



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

**September 26, 2017**

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September 26, 2017

Minutes of the regular meeting of the New York State Canal Corporation's Audit Committee held at the Clarence D. Rappleyea Building, White Plains, at approximately 8:15 a.m.

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

Trustee Eugene Nicandri, Chairman  
Trustee John R. Koelmel  
Trustee Tracy McKibben

Trustee Anne M. Kress - Excused  
Trustee Anthony Picente, Jr. - Excused

**Also in attendance were:**

|                  |  |
|------------------|--|
| Dennis Trainor   | Trustee  |
| Gill Quiniones   | President and Chief Executive Officer                  |
| Justin Driscoll  | Executive Vice President and General Counsel           |
| Karen Delince    | Vice President and Corporate Secretary                 |
| Thomas Concadoro | Vice President and Controller                          |
| Joseph Gryzlo    | Vice President and Chief Ethics and Compliance Officer |
| Angela Gonzalez  | Director - Internal Audit - Technology                 |
| Lorna Johnson    | Senior Associate Corporate Secretary                   |
| Sheila Baughman  | Senior Assistant Corporate Secretary                   |
| Gottor, Jaiah    | Manager - Network Services                             |
| Joseph Rivera    | Network Architect                                      |
| Glen Martinez    | Senior Network Analyst                                 |
| Todd Fowler      | Lead Engagement Audit Partner - KPMG                   |
| Grace Kachigian  | Audit Manager - KPMG                                   |

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

**Introduction**

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

1. **Adoption of the Proposed Meeting Agenda**

Upon motion made by Trustee McKibben and seconded by Trustee Koelmel, the agenda for the meeting was adopted.

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

***Mr. Chairman, I move that the Committee conduct an executive session to discuss the employment history of a particular person (pursuant to §105 of New York Public Officers Law).*** Upon motion made by Trustee McKibben and seconded by Trustee Koelmel, an Executive Session was held.

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

***Mr. Chairman, I move to resume the meeting in Open Session.*** Upon motion made by Trustee Koelmel and seconded by Trustee McKibben, the meeting resumed in Open Session.

**4. CONSENT AGENDA:**

Upon motion made by Trustee Koelmel and seconded by Trustee McKibben, the Consent Agenda was approved.

a. **Approval of the Minutes of the Regular Meeting held on July 25, 2017**

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting held on July 25, 2017 were approved.

**5. DISCUSSION AGENDA:**

**a. Internal Audit Activity Report**

Mr. Joseph Gryzlo, Vice President and Chief Ethics Officer said that the Internal Audit (“IA”) department’s report consists of an organizational update, as well as a substantive summary of activities taking place with respect to the Audit Plans and preparations for 2018. He said that since the July Audit Committee meeting there has been an organizational transition in the Internal Audit department. At this time, he and Ms. Angela Gonzalez, Director of Internal Audit, Information Technology, are co-managing the department. They are providing leadership and ensuring the successful execution of the Audit Plans for both the Power Authority and the Canal Corporation. The Internal Audit team is fully engaged; the managers and staff level auditors have taken on additional responsibilities and are leveraging NYPA’s co-source Audit Partner, Deloitte, to provide subject matter expertise and to backfill audit field work and testing, where needed. He continued that, the Audit report, which Ms. Gonzales will provide to the committee, will include a summary of the execution of the 2017 NYPA and Canal Audit Plans, the preparation and initiation of the risk assessments which form the foundation for the development of the 2018 NYPA and Canal Audit Plans, as well as a summary of the legacy open audit recommendations that appeared in prior Audit Committee reports that have since been closed.

Ms. Gonzales provided an update of the Internal Activities (Exhibit 5a-A) as follows:

**2017 Audit Status**

Internal Audit (“IA”) is confident that the 2017 Audit Plan will be completed by the end of the year.

**Changes to 2017 Internal Audit Plan**

Based on risk information from discussions with management, changes were recently made to Canals’ governance, which is still maturing.

**Status of Open Recommendations**

Internal Audit tracks Canals’ issues in SharePoint; however, Canals does not have visibility into SharePoint because of the separation of NYPA’s and Canals’ internets. Internal Audit is actively working with Canals’ management to obtain Canals’ status for closure or extension.

Request for Proposals will be issued by the end of the month for an Enterprise Governance Risk and Control tool which will have an issue checking module for both NYPA and Canals.

**Status of 2018 Risk Assessment / Audit Plan**

Internal Audit has scheduled 55 interviews between NYPA and Canals management to prepare for the 2018 Audit Plan. IA had a kickoff meeting with its staff assigned to risk assessments, Enterprise Risk Management and Deloitte, to leverage some of the information they have attained through their risk assessment process which will be incorporated into the Plan.

**Key milestones of 2018 Internal Audit Risk Assessment/Audit Plan**

1. September 11 - Interviews conducted
2. October 9 - Interviews completed
3. October 9 - 11 - Internal Audit leadership team to develop a risk-based Audit Plan
4. October 16th - Refine and finalize draft Audit Plan
5. December 12 - Audit Plan to be submitted to the Audit Committee for approval

Mr. Gryzlo added that the transition was not foreseeable to the Audit Department; however, the department has committed support of the Audit Committee and the Executive Management to keep the group intact while ongoing recruitment efforts are underway with Human Resources to fill the vacant positions. Internal Audit staff is confident that they will successfully execute the 2017 Plan and prepare for 2018, while leveraging the resources of Deloitte, which is on-call to assist, if needed. Internal Audit understands that the long-term vision is to wean itself from the services of Deloitte; however, in this interim transition period, staff will need to rely on their services until Internal Audit is fully staffed and engaged next year.

**b. Audit Plan Update - KPMG**

Mr. Todd Fowler, KPMG's Lead Engagement Audit Partner, presented KPMG's Audit Plan for the 2017 Financial Statement Audit (Exhibit 5b-A). He said that the Plan is consistent with the prior years, and he will discuss some of the modifications and changes that have been made.

Mr. Fowler outlined the engagement team for the year saying that the team is consistent with previous years. KPMG has consistency in staffing on the engagement which results in efficiencies. In addition, KPMG has the same M/WBE resources on board that they have used in the past. The team in place should provide an efficient and effective audit for the current year.

**Risk Assessment**

Significant Audit Areas

1. Revenue recognition, Long-term debt, Capital assets, and Investments - Audit approaches are all consistent with how KPMG has audited NYPA's financial statements in the past.
2. Significant estimates - also consistent with the prior period.
3. Significant unusual transactions:

Canal Corporation Acquisition - the Canal Corporation will be incorporated into the financial statements of NYPA. KPMG is in the process of planning and executing its audit of the transferred balance. KPMG staff met with the prior auditors of the Canal Corporation and reviewed their work-papers to see how they were audited in prior periods in order to get comfortable with the balances transferred to NYPA. They have also met with NYPA's Internal Audit and Deloitte's teams and discussed what their approach is to auditing the assets and liabilities that are being transferred from Canals, to ensure that they are aligned in terms of audit approach for those items. In addition, they have also had discussions with Thomas Concadoro, NYPA's Vice President and Controller, on how those assets and liabilities will be reflected in NYPA's financial statements.

#### 4. Information Technology

KPMG have rigorously tested NYPA's Financial IT systems over the past several years and have not had any significant findings or found significant internal control deficiencies. KPMG is of the opinion that it is a well-controlled environment. Therefore, they will take a benchmarking approach this year ensuring that there are no significant changes within personnel and the systems or processes within the IT environment.

#### **Audit Plan - Scope**

In addition to the audit of the financial statements and providing an opinion on those statements, KPMG provides an opinion on the internal control environment of NYPA. KPMG also reports on the investment compliance and have also been working with Mr. Concadoro and his team with regards to providing consent and specific procedure letters related to the commercial paper program a potential bond offering.

#### **Audit Plan - Involvement of Others**

KPMG continually meets with Internal Audit to discuss:

- The status of the Internal Audit reports
- Findings made by Internal Audit that may impact KPMG's audit
- Reports KPMG can leverage as part of its audit
- Findings made by KPMG which could have an impact on Internal Audit's work-plan
- Coordination and design of the Internal Audit plan for the Canal Corporation

In conducting its audits, KPMG utilizes a number of their in-house experts to review at NYPA's externally prepared expert reports including Actuarial Reports for Post-retirement Benefit Obligations and Derivative Valuations.

#### **Audit Plan – Deliverables and Timeline**

KPMG has completed its planning for the audits and is now providing the Committee with its Audit Plan for the current year. KPMG has completed its risk assessment and scoping. Going forward, KPMG will start its interim work for NYPA and Canals with some standard testing, walk-throughs of internal processes and testing controls with the anticipation of this being completed in December. In the months of January and February KPMG will complete its audit work and present its audit results to the Committee at its meeting in March.

6. **Next Meeting**

Chairman Nicandri said that the next regular meeting of the Audit Committee would be held on December 12, 2017 at the Clarence D. Rappley Building in White Plains, New York at a time to be determined.

**Closing**

Upon motion made by Trustee Koelmel and seconded by Trustee McKibben, the meeting was adjourned by Chairman Nicandri at approximately 9:38 a.m.

*Karen Delince*

Karen Delince  
Corporate Secretary

September 26, 2017

# **EXHIBITS**

**For**

**Canal Corporation**

**Audit Committee**

**Minutes**

**September 26, 2017**



**NY Power  
Authority**

# ***Audit Committee Internal Audit Update***

***9/26/2017***

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## Executive Summary

- 2017 Audit Plan Status – NYPA and Canals
- Type of Internal Audit Projects
- Changes to 2017 Internal Audit Plan
- Status of Open Recommendations
- Status of 2018 Internal Audit Risk Assessment/Audit Plan

## Canal Corp

- 2017 Audit Plan Status – Canals
- Status of Open Recommendations
- Changes to 2017 Internal Audit Plan

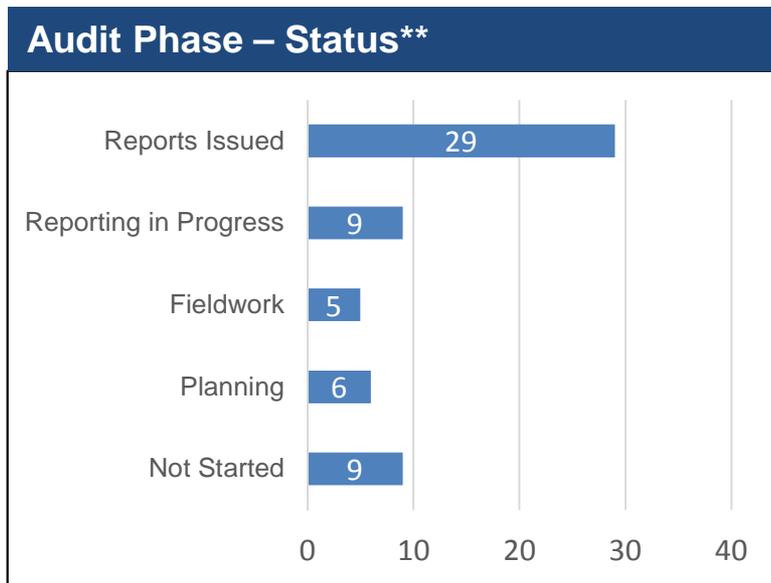
## Appendix

- Appendix A – 2017 Internal Audit Plan
- Appendix B – Changes to 2017 Internal Audit Plan
- Appendix C – 2017 Internal Audit Reports Issued/Ratings
- Appendix D – Status of Recommendations Prior to 2015

# Executive Summary

## Executive Summary

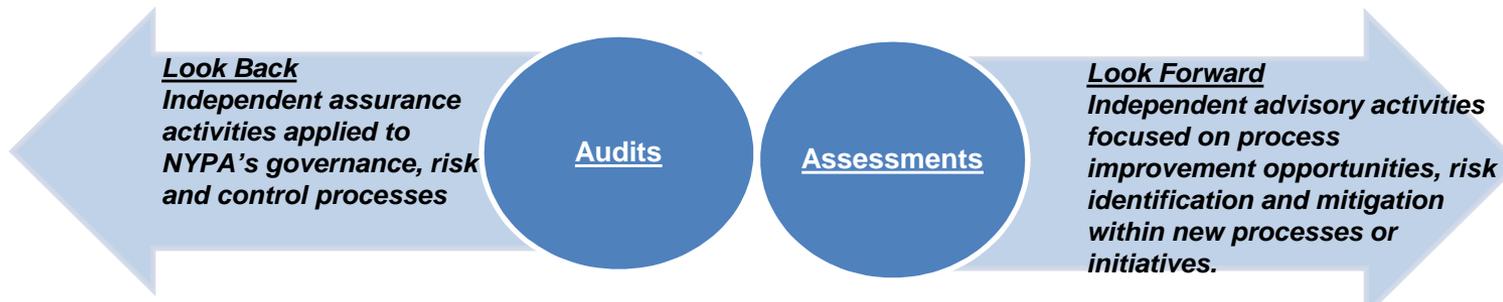
- **2017 Plan Status\***
  - 29 audit reports have been issued.
  - Nine additional audit projects are in the reporting stage.
  - 11 audits are in the fieldwork or planning stage.
  - Nine audits have not started, however, resources have been allocated (seven audits were scheduled for Q4 and two were moved to Q4).
  
- Internal Audit staff are engaged in 31 consulting projects and partnering arrangements resulting in either documented or real time verbal feedback. Engagements are categorized as Strategic Initiative or Process Improvement.



NOTE: \* See Appendix A and C for details

\*\* Information includes both NYPA and Canal related IA activities

# Types of Internal Audit Projects



## Consulting Activities

### Ongoing:

*Internal Audit is considered as a partner and trusted advisor. Consulting activities vary and can result in documented or real time verbal feedback. Generally:*

- *Scope – defined by consulting activity needed with the client.*
- *Timing – may not require significant time investment from Internal Audit, can have no defined start and end date or may require longer periods of audit engagement.*
- *Reporting – may or may not have a memo or formal audit deliverable.*
- *Activity Types – Internal Audit provides real-time control advice and feedback, may review process and control design development or rollout of departmental program roadmaps.*

## Changes to 2017 Internal Audit Plan

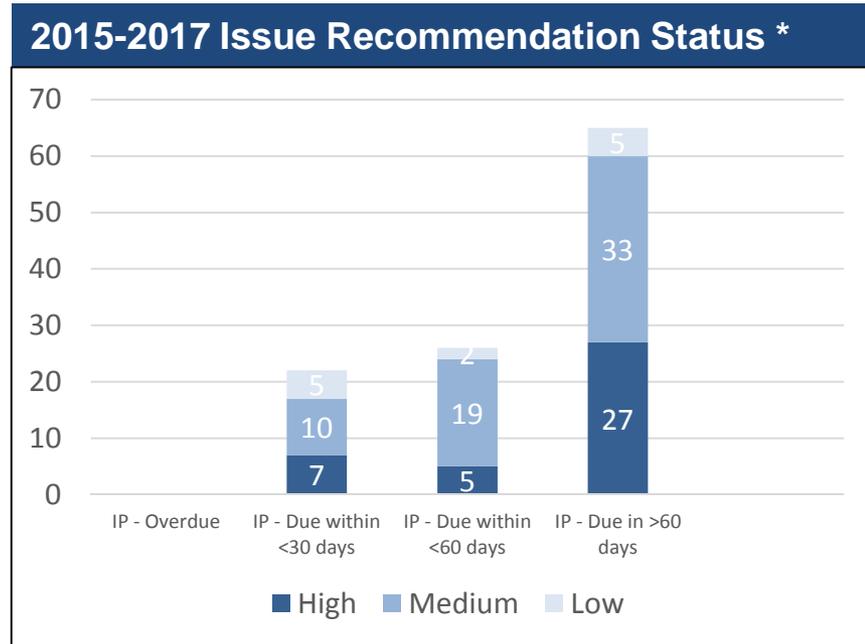
- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams, partnership arrangements and discussions with leadership. As a result, the following changes have been made to the 2017 Internal Audit Plan. Details explaining rationale for changes can be found in Appendix B.

| 2017 Audit Status   | 9/14/17 |
|---|---------|
| Open 2017 Internal Audit Plan   | 55      |
| <b>Audits Added to 2017 Internal Audit Plan</b>   |         |
| <b>NYPA:</b> IT Demand Management, OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit | +2      |
| <b>Canals:</b> None   |         |
| <b>Audits Removed from 2017 Internal Audit Plan</b>   |         |
| <b>NYPA:</b> SDLC Improvement Support   | -3      |
| <b>Canals:</b> Canals Governance and Rizzo Study  |         |
| <b>Total 2017 Audits</b>  | 54*     |

\*The number of total 2017 audit projects is 54, however, the following consulting engagements have more than one audit deliverable whereby interim status memos are issued: NERC CIP Audit Prep Support, Ariba System Implementation – Contract Lifecycle Management Module and Cyber Security Roadmap Consulting Support. This brings the number of total deliverables to 58 as shown on slide 3.

## Status of Open Recommendations

- Internal Audit has been using SharePoint to track open recommendations and as of June has implemented formal monthly reporting to NYPA Senior Leadership.
- Internal Audit is tracking open recommendations for Canals using SharePoint and interacts with Canals Management to obtain remediation or closure status on a monthly basis. Request for Proposals are expected to be issued this month to provide and execute an Enterprise Governance Risk and Compliance tool which will include tracking for both NYPA and Canals.
- All recommendations prior to 2015 including the five recommendations discussed at the July Audit Committee Meeting have been closed (See Appendix D for details).
- Internal Audit is satisfied with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



\*NOTE: Information includes both NYPA and Canal related IA activities

## Status of 2018 IA Risk Assessment/Audit Plan

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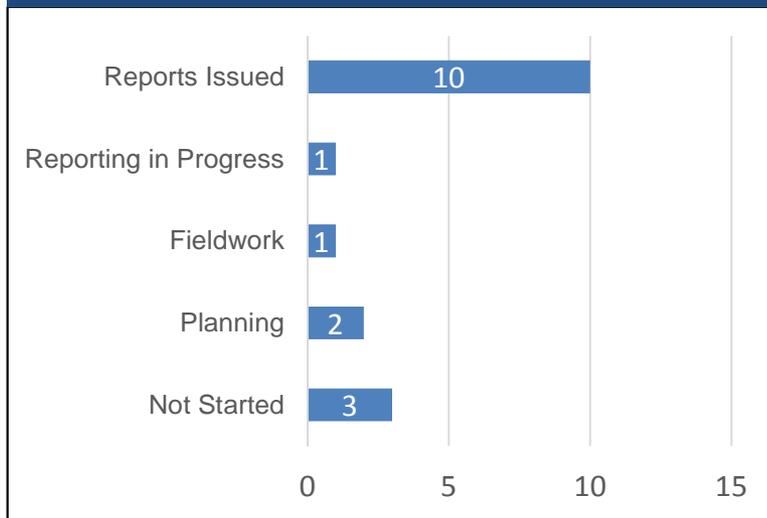
- Internal Audit has scheduled approximately 55 interviews with EMC members and their direct reports which include Canals management.
- Internal Audit Leadership held a kick-off meeting with the Internal Audit Team involved with conducting risk assessments on September 8 which included Deloitte co-source support and Enterprise Risk Management. We are collaborating with Enterprise Risk Management to leverage risk-related information relevant to risk assessment.
- Key milestones of 2018 Internal Audit Risk Assessment/Audit Plan Timeline:
  - Interviews kicked off the week of September 11.
  - Interviews will be completed the week of October 2.
  - Internal Audit Leadership will meet October 9-11 to develop a Draft 2018 Internal Audit Plan.
  - Refine first draft of 2018 Internal Audit Plan and create A&B lists based on resources the week of October 16.
  - Socialize draft audit plan with management between the end of October through early November.
  - Finalize Draft 2018 Internal Audit Plan the week of October 16.
- The draft 2018 Internal Audit Plan will be shared with the Audit Committee prior to its presentation for approval at the December meeting.

# Canal Corp.

## 2017 Audit Plan Status – Canals

- **2017 Plan Status:**
  - 10 audit reports have been issued.
  - One additional audit project is in the reporting stage.
  - Three audits are in the fieldwork or planning stage.
  - Three audits have not started.
  - No significant risks have been identified on unissued reports at this time.

### Audit Phase - Status

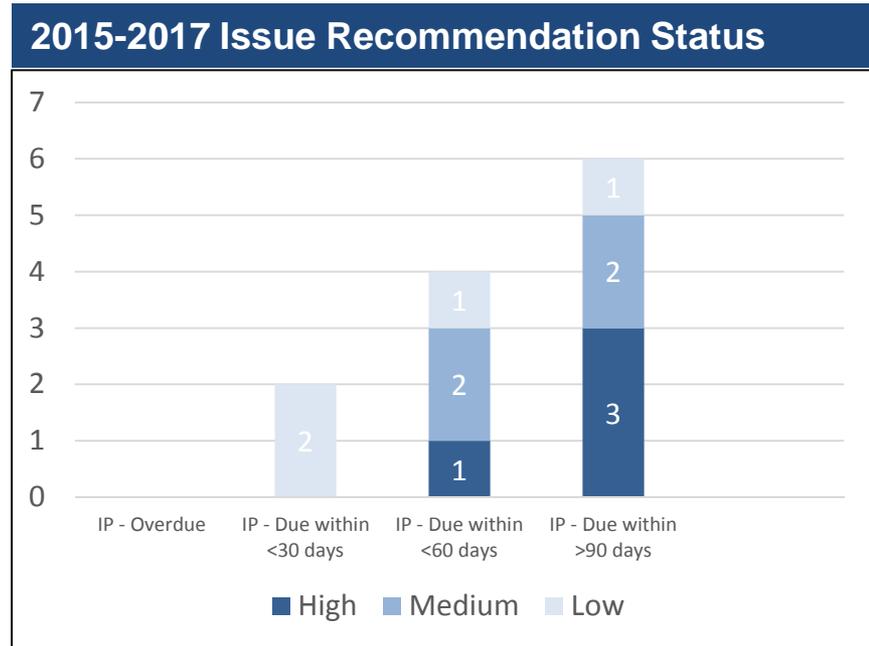


### Report Ratings



## Status of Open Recommendations - Canals

- Internal Audit is now using SharePoint to track Canals open recommendations and as of June has implemented formal periodic reporting to Senior Leadership.
- Internal Audit is tracking open recommendations for Canals using SharePoint and interacts with Canals Management to obtain remediation or closure status on a monthly basis. Request for Proposals are expected to be issued this month to provide and execute an Enterprise Governance Risk and Compliance tool which will include tracking for both NYPA and Canals.
- Internal Audit is satisfied with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



## Changes to 2017 Internal Audit Plan - Canals

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams, partnership arrangements and discussions with leadership. As a result, the following changes have been made to the 2017 Internal Audit Plan (details explaining rationale for changes can be found in Appendix B):

| 2017 Audit Status   | 9/14/17 |
|---|---------|
| Open 2017 Internal Audit Plan   | 19      |
| <b>Audit Added to 2017 Internal Audit Plan:</b><br>None                                   | +0      |
| <b>Audits Removed from 2017 Internal Audit Plan:</b><br>Canals Governance and Rizzo Study | -2      |
| <b>Total 2017 Audits</b>  | 17      |

# Appendix

# Appendix A – 2017 Internal Audit Plan

| Ref.                                     | Entity | Audit  | Business Unit                   | Audit Type | Date Issued |
|--|--------|--|---------------------------------|------------|-------------|
| <b>Deliverable Issued: 29</b>            |        |  |                                 |            |             |
| 1  | NYPA   | HTP First Energy Additional Follow-up                          | Utility Operations              | Consulting | 3-17-17     |
| 2  | NYPA   | Customer Compliance Audits                                     | Commercial Operations           | Audit      | 3-21-17     |
| 3  | NYPA   | Contributions, Sponsorships and Events                         | Entity-Wide                     | Audit      | 3-29-17     |
| 4  | NYPA   | BG SCADA Pre/Post Implementation                               | Technology                      | Audit      | 3-30-17     |
| 5  | NYPA   | Business Resiliency Governance Assessment                      | Entity-Wide                     | Assessment | 4-3-17      |
| 6  | NYPA   | Enterprise Risk – Top Risk Action Plan Follow-up               | Entity-Wide                     | Assessment | 4-12-17     |
| 7  | NYPA   | Transitional Position Utilization Assessment                   | HR & Enterprise Shared Services | Assessment | 4-26-17     |
| 8  | NYPA   | NERC CIP Audit Prep Support 1                                  | Utility Operations              | Consulting | 5-12-17     |
| 9  | NYPA   | Customer Credit  | Entity-Wide                     | Assessment | 6-5-17      |
| 10                                       | NYPA   | Muni/Coop Regulation Audit                                     | Commercial Operations           | Audit      | 6-9-17      |
| 11                                       | NYPA   | Transmission Cost of Service                                   | Entity-Wide                     | Audit      | 6-14-17     |
| 12                                       | NYPA   | Ariba System Implementation – Contract Lifecycle Mgmt Module 1 | Technology                      | Audit      | 6-28-17     |
| 13                                       | NYPA   | Western NY – Customer Compliance Audits (D&M)                  | Commercial Operations           | Audit      | 6-30-17     |
| 14                                       | NYPA   | Deferred Asset Accounting                                      | Business Services               | Audit      | 7-21-17     |
| 15                                       | NYPA   | HTP Operations   | Commercial Operations           | Audit      | 7-25-17     |
| 16                                       | NYPA   | Cyber Security Roadmap Consulting Support 1                    | Technology                      | Consulting | 7-28-17     |
| 17                                       | NYPA   | NERC CIP Audit Prep Support 2                                  | Utility Operations              | Consulting | 7-28-17     |
| 18                                       | NYPA   | Operating System Security                                      | Technology                      | Audit      | 8-15-17     |
| 19                                       | NYPA   | 2016 OSC Audit – Remediation Follow-up                         | Entity-Wide                     | Audit      | 9-8-17      |
| 20                                       | Canals | Canals Non-SAP Applications and Infrastructure                 | Technology                      | Audit      | 4-5-17      |
| 21                                       | Canals | Canals Invoice Review  | Business Services               | Audit      | 4-12-17     |
| 22                                       | Canals | PCI Compliance   | Technology                      | Audit      | 6-14-17     |
| 23                                       | Canals | Pre/Post Day 1 Balance Review                                  | Business Services               | Audit      | 6-20-17     |
| 24                                       | Canals | P-Cards  | Entity-Wide                     | Assessment | 6-27-17     |
| 25                                       | Canals | SAP Migration Phase 2  | Technology                      | Audit      | 6-29-17     |
| 26                                       | Canals | Physical Asset Verification                                    | Entity-Wide                     | Audit      | 6-30-17     |
| 27                                       | Canals | User Access Management   | Technology                      | Audit      | 7-31-17     |
| 28                                       | Canals | PCI Compliance – Website Assessment                            | Technology                      | Assessment | 8-15-17     |
| 29                                       | Canals | Canals TSA Management  | Technology                      | Audit      | 9-14-17     |
| <b>Reporting - Fieldwork Complete: 9</b> |        |  |                                 |            |             |
| 30                                       | NYPA   | Cyber Security Roadmap Consulting Support 2                    | Technology                      | Consulting |             |
| 31                                       | NYPA   | Direct Expenses  | Entity-Wide                     | Assessment |             |

# Appendix A – 2017 Internal Audit Plan

|                                      | Entity | Audit  | Business Unit                   | Audit Type | Date Issued |
|--------------------------------------|--------|--|---------------------------------|------------|-------------|
| 32                                   | NYPA   | NERC CIP Audit Prep Support 3                                  | Utility Operations              | Consulting |             |
| 33                                   | NYPA   | Siemens - Third Party Contract Audit                           | Entity-Wide                     | Audit      |             |
| 34                                   | NYPA   | Generator Meter to Cash  | Entity-Wide                     | Audit      |             |
| 35                                   | NYPA   | Physical Security Investments Assessment                       | Utility Operations              | Assessment |             |
| 36                                   | NYPA   | Post-Retirement Benefits                                       | Business Services               | Audit      |             |
| 37                                   | NYPA   | OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit       | Entity-Wide                     | Consulting |             |
| 38                                   | Canals | Expenditure Authorization Procedure (EAP) Compliance           | Entity-Wide                     | Audit      |             |
| <b>Fieldwork In Progress: 5</b>      |        |  |                                 |            |             |
| 39                                   | NYPA   | Ariba System Implementation – Contract Lifecycle Mgmt Module 2 | Technology                      | Audit      |             |
| 40                                   | NYPA   | New York Energy Manager – Technology Process Assessment        | Commercial Operations           | Assessment |             |
| 41                                   | NYPA   | Telecom Cost Recovery Project                                  | Technology                      | Audit      |             |
| 42                                   | NYPA   | ABB – Third Party Contract Audit                               | Entity-Wide                     | Audit      |             |
| 43                                   | Canals | Canals – Permit Management                                     | Entity-Wide                     | Audit      |             |
| <b>Audit Planning In Progress: 6</b> |        |  |                                 |            |             |
| 44                                   | NYPA   | Employee Data Protection                                       | HR & Enterprise Shared Services | Audit      |             |
| 45                                   | NYPA   | LPGP LEM   | Utility Operations              | Audit      |             |
| 46                                   | NYPA   | ISO 55000 Framework Design Support                             | Utility Operations              | Consulting |             |
| 47                                   | NYPA   | Customer Energy Solutions Redesign Support                     | Commercial Operations           | Consulting |             |
| 48                                   | Canals | Pension/Other Post Retirement Benefits                         | Business Services               | Audit      |             |
| 49                                   | Canals | OSC Audit Follow-up  | Entity-Wide                     | Audit      |             |
| <b>Planning Not Started: 9</b>       |        |  |                                 |            |             |
| 50                                   | NYPA   | Enterprise Portfolio Management Design Assessment              | Entity-Wide                     | Assessment |             |
| 51                                   | NYPA   | Hydro Forecast Process   | Utility Operations              | Audit      |             |
| 52                                   | NYPA   | IT Disaster Recovery (DR)                                      | Technology                      | Assessment |             |
| 53                                   | NYPA   | Indirect Expenses – Cost Allocations                           | Entity-Wide                     | Audit      |             |
| 54                                   | NYPA   | New York Energy Manager – Program Support                      | Commercial Operations           | Consulting |             |
| 55                                   | NYPA   | IT Demand Management   | Technology                      | Audit      |             |
| 56                                   | Canals | EH&S Study Follow-up   | Utility Operations              | Assessment |             |
| 57                                   | Canals | Canals IT Demand Management                                    | Technology                      | Audit      |             |
| 58                                   | Canals | Canals Crisis Management                                       | Entity-Wide                     | Audit      |             |

## Appendix B - Changes to 2017 Internal Audit Plan – Canals

| Business Unit             | Audit Name             | Change                | Rationale                                   | Est. Start | Impact to IA Plan |
|---------------------------|------------------------|-----------------------|---|------------|-------------------|
| <b>Technology</b>         | IT Incident Management | Name and Scope Change | Change Name to Canals IT Demand Management. | Q4         | 0                 |
| <b>Entity-Wide</b>        | Canals Governance      | Removed from Plan     | Premature at this time.                     | N/A        | -1                |
| <b>Utility Operations</b> | Rizzo Study            | Removed from Plan     | Combine work with OSC Follow-up Project.    | N/A        | -1                |

## Appendix C – 2017 Internal Audit Reports Issued/Ratings - Canals

| 2017 Internal Audit Report                     | Audit Report Rating  | Assessment/Consulting* |
|--|--|------------------------|
| PCI Compliance                                 | Good                |                        |
| Canals Non-SAP Applications and Infrastructure | Satisfactory        |                        |
| Canals TSA Management                          | Satisfactory        |                        |
| Pre/Post Day 1 Balance Review                  | Improvement Needed  |                        |
| P-Cards  | Improvement Needed  |                        |
| SAP Migration Phase 2                          | Improvement Needed  |                        |
| Physical Asset Verification                    | Improvement Needed  |                        |
| User Access Management                         | Improvement Needed  |                        |
| PCI Compliance – Website Assessment            |  | Assessment Report      |
| Canals Invoice Review                          |  | Memo                   |

\*Assessment Reports and Memos are not rated deliverables.



# New York Power Authority Audit plan December 31, 2017

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September 26, 2017

# Agenda

**1.0 Client Service Team**

**2.0 Objective of an audit**

**3.0 Risk Assessment**

**4.0 Audit Plan**

**5.0 KPMG's Audit Committee Institute and Global Energy Institute**

## **Appendices**

**A.1 Responsibilities**

**A.2 KPMG's audit approach and methodology**

**A.3 Materiality**

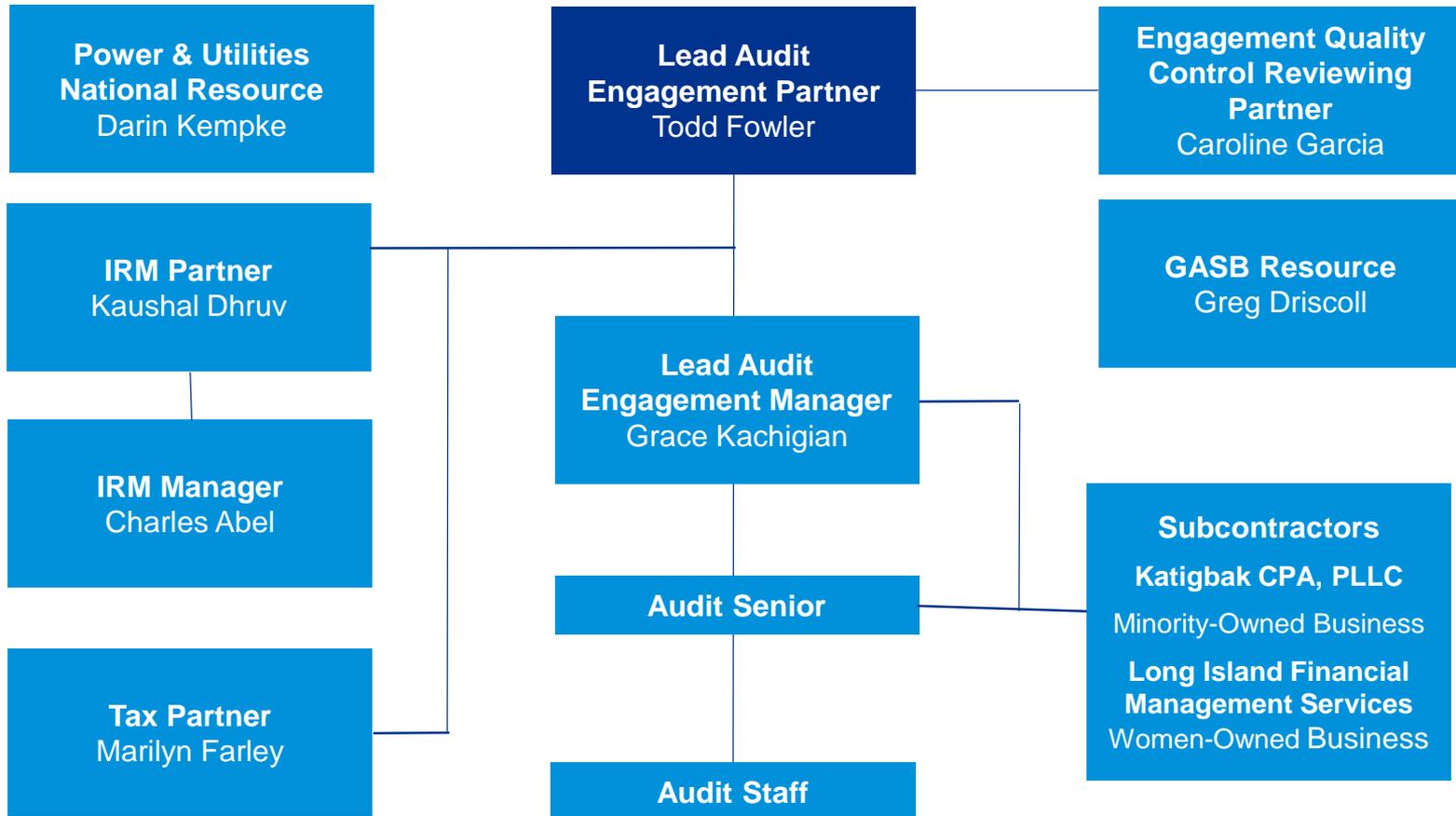
**A.4 Independence**



1.0

Client service team

# Client service team





2.0

Objective of an audit

# Objectives of an audit

- The objective of an audit of 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).
- We plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Although not absolute assurance, reasonable assurance is a high level of assurance.
- Our audit includes:
  - Performing tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion.
  - Assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.



3.0

Risk assessment

# Risk assessment

| Significant audit areas  | Significant estimates  | Significant unusual transactions/other items   | Information technology matters  |
|--|--|--|---|
| <ul style="list-style-type: none"> <li>— Revenue recognition</li> <li>— Long term debt</li> <li>— Capital assets</li> <li>— Investments</li> </ul> | <ul style="list-style-type: none"> <li>— Asset retirement obligations</li> <li>— Derivative valuations</li> <li>— Pension and Other post-employment benefits</li> <li>— Investments</li> </ul> | <ul style="list-style-type: none"> <li>— Implementation of new accounting pronouncements</li> <li>— Assessment of any outstanding, pending or threatened litigation</li> <li>— Canal Corp acquisition</li> <li>— Bond offering, if applicable</li> </ul> | <ul style="list-style-type: none"> <li>— General information technology environment</li> <li>— Related application controls</li> <li>— Existing systems upgrade</li> <li>— Systems integration</li> </ul> |



4.0

Audit plan

# Audit plan - Scope

|   |   |
|---|---|
| <b>Scope of work</b>                            | <i>Audit of the consolidated financial statements for the New York Power Authority as of and for the two-year period ended December 31, 2017</i>  |
| <b>Applicable financial reporting framework</b> | <i>U.S. generally accepted accounting principles (GAAP), including Government Accounting Standards, as issued by the Government Accounting Standards Board (GASB)</i>   |
| <b>Applicable auditing standards</b>            | <p><i>We perform our audit in accordance with:</i></p> <ul style="list-style-type: none"> <li><i>-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)</i></li> <li><i>-Government Auditing Standards issued by the Comptroller of the United States</i></li> </ul>  |
| <b>Other terms of engagement</b>                | <p><i>Additional Reports to be issued:</i></p> <ul style="list-style-type: none"> <li><i>-Report on Internal Control Over Financial Reporting and Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards as of December 31, 2017</i></li> <li><i>-Report on Investment Compliance as of December 31, 2017</i></li> <li><i>-Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance, if applicable</i></li> <li><i>-Revenue Bonds issuance consent and comfort letter, if applicable</i></li> </ul> |

# Audit plan - KPMG Approach

- Debrief on audit process
- Plan audit approach for upcoming year-end audit
- Identify key members of the engagement team, including specialists

- Perform risk assessment procedures and identify risks
- Determine audit approach
- Evaluate entity-level controls
- Determine planned audit approach
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls including general IT controls, where applicable.
- Coordination with Internal Audit/ component auditors
- Present audit plan to Audit Committee



- Perform analytical or other procedures to roll forward account balances to year-end
- Perform remaining audit procedures
- Discuss key issues and deficiencies identified with management
- Attend Audit Committee meeting and perform required communications
- Review of financial statement disclosures
- Obtain written representation from management
- Issue audit opinion on [consolidated and subsidiary] financial statements

- Meetings with management to discuss key issues
- Perform interim substantive audit procedures
- Perform site visits

# Audit plan - Deliverables and time line

| September – November 2017   |   | December 2017   | January – February 2018   | March 2018  |
|---|---|---|---|---|
| <ul style="list-style-type: none"> <li>— Present 2017 Audit Plan to the Audit Committee</li> <li>— Identify financial statement fraud risks and assess the effect on the audit plan</li> <li>— Perform risk assessment procedures and identify risks</li> <li>— Assessment of audit risk and planning of substantive audit procedures</li> <li>— Determine audit strategy and identify critical accounting matters</li> <li>— Canals site visit</li> <li>— Canals review of prior year auditor's workpapers</li> <li>— Analysis of Canals accounting treatment</li> </ul> | <ul style="list-style-type: none"> <li>— Plan audit procedures</li> <li>— Finalize planned audit approach</li> <li>— Perform walkthroughs of internal control processes</li> <li>— Test entity-wide and monitoring controls</li> <li>— Evaluate design of selected key controls</li> <li>— Test operating effectiveness of selected key controls</li> <li>— Perform interim substantive procedures</li> <li>— Evaluation of interim results and establish plan for performance of substantive audit procedures</li> </ul> | <ul style="list-style-type: none"> <li>— Perform/send year-end confirmations (e.g. legal, debt, cash, investments, accounts receivable, revenue and derivatives)</li> <li>— Inventory observation attendance</li> </ul> | <ul style="list-style-type: none"> <li>— Meetings with management to discuss key issues</li> <li>— Test operating effectiveness of selected year-end controls</li> <li>— Perform substantive procedures and tests of detail</li> <li>— Perform procedures related to the Authority's investment compliance with the State of New York guidelines</li> <li>— Consider if audit evidence is sufficient and appropriate</li> <li>— Conclude on critical accounting matters and issues</li> </ul> | <ul style="list-style-type: none"> <li>— Confirm completion procedures</li> <li>— Form audit conclusions</li> <li>— Perform overall evaluation of financial statements and disclosures</li> <li>— Present required communications to Audit Committee</li> <li>— Form audit opinion on financial statements</li> <li>— Report on Internal Control over Financial Reporting and Compliance on Other Matters</li> <li>— Report on Investment Compliance</li> <li>— Finalize all deliverables</li> <li>— Prepare management letter comments, if applicable</li> </ul> |

# Audit plan - Involvement of others

## Financial statement audit

### — Internal Audit

**KPMG will work with the Authority's Internal Audit function to perform a more efficient audit. Throughout our audit we will regularly meet with Internal Audit to discuss:**

- The status of the internal audit reports
- Findings made by internal audit and determine the impact to our audit
- Reports we can leverage as part of our audit
- Findings made by KPMG which could have an impact on internal audit's reports
- Best practices observed by KPMG
- Coordination and design of Internal Audit plan for auditing the Canals Corp.

# Audit plan - Involvement of others (continued)

## Financial statement audit

### — External Experts and Service Organizations

| External Expert / Service Organization | Financial Statement Account                     | Description of Work   |
|--|---|---|
| — Swap Financial Group                 | — Risk management activities - derivatives      | — Determine the fair value and hedge effectiveness of interest rate swaps               |
| — PA Consulting Group                  | — Risk management activities – derivatives      | — Determine the fair value of commodity swaps   |
| — Buck Consulting                      | — Other postemployment benefit obligation/asset | — Actuarial report for the Authority’s GASB 45 Other Postemployment Benefits            |
| — J.P. Morgan<br>— Bank of NY Mellon   | — Investment in securities                      | — Custodian for the Authority’s investment portfolio                                    |
| — Ceridian                             | — Payroll expense                               | — Payroll services for the Authority  |
| — New York ISO                         | — Revenue and accounts receivable               | — Billing and settlement services related to the purchase and sale of power in New York |



5.0

KPMG's Audit  
Committee Institute  
and Global Energy  
Institute

## KPMG's Audit Committee Institute (ACI)

In depth insights. In time to matter.

### ACI programs

- Audit Committee Roundtable Series
  - Approximately 25 cities each Spring/Fall
- Quarterly Audit Committee Webcast
  - A quarterly Webcast providing updates and insights into issues affecting Audit Committee/board oversight—from key accounting and regulatory changes to developments in risk oversight.
- 14<sup>th</sup> Annual Audit Committee Issues Conference
  - January 8-10, 2018 in San Diego, California

### Suggested publications (available for download at [www.kpmg.com/aci](http://www.kpmg.com/aci))

- Directors Quarterly
- Global Boardroom Insights
- On the 2017 Audit Committee and Board Agendas
- Global Audit Committee Survey

### Resources

- ACI Web site: [www.kpmg-institutes.com/institutes/aci.html](http://www.kpmg-institutes.com/institutes/aci.html)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)
- *Audit Committee Insights – U.S. and International editions (biweekly electronic publications):* [www.kpmginsights.com](http://www.kpmginsights.com)

# KPMG's Global Energy Institute

## Recent Publications

- [Plugged In: Issues impacting the power and utilities industry](#)

## 2018 KPMG Global Energy Conference

- June 6-7, 2018, Royal Sonesta Hotel Houston, Texas

## Webcasts on Demand

- [KPMG/NACD Quarterly Audit Committee Webcast: Proxy Season Hot Topics](#)

## Resources

- [KPMG Institutes Website](#)
- [Global Energy Institute Website](#)
- **Audit Committee Insights – U.S and International editions (biweekly electronic publications):**  
[www.kpmginsights.com](http://www.kpmginsights.com)



# Appendices



A.1

# Responsibilities

# Responsibilities

## **Management is responsible for:**

- Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Ensuring that the Authority operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the Authority's financial statements, and for informing the auditor of any known material violations of such laws and regulations
- To provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements and affirming 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.
- 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 Authority's financial reporting
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent , deter, and detect fraud.

# Responsibilities (continued)

## **The Audit Committee is responsible for:**

- Oversight of the financial reporting process and oversight of ICOFR
- Oversight of the establishment and maintenance by management of programs and 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:**

- Planning and performing our audit, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Conducting the audit in accordance with professional standards and complying with the rules and regulations of 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
- 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
- An audit of the financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.
- Communicating to the Audit Committee all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the Authority's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.
- Communicating to the Audit Committee circumstances that affect the form and content of the auditors' report, if any.

# Responsibilities for other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.
- The auditors' responsibility is to make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact.
- Any material inconsistencies or misstatements of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.



A.2

KPMG's audit  
approach and  
methodology

# KPMG's audit approach and methodology

## Technology-enabled integrated 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

- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation 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 internal controls, if applicable

### Testing

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

# Audit plan - 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 that may result in material misstatements
- 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 regulators, if applicable
- The attitudes, awareness, and actions concerning (a) the entity's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud
- Developments in financial reporting, laws, accounting standards, corporate governance, and other related matters
- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations
- Significant issues discussed with management in connection with the appointment or retention of the auditor, including significant discussions regarding the application of accounting principles and auditing standards.
- Previous communications with the auditor



A.3

Materiality

# Audit plan - 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

Independence

# KPMG independence quality controls

**KPMG's independence policies require that the firm, its partners and management group, and the personnel assigned to each audit engagement must be free from financial interests in and prohibited relationships with the client, its management, its directors, and its significant owners.**

**KPMG also maintains a system of audit quality control that is designed to meet or exceed the requirements of applicable professional standards issued by the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA).**

The firm is subject to three sources of examinations:

- Peer review
- Internal inspection processes (full exam, in-flight, and in-depth)
- Regulatory external reviews

No issues identified that might have a material adverse effect on the firm's operations or our ability to fulfill our obligations as independent auditor to our clients.



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