

MINUTES OF THE ONE HUNDRED TWENTY-THIRD MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON APRIL 21, 2015

Pursuant to a notice dated April 7, 2015, a copy of which is annexed hereto, the one hundred twenty-third (123rd) meeting of the Audit and Finance Committee (the “Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (the “Authority”) was convened at 11:30 a.m. on Tuesday, April 21, 2015, in the Authority’s Albany Office located 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:

Richard Kauffman
Sherburne Abbott
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; Dean Geesler and Beth Clague from KPMG, LLP; and various other staff of the Authority.

Mr. Kauffman called the meeting to order and noted the presence of a quorum. Mr. Kauffman stated that since Jay Koh, Chair of the Committee, was unable to attend, he would act as Chair for this meeting. Mr. Kauffman then stated that the meeting notice and agenda were forwarded to the Committee members and the press on April 7, 2015. The first item on the agenda concerned the approval of the minutes of the one hundred twenty-second (122nd) meeting of the Committee, held on January 26, 2015.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the hundred twenty-second (122nd) meeting of the Committee, held on January 26, 2015, were approved.

Mr. Kauffman indicated that the next item on the agenda concerned a presentation from the Authority's independent auditors on the audit of the Authority's financial statements and the OPEB Trust for retiree health benefits for fiscal year 2014-15. Mr. Kauffman called upon Jeff Pitkin, Treasurer, to introduce this item.

Mr. Pitkin stated that the Public Authorities Law requires the Committee to receive a report from and consult with independent auditors for independent financial statement audits, the OPEB Trust, and audits of the New York Green Bank. Mr. Pitkin then introduced Dean Geesler and Beth Clague from KPMG, LLP ("KPMG") to provide an overview of their audit approach and timeline.

Mr. Geesler discussed the timeline and the focus of the audit and gave a description of the accounting standards to be used. The independent auditors will review the Authority's financial statements for fiscal year 2014-2015, as well as the Authority's post-employment health insurance benefit trust. The independent audit will begin at the end of April 2015 and will be completed by the middle of May 2015. The audit will follow both Generally Accepted Auditing Standards and Governmental Auditing Standards promulgated by the Comptroller General of the United States. The audit will assess and test controls over investments, payroll procedures, procurement procedures, and disbursements relating to contracts; review revenues, receivables, and expenditures allocation by program; assess accrued liabilities; review cash and investments; and review financial reporting.

In response to an inquiry from Mr. Shah, Mr. Pitkin stated that the Authority selected KPMG through a separate solicitation to provide structuring and tax advice for the New York Green Bank. These services are being provided by separate individuals at KPMG.

In response to an inquiry from Mr. Kauffman, Mr. Geesler stated that the audit will not cover transactions that the Green Bank has not closed, although KPMG has also been subject to discussions related to certain due diligence and investment processes. For instance, KPMG understands the division of responsibilities between individuals investing within the Green Bank in contrast to accounting and financial reporting, and in that regard KPMG is already somewhat aware of the processes that are in place. As such, it would not make sense for KPMG to ignore those processes in the audit, even though it does not necessarily impact current year financial reporting.

Mr. Kauffman indicated that the next item on the agenda concerned the Annual Internal Audit Report and the Interim Internal Audit Plan for April 2015 through September 2015. Mr. Kauffman called on Mark Mitchell, Director of Internal Audit, to present this item.

Mr. Mitchell stated that an Interim Audit Plan is being proposed that involves Internal Audit conducting a risk assessment during the first few months of the current fiscal year. Mr. Mitchell stated that he was proposing that Internal Audit perform a formal risk assessment during the first several months of the fiscal year so that a risk-based Internal Audit Plan for the remainder of the fiscal year may be developed based on current perspectives of the Management.

Mr. Mitchell also proposed that Internal Audit continue providing an independent assessment of the two ongoing projects Internal Audit was involved with last year, namely, the PeopleSoft upgrade project and the Data Warehouse project.

In addition, Mr. Mitchell requested the Members authorize the initiation of two new internal audits, for computer equipment and contract management, so that they may be conducted at the same time the risk assessment is being performed. Mr. Mitchell noted that a computer equipment audit is being proposed because one has not been performed and computer equipment is a vulnerable asset class. Mr. Mitchell also noted that a contract management audit of memoranda of understanding between the Authority and the Long Island Power Authority (“LIPA”) is being proposed because the Authority has and continues to have agreements with LIPA for a statewide solar energy collaborative program for energy efficiency and renewable

program support. The contract management audit would then evaluate whether LIPA has complied with the terms and conditions of the agreements it has with the Authority, and will consider the effectiveness of Authority oversight of contract payments made to the contractor.

Mr. Mitchell stated that, assuming the proposed activities are authorized by the Members, the Interim Audit Plan is intended to result in completion of a risk assessment and two internal audits by August 2015. This concluded Mr. Mitchell's report on the Interim Audit Plan.

In response to an inquiry from Mr. Kauffman, Mr. Mitchell stated that the selection of appropriate audits during the Interim Internal Audit Plan took into consideration the projected length of the risk assessment, coupled with the resources Internal Audit has, in order to determine which audits could be effectively proposed.

Mr. Rhodes added that a significant purpose of the risk assessment is to identify areas where internal audits would be advisable. As such, alongside the two proposed audits, the identification process that flows from the risk assessment will establish a more complete Internal Audit agenda.

In response to an inquiry from Mr. Kauffman, Mr. Mitchell stated that he is informed by a combination of Management discussions, past risk assessments, and information gleaned from other audits, and that the Internal Audit Plan for the 2014-2015 fiscal year addressed some of the higher-level risks and concerns that were identified by Internal Audit. Consequently, while there are some notable risks, the continuation of the independent verification and validation of the Data Warehouse project is adequately addressing these issues.

In response to an inquiry from Mr. Shah, Mr. Mitchell stated that, as part of the risk assessment and ongoing discussion, Internal Audit has performed audits of NY-Sun. Following those audits, Internal Audit provided a set of recommendations for improvements, and there has been an improvement in internal controls. While Internal Audit would like to take another look, it is currently confident with the internal controls in place.

Thereafter, upon motion duly made and seconded, and by unanimous voice vote of the Member present, the following resolution was passed.

Resolution No. 402

RESOLVED, that the Audit and Finance Committee approves the Interim Internal Audit Plan for April 2015-September 2015, as presented at this April 21, 2015 meeting, in the form submitted to the Committee.

Mr. Kauffman indicated the next item on the agenda concerned a report from Mr. Mitchell on recent audit activities. Mr. Kauffman called on Mr. Mitchell to present this item.

Mr. Mitchell stated that, during the fiscal year 2014-2015, Internal Audit conducted all of the internal auditing activities planned for that period, with seven written audit reports issued. Mr. Mitchell briefly discussed three of the completed audits with their reports.

The first audit was of the Authority's payment process controls. In order to assess the adequacy of internal controls associated with the Authority's payment processes, Internal Audit evaluated the practices followed by program and administrative staff to review and approve invoices. The audit reviewed a sample of payments made by the Authority during the fiscal year ended March 31, 2014.

Mr. Mitchell noted that, without exception, the payments associated with the sample had been properly authorized, with proper supporting documentation. Internal Audit thus found the Authority's payment practices to be effective.

The second audit issued was of the Authority's pre-encumbrance practices, conducted to ensure that there is a reasonable basis for pre-encumbrance amounts in the Authority's major programs. Mr. Mitchell stated that a pre-encumbrance is a designation of the Authority's Net Position or Fund Balance that reserves funds for pending contracts or solicitation commitments that are anticipated to be, but not yet legally required to be, spent on a particular project or on a program activity.

Mr. Mitchell stated that, in general, the Authority's controls for establishing and maintain pre-encumbrances are effective. However, within a few specific programs there are a few opportunities to improve controls for maintaining accurate information in a way that will better assure that pre-encumbered funds are released either once funds are encumbered or when a project is cancelled. In addition, Mr. Mitchell noted that there was an opportunity to improve the ability to maintain accurate information throughout the Authority.

The third audit issued involved a review of expenditures associated with the Authority's agreement with the University of Rochester. The Authority has had an agreement with the University of Rochester since 1982 that had provided funding to the Laboratory for Laser Energetics (LLE), which includes the Lab and the University's Fusion Science Center (FSC). Total New York State funding over the life of the agreement through March 31, 2015 has been approximately \$18.3 million. An annual award of \$691,000 was appropriated in both 2014 and 2015.

Mr. Mitchell stated that the audit of expenditures associated with the Authority's agreement with the University of Rochester found that, generally, direct expenses were allowable and appeared to be reasonable and necessary. While the LLE was charging an overhead rate slightly greater than the federally approved overhead rate, since there have been so few overhead expenses paid from awards the difference was insignificant. Mr. Mitchell added that, based on a review of overhead rates charged during the past seven years, the LLE is going to credit \$7,901.36 back into their internal account used for New York awards. The LLE has also taken measures to ensure that this issue does not occur in the future, so no formal recommendations were made.

Mr. Kauffman indicated that the next item on the agenda concerned a discussion of recent audits by the State Comptroller. Mr. Kauffman called on Mr. Pitkin to present this item.

Mr. Pitkin stated that an audit report was issued by the Office of the State Comptroller in December 2014 on Contract Award and Performance, and the Authority's response to the audit

report provided to the Governor and legislative leaders in accordance with Section 170 of the Executive Law.

Mr. Pitkin noted that the audit was based on a sample of contracts awarded or modified during a two year period to determine whether the contracts were awarded according to prescribed policies and procedures. The audit also determined whether the Authority appropriately monitored contractor performance to ensure compliance with contract terms.

Mr. Pitkin reported that the audit provides nine recommendations, eight of which have been implemented. One recommendation is in process and is expected to be implemented in full after an upgrade to the PeopleSoft financial management system is completed in June 2015. Mr. Pitkin also reported that the Authority has proposed to resolve this recommendation by ensuring that contracts required to be approved by the Board, which are approved through the approval of Section 2 of the Periodic Procurement Contracts Report presented to the Members at each regularly scheduled meeting, note the current contract amount for any contract modifications proposed. Mr. Pitkin also stated that the Authority thinks this properly addresses the recommendation in the report without providing a justification for each modification, which the Authority thinks may not be practical given the number of transactions. Mr. Pitkin noted, however, that the Authority can add additional information to the report if the Committee determines this would be more appropriate.

Mr. Pitkin stated that the report requires no formal action by the Committee, and that this completed his report.

In response to an inquiry from Mr. Kauffman, Mr. Pitkin stated that the key concern of the audit was that certain contracts with a term greater than one year that were being modified, and that that modification information was not being properly provided to Members to distinguish between whether the contracts were being modified or being entered into.

Mr. Mitchell added that there are times where notices of modifications are merited; however there are also instances where notices of modifications are not necessarily merited. In

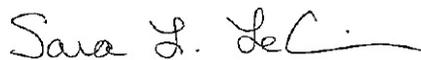
particular, there is a threshold of contract modifications that seem to extend into significant periods of time and increase the amount of money expended, where notices of modifications would be appropriate for Members.

In response to an inquiry from Mr. Shah, Mr. Pitkin stated that the provisions for unsolicited contracts are very specific and typically represent a body of work that is not something the Authority is actively seeking but is rather something presented to the Authority that is unique in nature and justifies funding.

Mr. Rhodes added that there is a stream of work under way at the Authority on how to effectively award grants in a way that works for partners, but remains consistent with procurement law. Mr. Rhodes noted that this work will address some of the issues related to structural aspects of contracts. Mr. Rhodes also stated that Mr. Koh will be working with Mr. Pitkin to determine the appropriate level of detail for modification justification.

Mr. Kauffman 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

April 7, 2015

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundred twenty-third (123rd) 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 at 1359 Broadway, 19th floor, New York, New York, on Tuesday, April 21, 2015, commencing at 11:30 a.m., for the following purposes:

1. To consider the Minutes of the 122nd meeting held on January 26, 2015.
2. To discuss the independent audit of the Authority’s financial statements and the Authority’s OPEB Trust for fiscal year 2014-15.
3. To receive an Annual Internal Audit Report from the Director of Internal Audit and to consider and act upon a resolution approving an Internal Audit Plan for fiscal year 2015-16.
4. To receive a report from the Director of Internal Audit on recent internal audit activities.
5. To receive a report on recent audits.
6. 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.nyserdera.ny.gov/About/Board-Governance/Board-and-Committee-Meetings>.

Sara L. LeCain
Secretary to the Committee

New York State Energy Research and Development Authority

Albany
17 Columbia Circle, Albany, NY 12203-6399
(P) 1-866-NYSERDA | (F) 518-862-1091
nyserdera.ny.gov | info@nyserdera.ny.gov

Buffalo
726 Exchange Street
Suite 821
Buffalo, NY
14210-1484
(P) 716-842-1522
(F) 716-842-0156

New York City
1359 Broadway
19th Floor
New York, NY
10018-7842
(P) 212-971-5342
(F) 518-862-1091

**West Valley Site
Management Program**
9030-B Route 219
West Valley, NY
14171-9500
(P) 716-942-9960
(F) 716-942-9961