

MINUTES OF THE ONE HUNDRED THIRTY-EIGHTH MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON APRIL 30, 2019

Pursuant to a notice and agenda dated April 16, 2019, a copy of which is annexed hereto, the one hundred thirty-ninth (139th) 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 30, 2019, at the office of the New York State Dormitory Authority (“DASNY”), One Penn Plaza, 52nd Floor, New York, New York, and in the Authority’s Albany Office at 17 Columbia Circle, Albany, New York. The two locations were connected by videoconference.

The following members of the Committee were present:

Jay Koh
Sherburne Abbott
Kate Fish
Richard Kauffman, *Chair of the Authority*

Also present were Alicia Barton, President and CEO; Janet Joseph, Senior Vice President for Strategy and Market Development; Jeffrey J. Pitkin, Treasurer; Noah C. Shaw, General Counsel; Sara L. LeCain, Senior Counsel and Secretary to the Committee; Mary E. Peck, Director of Internal Audit; Martin Dunbar and Elizabeth Clague, KPMG, LLP; and various other staff of the Authority.

Mr. Koh called the meeting to order and noted the presence of a quorum. The meeting notice and agenda were forwarded to the Committee members on April 16, 2019 and the press on April 17, 2019.

Mr. Koh indicated that the first item on the agenda concerned the approval of the minutes of the one hundred thirty-eighth (138th) meeting of the Committee, held on January 29, 2019.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the hundred thirty-eighth (138th) meeting of the Committee, held on January 29, 2019 were approved.

Mr. Koh indicated that the next item on the agenda was a presentation from the Authority's independent auditors, on the audit of the Authority's financial statements and NY Green Bank's financial statements for fiscal year 2018-19. Martin Dunbar, lead audit partner from KPMG, LLP ("KPMG") provided the Committee with an overview of the audit.

Mr. Dunbar noted that the audit plan is similar to last year's audit plan but highlighted two changes to this year's audit plan. First, the audit team will include a financial lending expert, to help when conducting audit procedures at NY Green Bank, as well as an investment management expert specializing in investing in renewables.

With respect to the second change, Mr. Dunbar stated that although the audit scope, deliverables, and responsibilities will not be changing overall from the previous year, this year's audit will include a review of the Authority's implementation of Governmental Accounting Standards Board Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans ("GASB 74").

Mr. Dunbar explained that the approach to the risk of fraud begins with the management override of controls. Under professional standards, the risk of internal management override over financial reporting is an assumed risk across all industries. In response to this, KPMG has designed a series of procedures to address this risk in particular. Specifically, these procedures help to see if there were any unusual transactions reported, that lack support or other instances of breakdowns in the financial reporting process that could lead us to concern as it relates to fraud.

Mr. Dunbar completed his presentation by outlining the timeline expected for this year's audit process, beginning in early May 2019 with onsite work. The onsite work will continue through the month of May and reports will be provided in June.

In response to an inquiry from Mr. Koh, Mr. Dunbar explained that KPMG does not provide an internal control report as part of the financial reporting. However, as part of KPMG's audit procedures they do observe controls that are in place that affect the accounting on a day to day basis. For certain controls, KPMG do test in order to help minimize some of their substantive procedures, and if there are any breakdowns or deficiencies that were identified based on those procedures, they are required to report those to the Committee.

In response to an inquiry from Mr. Kauffman, Mr. Pitkin explained that KPMG considers and reviews the activities that have been carried out by the internal audit function and the results of those audit activities as part of their assessment of the financial statements and the internal controls.

In response to an inquiry from Mr. Kauffman, Mr. Pitkin indicated that Mary Peck, the Director of Internal Audit will be reviewing the Authority's audit universe which details future internal audits and the prioritization of those internal audits. Mr. Pitkin suggested that Ms. Peck review the universe with KPMP for their input and guidance prior to presenting it to the Committee.

Mr. Koh indicated that the next item on the agenda was the review and approval of the Audit and Finance Committee Charter. Noah Shaw, General Counsel, stated that pursuant to the Public Authorities Accountability Act of 2005, each of the Authority's Committees adopted Charters setting forth each Committee's responsibilities. One of those responsibilities is to periodically review its Charter and determine what, if any, amendments need to be made. These recommendations will then be presented to the full Board at its meeting later that day. Management is not recommending any changes to the Audit and Finance Committee Charter at this time.

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

Resolution No. ____

RESOLVED, amendments to the Authority's Audit and Finance Committee Charter as presented for consideration at this April 30, 2019 meeting, with such non-substantive, editorial changes and grammatical changes as the President and Chief Executive Officer, in her discretion, may deem necessary or appropriate, is recommended for adoption and approval by the Board.

Mr. Koh indicated that the next item on the agenda concerned the Annual Internal Audit Report and approval of the Internal Audit Plan for Fiscal Year 2019-20. The Authority's Director of Internal Audit, Mary Peck stated that the Members were being provided the Annual Internal Audit Report for Fiscal Year 2018-2019 ("2018-2019 Annual Report") and the Internal Audit Plan for Fiscal Year 2019-2020 ("2019-2020 Audit Plan").

Ms. Peck noted that 2018-2019 Annual Report summarized the three audits that were performed and completed during the fiscal year that ended on March 31, 2019. Of the six audits that were approved as part of the Internal Audit Plan for Fiscal Year 2018-2019, one was removed from the plan for future consideration, and two were rescheduled for fiscal year 2019-2020 to allow updates to New York State policies. Two written reports were provided to the Members of the Audit and Finance Committee and discussed at the September 2018 and January 2019 meetings.

Ms. Peck highlighted the two of the audits that were conducted. The first was the Ethics and Compliance Program audit, in which it was found that the Authority had implemented a strong ethical culture, led by its Board of Directors and Senior Management, and was supported by its practices, policies, procedures, and people. It was effective in carrying out the statutory requirements and regulations and was administered properly and effectively. There were some opportunities for improvement, which management has agreed to implement changes where appropriate. Internal Audit will follow-up within 90 days.

The second of the audits concerned Records Management, Ms. Peck explained that the field work for this audit has been completed. Internal Audit will be meeting with the Records Management Officer to review the preliminary findings and begin the draft report.

Ms. Peck continued her report by summarizing the 2019-2020 Audit Plan. If approved by the Committee, the 2019-2020 Audit Plan will include working with Management to complete an entity-wide risk assessment, updating the audit universe, assisting with the annual Internal Control Assessment, and four audits.

Ms. Peck explained that new activities would begin with an audit of the Authority's compliance with website accessibility standards as set forth by the Americans with Disabilities Act of 1990 and other New York State website accessibility requirements. There will also be an audit of the Authority's business continuity and disaster recovery plans and preparedness; an audit of the travel expenditures, as well as management of the corporate credit card program; an audit of the integrity of the Authority's solicitation process; and an assurance and consulting activity to assist management with its annual Internal Control reviews. These audits will be performed using a combination of external and internal resources.

Ms. Peck continued her report by explaining that Internal Audit is also required to perform additional activities to conform to internal auditing standards. These additional activities include participating in continuous professional development, maintaining a quality assurance and improvement program, having a follow-up process to monitor the implementation of recommendations communicated in internal audit reports, and assisting Management with an annual risk assessment used as the basis for developing the annual internal audit plan. Internal Audit will also be updating the Authority's audit universe to bring it in to alignment with the Authority's current structure and goals. The overall results will be factored into the development of next year's risk-based Internal Audit Plan for Fiscal Year 2020-2021.

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

Resolution No. ____

RESOLVED, that the Audit and Finance Committee approves the Internal Audit Plan for Fiscal Year 2019-2020, as presented at this April 30, 2019 meeting, in the form submitted to the Committee.

Mr. Koh indicated that the next item on the agenda was other business. The Authority's Treasurer, Jeffrey Pitkin, provided the Committee with a report on the Authority's cyber security efforts.

Mr. Pitkin began by addressing a request made at a previous meeting by Mr. Koh that management continue to take efforts to assess its cyber security vulnerabilities. Mr. Pitkin noted that in 2016 the Authority engaged an independent contractor to perform a cyber security vulnerability assessment that was reported on at the January 2017 meeting. It is being proposed that an update to that assessment be performed by one or more independent contractors this year and generate a report on those results as soon as they are available. The assessment will include external and internal network penetration testing, firewall/layered security assessment, antivirus health check, physical security assessment, penetration test of PeopleSoft and Salesforce applications, assessment of Salesforce security implementation to best practices, review of Authority information security policies relative to New York State policy requirements and best practices, and phishing email exercises to test the effectiveness of employee training.

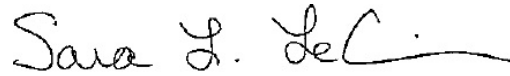
Mr. Pitkin noted that the scope of this assessment has been reviewed with the independent auditors' Cyber Security Advisory Practice and they concur with the proposed scope. Going forward, it is proposed that that independent external/internal penetration testing be performed along with annual phishing email exercises. This cycle has been reviewed with KPMG and they find this cycle approach to be appropriate.

In response to an inquiry from Mr. Kauffman, inquired about the risk of someone migrating into the utility systems from our system. Timothy Chase, Information Security Officer, explained that the various investor owned utilities' systems are not currently connected to the Authority's systems, therefore that are not a risk to the Authority.

In response to an inquiry from Mr. Kauffman, David Adkins indicated that the Authority does not connect to outside systems. Instead, the Authority relies on file transfer through a secure process that the Information Security and Information Technology are able to audit.

Thereafter, there being no other business, upon motion duly made and seconded, and by unanimous voice vote of the members, the meeting was adjourned.

Respectfully submitted,

A handwritten signature in black ink that reads "Sara L. LeCain". The signature is written in a cursive style with a long horizontal flourish at the end.

Sara L. LeCain

Secretary to the Committee