

MINUTES OF THE ONE HUNDRED THIRTY-FIRST MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON APRIL 27, 2017

Pursuant to a notice dated April 12, 2017, a copy of which is annexed hereto, the one hundred thirty-first (131st) 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 Thursday, April 27, 2017, in the Authority’s New York City Office at 1359 Broadway, 19th 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*
Sherburne Abbott
Richard Kauffman, *Chair of the Authority*

Member Jigar Shah was unable to attend.

Also present were John B. Rhodes, 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; Mark Mitchell, Director of Internal Audit; 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 (130th) 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 (130th) 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 Mark Mitchell, Director of Internal Audit, to present this item. Mr. Mitchell 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 from the Authority's Director of Internal Audit on his recent activities.

Mr. Mitchell stated that since the members last committee meeting, Internal Audit issued an internal audit report and an assessment of the Authority's internal activity. Both activities were approved as part of the Internal Audit Plan for fiscal year 2016-2017.

Mr. Mitchell indicated that the first was an audit of the Authority's contracting process. The audit found the controls for four of the Authority's contracting process are adequate, appropriate, and effective to provide reasonable assurance that the risks are being managed and objectives should be met.

Mr. Mitchell explained that there were three opportunities for improvement that were identified. The first two opportunities relate to non-competitive and discretionary contracts, which

represent only a small percentage of contracts. Management's expectation is that these types of contracts are supported by documentation showing that the costs were reasonable. Although all the costs we examined appeared to be reasonable, the basis on which it was determined that the costs were reasonable was not always sufficiently documented. Internal Audit believes this documentation would improve if management were to clarify this expectation in the Authority's policies. In addition, there is an opportunity for program staff to improve the documentation of cost reasonableness and for Contract Management staff to monitor contract justifications more closely to make sure program staff sufficiently document the basis for concluding that the cost is reasonable.

Mr. Mitchell stated that there was also a technical clarification regarding when the Authority must file contract awards and contract amendments with the Office of the New York State Comptroller. Based on that clarification, Contract Management is in the process of double checking those few contracts that are subject to filing to make sure the Authority complies with the requirements.

Mr. Mitchell reported that management agreed to implement the three recommendations that are in the report.

Next, Mr. Mitchell indicated that a Quality Assessment Review of the Authority's Internal Audit function must be performed at least once every five years. IIA Quality Assessment Services, Inc. recently completed its independent assessment of the Authority's Internal Audit Activity. The extent to which the audit activity conforms to attribute standards, performance standards, and the code of ethics was evaluated. Forty-four detailed standards were assessed. Internal Audit was rated as "generally conforms," which is the highest rating that can be achieved. Eight areas of "partial conformance," and seven opportunities for improvement were identified. There are no instances in which internal audit "does not conform".

Mr. Mitchell stated that all the recommended improvements will be implemented.

In response to an inquiry from Mr. Kauffman, Mr. Mitchell indicated that any gaps for improvement are identified separately and opportunities for improvement are communicated through a management letter. Mr. Mitchell stated that management's response is included in the materials that were provided to the Committee.

Mr. Rhodes explained that management's response is merely agreement to implement the recommendations or an indication that recommendations have already been implemented.

In response to an inquiry by Mr. Koh, Mr. Mitchell indicated that the reviewers provided Internal Audit with knowledge on how Internal Audit could better align with other peers across the United States. Mr. Rhodes concurred with that characterization.

Mr. Koh stated that it is important for the Authority not to be complacent about the internal audit function. In general, periodic reviews and comparisons to peers are a great way to make sure that the Authority remains in compliance.

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.

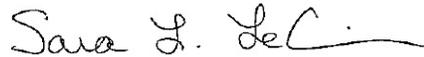
Thereafter, upon motion duly made and seconded, and by unanimous voice vote of the Member present, the following resolution was passed.

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



NOTICE OF MEETING AND AGENDA

April 12, 2017

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundred thirty-first (131st) meeting of the AUDIT AND FINANCE COMMITTEE of the New York State Energy Research and Development Authority (the “Authority”) will be held in the Authority’s New York City Office at 1359 Broadway, 19th floor, New York, New York, and in the Authority’s Albany Office at 17 Columbia Circle, Albany, New York, on Thursday, April 27, 2017, commencing at 11:00 a.m., for the following purposes:

1. To consider the Minutes of the 130th meeting held on January 24, 2017.
2. To discuss the independent audit of the Authority’s financial statements and the Authority’s OPEB Trust for fiscal year 2016-17.
3. To consider and act upon a resolution approving an Internal Audit Plan for fiscal year 2017-18.
4. To receive a report on recent internal audit activities from the Director of Internal Audit.
5. To consider and act upon a resolution recommending approval of the Audit and Finance Committee Charter.
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 a reasonable time after 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

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