition and Implementation Plan*	Name, Timing	Name changed to BES (Bulk Electric System) Cyber System Categorization to reflect changes in scope. The scope is focused on discussion with process owners.	Q3	0

*Denote hour reallocation from NYPA Custom Portal and Ariba Procurement audits.

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Status of 2015 Audit Recommendations

➢ Below is the status of the 2015 recommendations per rating of the individual findings. As ratings have been established for 2015 reports onwards, recommendations prior to 2015 do not include monitoring of the recommendations per ratings.

2015 Remediation	Total	High	Medium	Low
At 3/26/15	0	0	0	0
Added in Period	35	13	16	6
Closed in Period	0	0	0	0
Open @ End of Period	37	13	16	8

2015 Open Recommendations

- ■ High
- ■ Medium
- ■ Low
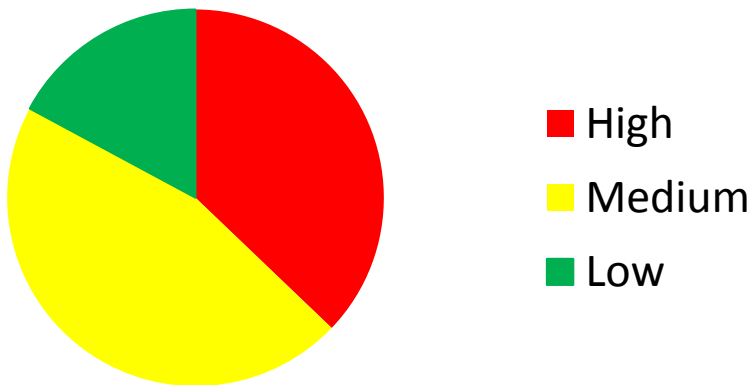
2014 & Prior Open Recommendations

- ■ Open
- ■ Closed
- ■ Overdue
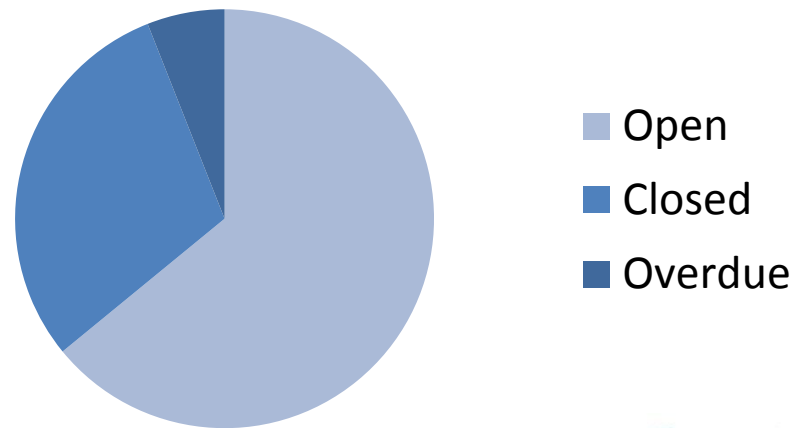
*Outstanding management action plans show up as in progress in lieu of overdue. Extension of recommendation can be requested by stakeholder and are evaluated by IA.

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Ongoing Department Transformation

Key People Actions

- Based on CAE analysis of resources, six additional headcount were requested and approved by CEO. Team is actively engaged in recruiting process. As of 7/15/15, three additional offers have been made (Manager, Team Lead and Senior Auditor)

- New organizational design has been created

- Since 3/26/15, one Director, two Team Leads and one Senior Auditor have been hired. Vacancies include one Audit Director – IT, one Audit Manager, one Team Lead, three Senior Auditors, and four Auditors

- Revised job descriptions, roles, and competency maps for each level

- Performed assessment of current staffing against competencies

- Revised critical hiring needs and commenced recruitment

- Communicated revised organizational chart and announced new hires

- Developed core on-boarding materials

- Commenced on-boarding of new hires

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Ongoing Department Transformation

Key Process Actions

- Performed enhanced risk assessment for FY15 internal audit plan
- Enhancing risk assessment, audit planning and execution approach
- Enhanced quality review process
- Revised Internal Audit charter (consent agenda)
- Revised department templates
- Enhanced reporting (executive summaries) and rating process
- Deployed new reporting and ratings
- Executing 2015 internal audit plan
- Revised AC communications and reporting

Technology

- Commenced documenting requirements needed for technology solutions
- Effort has been expanded to other risk management units (RMUs) to evaluate if synergy can be achieved

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Appendix A – 2015 IA Plan

	Audit #	Audit	Business Unit	Audit Type	Date Issued
Report Issued: 11					
1	IS015380	IT Project Management Office (PMO)	Enterprise Shared Services	Audit	5-13-15
2	FIN15440	Strategic Plan Governance and Execution	Business Services	Consultative	5-21-15
3	FIN15400	Compensation & Benefits	Enterprise Shared Services	Audit	6-04-15
4	IS015320	Cyber Security - Network Discovery	Enterprise Shared Services	Audit	6-09-15
5	OPR15140	Fleet Operations	Enterprise Shared Services	Audit	6-10-15
6	FIN15450	Cost Accounting Study	Business Services	Consultative	6-12-15
7	IS015390	Records Management	Enterprise Shared Services	Audit	6-26-15
8	OPR15220	Construction Projects	Business Services	Audit	7-10-15
9	OPR15260	Fraud Awareness Risk Assessment	Law Department	Consultative	7-14-15
10	IS015310	Cyber Security - Maturity Assessment with IT	Enterprise Shared Services	Audit	7-15-15
11	FIN15900	Finance & Accounting Niagara	Business Services	Audit	7-15-15
Fieldwork Complete – Report Pending Issuance: 4					
12	CON15001	First Energy	Business Services	Audit	
13	IS015340	Access Control Repository	Enterprise Shared Services	Audit	
14	FIN15420	Budgeting and Forecasting	Business Services	Audit	
15	OPR15230	O&M Cross Functionality	Operations	Consultative	
Fieldwork In Progress: 4					
16	OPR15900	Physical Security	Operations	Audit	
17	OPR15009	Licensing Operations	Public & Regulatory Affairs	Audit	
18	OPR15210	Contractor Tenure	Business Services	Audit	
19	FIN15430	Energy Efficiency Controls	Economic Development & Efficiency	Consultative	

Appendix A – 2015 IA Plan

	Audit #	Audit	Business Unit	Audit Type	Date Issued
Audit Planning In Progress: 9					
20	FIN15251	Purchasing/Warehousing - BG	Business Services	Audit	
21	IS015400	Cyber Security – Maturity Assessment with OT	Enterprise Shared Services	Audit	
22	IS015116	Asset Accounting/Maximo Post Implementation	Enterprise Shared Services	Audit	
23	OPR15250	FERC Dam Safety	Operation	Audit	
24	IS015720	Incident Response Plan Phase 2	Enterprise Shared Services	Audit	
25	OPR15003	NERC CIP V5 Policy and Procedures Assessment	Operations	Audit	
26	FIN15460	Disposal of Personal Property	Economic Development & Efficiency	Audit	
27	FIN15260	Energy Settlements, Scheduling and Load Forecasting	Economic Development & Efficiency	Audit	
28	FIN15115	Travel & Entertainment	Enterprise Shared Services	Audit	
Planning not started: 5					
29	IS015350	Data Loss Prevention	Enterprise Shared Services	Audit	
30	FIN15410	Meter to Cash	Business Services	Audit	
31	IS015330	BES (Bulk Electric System) Cyber System Categorization	Enterprise Shared Services	Audit	
32	IS015410	Enterprise Architecture Review	Enterprise Shared Services	Consultative	
33	OPR15130	HR Succession Planning	Operations	Consultative	

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