

MINUTES OF THE ONE HUNDRED NINETEENTH MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON MARCH 7, 2014

Pursuant to a revised notice dated February 24, 2014, a copy of which is annexed hereto, the one hundred nineteenth (119th) meeting of the Audit and Finance Committee (“Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (“Authority”) was convened at 2:00 p.m. on Friday, March 7, 2014, in the Authority’s Albany Office at 17 Columbia Circle, Albany, New York, and by video conference in the Authority’s New York City Office at 485 Seventh Avenue, 10th floor, New York, New York, and by video conference in the Authority’s West Valley Office at 9030-B Route 219, West Valley, 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 City)

Richard L. Kauffman, *ex officio* (by video conference from New York City)

George F. Akel, Jr.

David D. Elliman (by video conference from New York City)

Also present were John B. Rhodes, President and CEO; Janet Joseph, Vice President for Technology and Strategic Planning; Thomas Barone, Acting Vice President for Operations and Energy Services; Jeffrey J. Pitkin, Treasurer; Hal Brodie, Esq., General Counsel; Sara L. LeCain, Esq., Senior Counsel and Secretary to the Audit and Finance Committee; Mark B. Mitchell, Director of Internal Audit; David L. Margalit, Senior Advisor for Operations; Dean Geesler and Jennifer LaGue, from KPMG, LLP; and various other staff of the Authority.

Mr. Catell called the meeting to order and noted the presence of a quorum. The first item on the agenda concerned the approval of the minutes of the one hundred eighteenth (118th) meeting of the Committee held on September 30, 2013.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the one hundred eighteenth (118th) meeting of the Committee held on September 30, 2013, 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 2013-14. Mr. Pitkin stated that, pursuant to Section 2802 of the Public Authorities Law, the Authority's independent auditor is required to report to the Committee on a timely basis: all critical accounting policies and practices to be used in conducting the independent audit; 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, Dean Geesler, Partner, and Jennifer LaGue, also from KPMG, LLP, addressed the Committee.

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 2013-2014, as well as the Authority's post-employment health insurance benefit trust. The independent audit will begin at the end of April 2014 and will be completed by the middle of May 2014. 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.

Mr. Catell then called upon Mark Mitchell, Director of Internal Audit, to provide the Committee with a report on his recent activities. Mr. Mitchell reported that Internal Audit recently completed a follow-up audit to an audit report of the Authority's Customer-Sited Tier Renewable Portfolio Standard's Photovoltaic Incentive Program ("PV Program") that was issued in 2011. Mr. Mitchell indicated that of the eleven recommendations contained in the original

audit, four had been implemented, two were implemented using compensating controls, one is no longer applicable, and four recommendations have not been implemented yet.

All four of the recommendations that were implemented involved improvements made to the PV Program's operating controls. Two of those recommendations had been made to better assure that the PV Program had received all required documents before making the final incentive payment. The PV Program addressed the two recommendations by approving a project only after all required documents have been received, and by performing a comprehensive review of a project before approving the incentive payment. During the review of these compensating controls, Internal Audit did not find any exceptions in the limited sample. Therefore, Internal Audit concluded that the controls seem to be working effectively.

Mr. Mitchell reported that of the four recommendations not yet implemented, two of them were recommendations to improve administrative controls by making a modification to the Authority's financial system in a way that would improve the ability to make sure contractors have current insurance coverage in place. Management had not yet implemented this system change due to other priorities, but a request to implement the necessary system changes is now in process.

Another recommendation not yet implemented is to perform regular reconciliations between accounting records and program records. In 2011, Internal Audit found that PV Program records were not always being updated to reflect modifications to projects. As a result, a project's installed capacity did not always agree with the capacity shown in the database, and although the Authority's financial records were correct, incentive amounts in the PV Program's database did not always agree with the amounts that had actually been paid. The follow-up audit found that although the recordkeeping of installed capacity and energy savings improved, because the recommendation to perform reconciliation had not been adopted, in some instances leftover funding had not been disencumbered in the Authority's financial system. As a result, Internal Audit reiterated the recommendation to perform regular reconciliations between PV Program records and the financial system's records. The amount of the funding that had not been disencumbered did not have a significant impact on the Authority's financial reports. However,

Internal Audit reiterated the recommendation because the significance to the PV Program could grow over time if not monitored more closely. PV Program management has stated that they will now perform reconciliations semiannually.

Mr. Mitchell indicated that the last recommendation not implemented was a recommendation to develop a process to systematically monitor whether or not installers are submitting meter readings on schedule and to follow up in a timely fashion with installers who are not in compliance. Management has responded that it will be implementing a process that will track the submittal of meter readings by participating contractors. However, because the PV Program is currently securing contractor support for program implementation, the follow-up process may not start until adequate resources are in place, at which point a schedule for tracking submittals will be established.

In response to an inquiry from Mr. Kauffman, Mr. Pitkin indicated that he would provide the Committee with further information on the implementation of the outstanding recommendations.

Next, Mr. Mitchell reported that, consistent with the approved Internal Audit Plan, Internal Audit is in the process of completing an audit of two agreements that the Authority has with Lockheed Martin Services, Inc. (“Lockheed Martin”) for implementation services. Staff is in the process of concluding the work and will be issuing a preliminary draft of the report to program management within two weeks. Mr. Mitchell anticipates issuing a final report in May 2014 and reporting to the Committee following the release of the report.

Consistent with the approved Internal Audit Plan, staff conducted a process review of the Authority’s recoupment process, which is intended to ensure the Authority recoups its funding of projects that go on to be successful enough to generate product or service sales for a private or publically traded enterprise. Internal Audit anticipates issuing a preliminary draft sometime in March 2014 and plans to provide a report to the members during the next regularly scheduled Committee meeting after the final report has been issued.

One audit contained in the Internal Audit Plan has not yet been initiated, but will commence as these two audits are being completed. Internal Audit is planning to conduct an internal controls review of the Authority's Multifamily Performance Program. The scope of the review includes conducting a business process analysis of all activities and procedures followed by the program's staff and any implementation contractors.

In response to an inquiry from Mr. Catell, Mr. Mitchell indicated that he would keep the Committee advised of his progress.

At this time, Mr. Elliman arrived.

Mr. Catell indicated that the next item on the agenda was a report on the implementation of recommendations from a data quality audit of the Authority from Thomas Barone, the Authority's Acting Vice President for Operations and Energy Efficiency Services. Mr. Barone explained that this is a status report on the progress of recommendations identified in an audit of the Existing Facilities Program. The audit focused on data quality and controls within the Buildings Portal database. The audit made recommendations intended to improve data quality, data controls, and to make staff more aware of the importance of good internal controls.

In September 2013, Mr. Barone reported to the Committee about the start of the Authority's Performance Management and Evaluation Systems ("PMES") department and the initiation of a comprehensive Data Governance process. PMES is currently developing the policies and procedures at the entity-wide level to support Data Governance and Data Classification, the first series of which has been submitted to a senior management committee to review and approve. Mr. Barone indicated that the corporate-wide policies and procedures should be completed by the second quarter of 2014.

One of the themes of the audit was that continued training of all Authority staff was an integral part of good data governance and controls. A significant training program was started

and, as policies and procedures are developed, there will be an ongoing training series. This activity will continue through 2014. Program staff for all deployment programs are also reviewing and updating all policies and procedures documents at the program level.

Mr. Barone indicated that there were some significant changes made since the Committee last met with regard to Information Technology (“IT”) related work. When the audit was issued, all of its recommendations were taken in the context of the existing database system and how to improve it. In December 2013, senior management began considering a wholesale replacement of all program database systems at the Authority into a single common system that has consistent controls and data governance for all programs. Having a single system will also significantly reduce overhead to operate these systems going forward and thereby provide operating efficiency for the Authority. In addition to the out-of-box data quality controls, the Authority has procured, has been trained on, and has begun to implement a software tool to define data rules and to identify and fix data issues. The Authority has also procured, been trained on, and has begun to implement the use of a data visualization tool to study data trends and statistics in improving the governance and accuracy of the Authority’s data. Mr. Barone believes that this approach is the best course of action for the Authority and expects to have the final budget and schedule for the completion of the consolidation by the first quarter of 2014. The goal is to have these systems installed, begin transferring data, and shuttering legacy systems by the end of 2014.

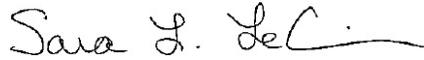
Mr. Barone then conveyed that the combination of the new data governance structure, the new policies and procedures, the staff training, and the new enterprise-wide database for program information is expected to resolve all of the issues identified in the audit.

Mr. Barone thanked the staffs of Energy Efficiency Services, PMES, and IT for working together and for taking the time to address the specifics of the audit recommendations.

In response to an inquiry from Mr. Catell, Mr. Barone indicated that staff expects to begin the process of switching over to the new system by 2014.

Mr. Catell 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,

A handwritten signature in cursive script that reads "Sara L. LeCain". The signature is written in black ink and includes a long, sweeping horizontal line at the end.

Sara L. LeCain
Secretary to the Committee

REVISED NOTICE OF MEETING AND AGENDA

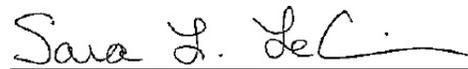
February 24, 2014

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundred nineteenth (119th) 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 by video conference in the Authority's New York City Office at 485 Seventh Avenue, 10th Floor, New York, New York, and by video conference in the Authority's West Valley Office at 9030-B Route 219, West Valley, New York on Friday, March 7, 2014, commencing at 2:00 p.m., for the following purposes:

1. To consider the Minutes of the 118th meeting held on September 30, 2013.
2. To discuss the independent audit of the Authority's financial statements and the Authority's OPEB Trust for fiscal year 2013-14.
3. To receive a report from the Director of Internal Audit on recent internal audit activities.
4. To receive a report on the status of the implementation of the recommendations of a data quality audit of the Authority.
5. To transact such other business as may properly come before the meeting.

Members of the public may attend the meeting at any of the above locations. 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.nyszerda.ny.gov/About/Board-Governance/Board-and-Committee-Meetings.aspx>.



Sara L. LeCain
Secretary to the Committee

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