

MINUTES OF THE NINETY-SIXTH MEETING OF THE  
AUDIT AND FINANCE COMMITTEE  
HELD ON APRIL 23, 2007

Pursuant to notice dated April 12, 2007, the ninety-sixth (96th) meeting of the Audit and Finance Committee of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY ("Authority") was convened at 1:30 p.m. on Monday, April 23, 2007, in the Authority's board room at 17 Columbia Circle, Albany, New York, and was available by video conference in the Authority's 10<sup>th</sup> floor conference room at 485 Seventh Avenue, New York, New York, and by video conference in the Authority's conference room at 617 Main Street, Suite 105, Buffalo, New York.

The following members of the Committee were present in Albany, unless otherwise indicated:

Robert B. Catell, Chair (*by video conference from New York*)

Vincent A. DeIorio, Esq., ex officio

Jay L. Gottlieb, Vice-Chair (*by video conference from New York*)

George F. Akel, Jr.

Also present were Authority Members Alexander Grannis, Parker D. Mathusa, Frank S. McCullough, Jr., Esq., and Dr. Elizabeth W. Thorndike; Peter R. Smith, President and CEO; Robert G. Callender, Vice President for Programs; Jeffrey J. Pitkin, Treasurer; Hal Brodie, Esq., Acting General Counsel; Jacquelyn L. Jerry, Esq., Associate Counsel and Secretary to the Audit and Finance Committee; Mark B. Mitchell, Director of Internal Audit; John Osinski, from the New York Power Authority; and various other staff of the Authority.

Mr. Catell called the meeting to order and noted the presence of a quorum. He indicated that the first item on the agenda concerned the approval of the minutes of the ninety-fifth (95th) meeting of the Committee held on January 29, 2007.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the minutes of the ninety-fifth (95th) meeting of the Committee, held on January 29, 2007, were approved.

Mr. Catell said that the next item on the agenda concerned the independent audit of the Authority's financial statements for fiscal year 2006-07. Jeffrey J. Pitkin, the Authority's Treasurer, stated that the Public Authorities Accountability Act of 2005 amended Section 2802 of the Public Authorities Law. This section now requires that the Authority's independent auditor report timely to the Committee: all critical accounting policies and practices to be used; all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management; and other material written communications between the auditors and management. Consistent with these requirements, John Schiavone, Audit Engagement Partner with Lumsden & McCormick, addressed the Committee from his office in Buffalo, New York. Mr. Schiavone discussed the independent auditors' approach for conducting the financial statement audit for the fiscal year which ended March 31, 2007.

Mr. Schiavone explained that the independent audit will begin at the end of April 2007 and will be complete by the middle of May 2007. The auditors plan to issue drafts of the report by the June 2007 Audit and Finance Committee and Board meetings and will issue a final report following the meetings. The audit will follow U.S. auditing standards. The audit will assess and test controls over payroll procedures, procurement procedures and disbursements relating to contracts; review revenues and receivables; review expenditures allocation by program; assess accrued liabilities; review cash and investments; and review financial reporting.

Mr. Schiavone described certain changes to the auditing process this year as required by recently issued Statements on Auditing Standards ("SAS"). Though many of these changes do not require any changes in the manner in which the Authority's financial statements are reviewed, some changes will be made. First, under SAS 103, entitled Audit Documentation, the date of the independent auditors' report will be changed from the date of the completion of field work to no earlier than receipt of the representation letter from the Authority's management. Second, under SAS 112, entitled Communicating Internal Control Related Matters Identified in an Audit, the

independent auditors are now required to report any “significant deficiency”, which is an expansion of the previous “reportable condition” standard. This will require a written communication to management and the governing body within 60 days of release of the independent auditors’ report stating both current findings and any findings that remain uncorrected from prior years. Examples of these reportable findings would include any discovery of fraud perpetrated by senior management, any ineffective internal audit or risk assessment function, and any ineffective control environment.

Lastly, Mr. Schiavone highlighted certain changes that will be made in future audits of the Authority’s financial statements including changes mandated by Governmental Accounting Standards Board Statement No. 45 (“GASB”), concerning the accounting and reporting of the employer’s share of retiree health insurance, which was previously discussed with the Committee.

Mr. Catell then called upon Mark B. Mitchell, Director of Internal Audit. Mr. Mitchell reported on his internal audit activities over the past year. Mr. Mitchell explained that the Committee members had been provided with an Annual Internal Audit Report that summarizes the activities conducted over the course of the last fiscal year. The activities have been categorized by each of the seven responsibilities that are outlined for Internal Audit in the Authority’s Internal Control Manual.

At the last meeting, the public relations information audit was discussed. Several opportunities to improve staff’s ability to obtain quick and regular access to data that can be provided to stakeholders and the press were identified. Opportunities were also identified to improve the efficiency and effectiveness of various communications, and marketing-related activities.

At the time of the audit, the Authority was planning to consolidate the information databases. The audit found that this presented a good opportunity to better identify the Authority’s public relations information needs, and to incorporate the data requirements into the new database. The database will be designed to provide the required information more quickly and reliably.

Lastly, Mr. Mitchell observed that the Authority maintains several call centers to provide

information to customers on various Authority programs. In order to enhance the operation of these call centers, as part of its longer-term objectives, the Authority should consider shifting its monitoring of call center metrics to monitoring the quality of the customer service satisfaction of the callers.

Mr. Gottlieb concurred with this plan.

Mr. Catell said that the next agenda item concerned approval of the Internal Audit Plan for Fiscal Year 2007-08 ("Plan"). Mr. Mitchell stated that the proposed Plan is consistent with the information obtained from the most recent risk assessment activities. This year's Plan places an emphasis on auditing areas of high interest to the Authority's management. Specifically, a review of the Authority's financial transactions and reviews of procedures and controls over certain program operations will be conducted.

The Plan will continue those audits that were part of last year's audit plan, but have not yet been completed. It will also include a computer-aided audit of the Authority's financial transactions, which is an emerging trend within the field of internal auditing. Results of these audits will be reported to the Committee as they are completed.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the following resolution was adopted.

#### Resolution No. 322

RESOLVED, that the Audit and Finance Committee approves the Internal Audit Plan for the Fiscal Year 2007-08, as presented at this meeting, in the form submitted to the Committee (attached as Exhibit A).

Mr. Catell said that the next item on the agenda concerned matters involving the employment history of a particular person and he suggested that the Committee members convene in executive session to receive a full report on these matters.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the following resolution was adopted.

Resolution No. 323

RESOLVED, that pursuant to Section 105 of the Public Officers Law, the Members of the Audit and Finance Committee of the New York State Energy Research and Development Authority shall convene in executive session for the purpose of discussing matters involving the employment history of a particular person.

The Committee members then met in executive session with the Officers, the Director of Internal Audit, and the Secretary to the Committee. (During the executive session, Member Grannis arrived at the meeting).

Mr. Catell reconvened the meeting in open session. Mr. Catell announced that no formal action was taken during the executive session.

Mr. Catell indicated 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,

  
Jacquelyn L. Jerry  
Secretary to the Committee