

MINUTES OF THE ONE HUNDRED TWENTY-FIRST MEETING OF THE  
AUDIT AND FINANCE COMMITTEE  
HELD ON SEPTEMBER 22, 2014

Pursuant to a notice dated September 10, 2014, a copy of which is annexed hereto, the one hundred twenty-first (121<sup>st</sup>) meeting of the Audit and Finance Committee (“Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (“Authority”) was convened at 11:00 a.m. on Monday, September 22, 2014, in the Authority’s Albany Office at 17 Columbia Circle, Albany, New York, and in the Authority’s New York City Office located at 1359 Broadway, New York, New York.

The following members of the Committee were present in New York City, unless otherwise indicated:

Jay Koh, Chair  
Sherburne Abbott (Albany)  
Jigar Shah

Also present were John B. Rhodes, President and CEO; Janet Joseph, Vice President for Technology and Strategic Planning; David Margalit, Chief Operating Officer; Jeffrey J. Pitkin, Treasurer; Noah C. Shaw, Esq., General Counsel; Sara LeCain, Esq., Senior Counsel and Secretary to the Audit and Finance Committee; Mark Mitchell, Director of Internal Audit; and various other staff of the Authority.

Mr. Koh called the meeting to order, and stated that the meeting notice and agenda were mailed to the members and the press on September 10, 2014. The first item on the agenda concerned the approval of the minutes of the one hundred twentieth (120<sup>th</sup>) meeting of the Committee held on May 5, 2014.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the one hundred twentieth (120<sup>th</sup>) meeting of the Committee, held on May 5, 2014, were approved.

Mr. Koh indicated that the next item on the agenda was a report from Mark Mitchell, the Authority's Director of Internal Audit, on his recent activities since the last Committee meeting. Mr. Koh then called on Mr. Mitchell to begin his report.

Mr. Mitchell began by reporting on a recently completed audit of Authority contract oversight in its agreements with Lockheed Martin Services (the "Contractor"). Mr. Mitchell stated that the Members were provided with a full copy of the report, and that the audit evaluated whether the Contractor complied with the terms and conditions of three agreements it has with the Authority. The audit also evaluated the effectiveness of program staff oversight of contract payments made to the contractor.

The Contractor specifically provided two sets of services under the audited contracts. The first set of services was to provide planning and assistance with the implementation of the Authority's New York Products Program. The second set of services was to provide support to the New York Energy Smart community coordinators, and to provide the Authority with a variety of implementation services, including collecting information and metrics used in reports produced by the Authority and used by the U.S. Department of Energy. Mr. Mitchell stated that, with regard to the report results, direct and indirect expenses appear to be necessary and reasonable and monthly invoice review and approval activities performed by Authority staff was satisfactory. The Authority's program and finance staff have adequate control over invoice review activities and payment processing, and no costs were disallowed. It was also reported that, in general, the evaluated controls were adequate to provide reasonable assurance that risks were being managed and that objectives should be met. Furthermore, there were no significant deficiencies.

Mr. Mitchell added that the audit identified and communicated a few opportunities to improve Authority-wide and program-level operating practices. A notable opportunity is the

improvement of the Authority's boilerplate language for implementation service contracts, while another opportunity is the improvement of tracking a handful of assets purchased in support of program activities. Mr. Mitchell stated that management has agreed to implement all the recommendations in the report.

Mr. Koh commended the efforts of the Authority's internal audit process, particularly the fact that execution within the Authority itself has been found to be good over the years. He noted that management and staff take a constructive approach to improving reimbursement calculations for direct costs.

Mr. Mitchell then continued his report by turning to a recently completed audit of the recoupment review, which was a process improvement review that management requested. The Authority makes awards to inventors, entrepreneurs, and other grant applicant proposers whose technology shows promise in advancing energy innovation. The awards are made by entering into product development agreements. These agreements have two basic phases—a project implementation phase and a recoupment repayment eligibility phase, which occurs as an Authority funded company moves towards commercialization. While the prime objective of the Authority is the development or demonstration of technology, the Authority has also historically chosen to share in the success of a project for product development above a certain threshold. As such, whenever repayment is anticipated to be required, the Authority includes a recoupment provision in its agreements. Recoupment requires the recipient of the funds to pay a royalty based on sales of the newly developed product, process, or service, and annual receipts from recoupment have recently averaged around \$700,000 a year, with at least one three year period averaging just over \$1,000,000 a year.

The scope of the process improvement review, therefore, focused on two main processes—the identification of contracts with recoupment requirements, and the annual collection process. Mr. Mitchell stated that each of those processes have several components, and the report provides insight into how the existing processes work and may be improved so that the Authority receives increased revenue from recoupment receipts.

Mr. Mitchell noted that some improvements have already been made. For example, improvements have already been made so that staff who handle award payments are more consistently notified when the project implementation phase is being closed.

Mr. Mitchell pointed out that management also wishes to put in place an additional method of identifying and tracking recoupment agreements as they are being entered into, rather than waiting for the project implementation phase to be completed. The current design of the system, however, does not provide a way to easily distinguish between those recoupment contracts that are still in the project implementation phase, and therefore are not yet eligible for having to make recoupment payments, and those that are eligible for having to make recoupment payments. Management has asked that modifications are made to the Authority's enterprise resource planning system, so that by March 31, 2015 recoupment agreements can be tracked at the time they are entered into.

Mr. Mitchell then stated that the most significant opportunity to improve the recoupment process is for Contract Management and Research and Development ("R&D") staff to work together and develop a more systematic way to follow up with contactors who have not submitted sales reports. Management is committed to establishing a series of progressive follow up activities within the next 60 days that will assign responsibilities among Contract Management, Finance, and R&D staff.

Mr. Mitchell then reported on current Internal Audit activities and provided updates on audits currently ongoing. Before doing so, Mr. Mitchell reminded the Members that internal audits typically have four phases—a survey phase, a fieldwork phase, a report writing phase, and a report issuance phase. Mr. Mitchell stated that the first two phases often take the same amount of time to complete as the last two phases.

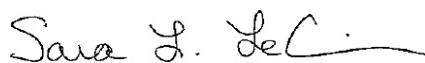
With that in mind, Mr. Mitchell reported that the audit of the Multifamily Performance Program has begun and has completed the fieldwork phase of the audit, thus entering into the report writing phase. Mr. Mitchell stated that the audit is on track and expects to have the final report issued before the next Committee meeting.

Mr. Mitchell then turned to a discussion of project management work with regard to the Authority's data warehouse project. The purpose of the data warehouse project is to integrate project and energy savings from the Authority's disparate databases and spreadsheet sources to create a central repository of current and historical data that may be used for more reliable reporting and timely data analysis. Mr. Mitchell stated that the Internal Audit Plan for Fiscal Year 2014-2015 includes performing an independent assessment of project management. This work requires that, rather than performing an audit with a traditional beginning and end, independent verification and validation services are provided throughout the four phases in which the project is being completed. Mr. Mitchell reported that the first phase of the project has been completed and that Internal Audit staff met with the project team to provide constructive feedback, which was well received. Internal Audit staff also provided project leadership with a written technical report regarding observations during the first phase of the project. Mr. Mitchell then indicated that Internal Audit will soon be providing management a more general report on the activities and recommendations provided during the first phase, and will provide the Members with a report at the next regularly scheduled Committee meeting.

Mr. Mitchell then reported that there are audits of the Authority's pre-encumbrance practices and controls over the Authority's payment process underway. Mr. Mitchell stated that the pre-encumbrance audit is in the survey phase, while the fieldwork phase for the payment processes audit has begun. Both of these audits include a majority of the Authority's programs within their scope, so the audits require a considerable amount of Internal Audit staff time. These audits will be completed by the end of the current audit cycle, which ends on March 31, 2015.

Mr. Koh stated that the last agenda item concerned other business. There being no further business, upon motion duly made and seconded, and by unanimous voice vote, the meeting was adjourned.

Respectfully submitted,



Sara L. LeCain  
Secretary to the Committee

**NOTICE OF MEETING AND AGENDA**

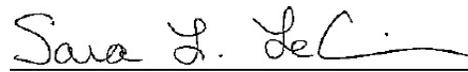
September 10, 2014

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundred twenty-first (121<sup>st</sup>) meeting of the AUDIT AND FINANCE COMMITTEE of the New York State Energy Research and Development Authority will be held in the Authority's Albany Office at 17 Columbia Circle, Albany, New York, and in the Authority's New York City Office located at 1359 Broadway, New York, New York, on Monday, September 22, 2014, commencing at 11:00 a.m., for the following purposes:

1. To consider the Minutes of the 120<sup>th</sup> meeting held on May 5, 2014.
2. To receive a report on the recent activities of the Director of Internal Audit.
3. To transact such other business as may properly come before the meeting.

Members of the public may attend the meeting at either of the above locations. Video conferencing will be used at both locations and the Authority will be posting a video of the meeting to the web within two business days of the meeting. The video will be posted at <http://www.nyserda.ny.gov/About/Board-Governance/Board-and-Committee-Meetings.aspx>.



Sara L. LeCain  
Secretary to the Committee

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