

MINUTES OF THE ONE HUNDRED THIRTY-FIRST MEETING OF THE  
AUDIT AND FINANCE COMMITTEE  
HELD ON APRIL 17, 2018

Pursuant to a notice dated April 6, 2018, a copy of which is annexed hereto, the one hundred thirty-fifth (135<sup>th</sup>) meeting of the Audit and Finance Committee (the “Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (the “Authority”) was convened at 11:00 a.m. on Tuesday, April 17, 2018, at the New York State Dormitory Authority (“DASNY”), One Penn Plaza, 52<sup>nd</sup> Floor, New York, New York, and in the Authority’s Albany Office at 17 Columbia Circle, Albany, New York.

The following members of the Committee were present:

Jay Koh, *Chair of the Committee*

Kenneth Daly

Richard Kauffman, *Chair of the Authority*

Member Sherburne Abbott was unable to attend in person and participated by telephone.

Also present were Alicia Barton, President and CEO; Janet Joseph, Vice President for Technology and Strategic Planning; Jeffrey J. Pitkin, Treasurer; Noah C. Shaw, Esq., General Counsel; Secretary to the Audit and Finance Committee; Dorraine Teitsch-Gilligan, Internal Auditor; Dean Geesler and Daniel Rosenbaum from KPMG, LLP; and various other staff of the Authority.

Mr. Koh called the meeting to order and noted the presence of a quorum. Mr. Koh then stated that the meeting notice and agenda were forwarded to the Committee members and the press on April 14, 2017. The first item on the agenda concerned the approval of the minutes of the one hundred thirtieth (130<sup>th</sup>) meeting of the Committee, held on January 24, 2017.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the hundred thirtieth (130<sup>th</sup>) meeting of the Committee, held on January 24, 2017, were approved.

Mr. Koh 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, the OPEB Trust for retiree health benefits and NY Green Bank's ("Green Bank") financial statements for fiscal year 2017-18. Mr. Koh called upon Jeffrey J. 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 Green Bank. Mr. Pitkin then introduced Dean Geesler, Lead Audit Partner and Daniel Rosenbaum, Senior Associate from KPMG, LLP ("KPMG") to provide an overview of their audit approach and timeline.

Mr. Geesler indicated that there will be changes to the engagement team from the prior year. These changes include partnership with a women-owned business enterprise, Long Island Financial Management Services. Mr. Geesler then 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 2016-2017, as well as other reports required under the Public Authorities Law. The independent audit will begin at the end of April 2017 and will be completed by the middle of May 2017. 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. Kauffman, Mr. Pitkin indicated that renewable energy credits ("RECs") and zero-emission credits ("ZECs") are new and management is working with the auditors to consider the appropriate revenue recognition accounting policy for these

transactions from a governmental accounting perspective, but there are no unusual accounting policy questions requiring the Committee's review at this time.

Mr. Koh, stated that no committee action is required on this item.

Mr. Koh stated that the next item on the agenda concerned the Internal Audit Plan for fiscal year 2017-2018. Mr. Koh called on Dorraine Teitsch-Gilligan, Internal Auditor, to present this item. Ms. Teitsch-Gilligan indicated that the Members were provided the Annual Internal Audit Report for fiscal year 2016-2017, as well as the Internal Audit Plan for fiscal year 2017-2018.

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

#### Resolution No. 423

RESOLVED, that the Audit and Finance Committee approves the Internal Audit Plan for fiscal year 2017-2018, as presented at this April 27, 2017 meeting, in the form submitted to the Committee.

The next item on the agenda concerns a report on recent Internal Audit activities.

Ms. Teitsch-Gilligan stated that since the Members last committee meeting, Internal Audit issued two internal audit reports. Both activities were approved as part of the Internal Audit Plan for fiscal year 2017-18.

Ms. Teitsch-Gilligan explained that the first was an audit of the administrative processes within the Authority's employee benefits programs and their related expenditures for three fringe benefit programs: health insurance, dental insurance, and the New York State Voluntary Defined Contribution (VDC) retirement program. The audit found that the internal controls in place are in accordance with the Authority's policies and procedures, and they have been implemented in a way that provides assurance that expenditures associated with these programs are working as intended. One opportunity for improvement was identified related to documenting approval when

there is a deviation from Authority's policy for when dental benefits begin. Management agreed to implement the recommendation.

Ms. Teitsch-Gilligan indicated that the second was of the Authority's Payment Transactions. The audit used data mining software from a CPA firm to assist the Authority with analyzing volumes of Authority accounts payable and cash disbursement transaction data for the years ended March 31, 2016 and 2017. The analysis was intended to identify unusual trends, patterns, and anomalies that would require further review by Internal Audit. Once the data files were generated and provided to the Director of Internal Audit, both the Director of Finance and the Director of Contract Management then further analyzed the data files and sampled various transactions. No material errors and no instances of any fraud or irregularities were detected as a result of this audit.

Ms. Teitsch-Gilligan stated that overall, the data examined was consistent with well-run, well-organized Finance and Contracts teams that have a good set of internal controls. Practices are balanced to risk. Errors and noncompliance with procedures are likely to be detected in a timely basis.

Mr. Koh indicated that the next item on the agenda was proposed amendments to the Audit and Finance Committee Charter. Noah Shaw, General Counsel and Secretary, presented this item.

Mr. Shaw explained that pursuant to the Public Authorities Accountability Act of 2005, each of the Authority's Committees adopted Charters setting forth each Committee's responsibilities. Each Committee is responsible for periodically reviewing its Charter and determining what, if any, amendments need to be made.

These recommendations will then be presented to the full Board for approval at its June 2017 meeting.

Mr. Shaw explained that the Audit and Finance Committee Charter ("Charter") with proposed amendments was included in the meeting package. The proposed amendments more

appropriately state the approach the Independent Auditors complete with respect to their review of the Authority's Investment Guidelines.

Mr. Shaw stated that with these revisions, the independent auditors will be tasked with reviewing the Authority's compliance with Section 201.3 of Title Two of the New York Codes, Rules, and Regulations, under Government Auditing Standards issued by the Comptroller General of the United States.

In response to the inquiry from Mr. Koh, Mr. Pitkin explained that the New York State Comptroller has set regulations for investments by public authorities requiring that investments are properly authorized and that the audit and finance committee of the public authority establishes an investment policy detailing the permitted types of investments. The regulations further state that the Committee review the investment policy annually. The Committee completes this review at the Annual Meeting that is held in June each year.

Mr. Pitkin explained that the regulations also require that the independent auditor do the typical kind of testing for conformance with the investment policy. Mr. Pitkin stated that that review is completed as part of the financial statement audit conducted by the independent auditors each year. KPMG tests transactions to ensure the Authority's investments conform with the investment policy, the processes are carried out correctly, and the amounts included in the investment reports are fairly stated.

In response to an inquiry from Mr. Koh, Mr. Pitkin indicated that the amendments clarify the period of the review and cross reference the State requirements.

In response to an inquiry from Mr. Kauffman, Mr. Shaw indicated that the Authority is not ceding any of its own authority. Instead, the amendments adopt the State standards.

In response to an inquiry from Mr. Koh, Mr. Shaw indicated that should the State standards be amended, the Committee would need to review the Investment Guidelines to determine whether similar changes need to be incorporated.

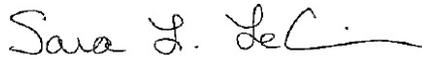
Thereafter, upon motion duly made and seconded, and by unanimous voice vote of the Member present, the following resolution was passed.

Resolution No. 424

RESOLVED, that the amendments to the Authority's Audit and Finance Committee Charter as presented to the Members for consideration at this meeting, with such non-substantive, editorial changes and grammatical changes as the President and Chief Executive Officer, in his discretion, may deem necessary or appropriate, is recommended for adoption and approval by the Board at the June 2017 Meeting.

Mr. Koh, 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,

A handwritten signature in cursive script that reads "Sara L. LeCain".

Sara L. LeCain  
Secretary to the Committee