NYSERDA 143rd Audit and Finance Committee Meeting
April 28, 2020
Clean Copy Transcript

Jay Koh:
Thank you very much and thank you everyone for participating. I call this meeting to order and notice that the meeting and agenda were mailed to Committee Members and the press on April 17, 2020.

This meeting is being conducted by video conference. The Authority will post a video and a transcript of this meeting on the web. To confirm that we have a quorum, I would like to ask Sara LeCain, Secretary to the Committee to conduct a roll call of each of the Committee Members in attendance.

Sara LeCain:
Thank you, Mr. Chairman. I will first note your attendance and now take the remainder of the roll call. When I call your name, please indicate "present".

Authority Chair Richard Kauffman.

Richard Kauffman:
Present.

Sara LeCain:
Shere Abbott.

Sherburne Abbott:
Present.

Sara LeCain:
Ken Daly.

Ken Daly:
Present.

Sara LeCain:
Kate Fish.

Kate Fish:
Present.

Sara LeCain:
Thank you. There are five members in attendance. Therefore, we have a quorum.

Jay Koh:
Thank you, Sara.

The first item on the agenda is the approval of the Minutes of the 142nd Committee Meeting held on January 28th, 2020. These minutes should be in your Board Material, your Committee Materials. Are there any comments on the Minutes?

Richard Kauffman:
I have none.

Sherburne Abbott:
None.

Jay Koh:
Hearing none. May I have a motion approving the minutes?

Sherburne Abbott:
Moved.

Kate Fish:
Second.

Jay Koh:
When Sara calls your name, please indicate whether you are in favor by stating, "Aye" or opposed by stating "Nay" or "No." I'm sorry. "No."

Sara LeCain:
Thank you. When I call each name, please indicate your vote. Committee Chair Jay Koh.

Jay Koh:
Aye.

Sara LeCain:
Authority Chair Richard Kauffman.

Richard Kauffman:
Aye.

Sara LeCain:
Shere Abbott.

Sherburne Abbott:
Aye.

Sara LeCain:
Ken Daly.

Ken Daly:
Aye.

Sara LeCain:
Kate Fish.

Kate Fish:
Aye.

Sara LeCain:
The minutes have been approved.

Jay Koh:
Thank you. The next item concerns a presentation from our independent auditors on the audit of the Authority's financial statements and New York Green Bank's financial statements for fiscal year 2019 to 2020. Marty Dunbar Lead Audit Partner from KPMG will present this item. Marty?

Martin Dunbar:
Perfect. Can you hear me okay? Yes, you can. All right, very good.

Thank you very much for having us here today to present to you. I'm joined virtually by, with Jeff Mabb. He's our Senior Manager this year. We have our prepared slide deck here that we'll let go through.

Maybe we can advance forward. Perfect. Next slide. Alright. Engagement team.

So, what we have here is a team that is in many respects, substantially similar to the team from last year. And then a few new faces. As I just mentioned, Jeff Mabb, a Senior Manager on the audit, overseeing the engagement in many respects is a new face replacing our previous Senior Manager who left the firm. Jeff comes to us, an Albany native and has been working out of our office here for a number of years with GASB experience, New York State public benefit corporation experience, and is familiar with a lot of the transactions and activities of a NYSERDA. So, he'll be a welcome addition to the team and has already been interacting with management.

The folks below are a combination of the KPMG and our subcontractor staff accountants that we utilize from other firms to meet different State requirements that are in place. A number of those faces are similar and there's some new faces as well who have already been coached up on the audit of NYSERDA as it relates to the rest of the engagement, it is substantially similar.

On the Green Bank side, we have Dan White and you probably can't see the names very well from the way that this is showing up. But Dan is a partner in our financial services sector or industry along with Patrick Holmes who is also a manager in the financial services sector who will focus specifically in helping Jeff and myself the Green Bank side of the house and the audit there. While Jeff and I will be responsible for signing off on the financial statements because it is under government auditing standards. Dan and Patrick as well as, Glen Benson who's been on the engagement, and was last year as well, will help contribute from an industry perspective.

When you think about loans and the different vehicles that are happening in the Green Bank world, their insight and expertise, was very valuable to us last year and with all that's going on, as you can imagine, it'll be very helpful to the team this year.

Otherwise, myself, our concurrent partners and the other specialists are also similar to last year. So, a good mix this year versus last year have changed and some fresh faces to the team.

Moving along to the next page, page seven of the presentation. Audit, Scope and Deliverables.

This is a slide that we've presented to you in the past to highlight what exactly a financial statement audit is and the scope of services. So, the key takeaway here is a financial statement audit is when you engage your independent auditors to come in and assess whether or not the financial statements which are prepared by management as overseen by you, the committee, are prepared in accordance with the accounting standards in all material respects. And that audit is conducted in accordance with the professional standards, U.S. generally accepted auditing standards. So, that's a financial statement audit.

The scope of our services are similar to the past and the key takeaways are the continued review of interim financial information and sharing our thoughts with management, keeping us up along the way and sharing insights and advice with accounting questions as they come along, as well as the continued conferences to present the results of our audits as well as attending these meetings.

On the next slide we highlight what the deliverables are for this year. Again, similar deliverables, excuse me, of the past. It would be the opinion on the financial statements of both NYSERDA and the standalone statements for Green Bank as well as the investment compliance examination that we conduct. And then finally there are, while those audits are done in accordance with U.S. generally accepted auditing standards, we then, we kind of also do an incremental report when applying the government auditing standards. So, that's an incremental audit opinion that we issue as well as our required communications to you. And if warranted, a management letter to share our thoughts on internal controls if we find any deficiencies, in particular significant deficiencies or material weaknesses. We've had very clean audits in the past. We'd expect that to be the case based on everything that we've gone through so far and we haven't identified any significant deficiencies or material weaknesses in the procedures that we performed so far this year. So, we'll finish that up as we make our way through the rest of the audit.

Moving to the next slide, Audit Responsibilities. The key takeaway here is that our responsibility, as I said, is to express the opinion on the financial statements that we're auditing. Management is responsible for preparing the financials and making sure they have the internal controls over financial reporting in place so that they can report the financials and the information on a timely basis that is in accordance with the appropriate standards. And then finally, that you as the Audit and Finance Committee are responsible for the oversight, and also maintaining that two-way communication with the auditors and us, here today communicating with you, is an example of that two-way communication, presenting our audit plan and receiving any questions from you that you have. Certainly, as always, if there are any issues that come up during the audit that require a one-on-one communication, Members of the Audit Committee are certainly welcome to connect with us, and can connect with us either through management or through other channels. That has happened in the past and that is fairly infrequent, but it's something that is encouraged if the facts are ever warranted.

Moving along to the next slide. Risk assessment. So, an important element of every audit is conducting a thorough risk assessment. So, consider prior, you know, part of that risk assessment process we consider prior year audits, information that's come up during the year as part of our quarterly review, meetings that we've had with management, questions that have come up. Certainly, as we all know, the current conditions are a pretty significant matter that we also take into consideration, are taken into consideration when developing our audit plan and you know, going through the risk assessment process. So, in terms of the way it's laid out here, these are the financial statement accounts that we would expect to conduct audit procedures over. The list here is fairly similar to what would it be, would have been shared with you in the past and from our scoping in the past. And certainly, what happens when you think about some of the present circumstances, each of these areas, there might be incremental questions or steps that might need to be executed to make sure that we have appropriate understanding, documentation, and comfort that the amounts that are reported in the 3/31 financial statements are complete, accurate, properly valued, et cetera. So, we've gone through that risk assessment process and I think the one thing to remind everyone is that it's something that's continual based on the procedures we perform, we continually update our risk assessment to either, in some cases expand our testing and in other cases, depending on the situation or the circumstances we find, it might actually reduce some of the testing we do for a specific account.

Moving along to the next page.

Richard Kauffman:
Excuse me, Marty.

Martin Dunbar:
Yes.

Richard Kauffman:
For a second, because a couple of times you've talked about current circumstances and you just talked about how these risk assessments are ongoing. So, I'm trying to reconcile the current circumstances and the comments you've made about ongoing risk assessment with an audit which is of financial statements as of the end of March.

Martin Dunbar:
Sure, sure. Great question. From an auditing and accounting perspective, one thing that is important that especially to us as auditors is, might sound somewhat unfair to a management who has to prepare the financial statements at a point in time. As auditors, we do take into consideration the benefit of hindsight and subsequent events that help provide more information to either support or clarify certain amounts that are reported in the financial statements. Then there's other situations where a balance is what it is as of a specific period of time. And so, for example, at March 31, a cash balance isn't necessarily a judgmental amount. The cash you have on hand is the cash you have on hand. Whereas there might be some other account that might

have some level of judgment that's an estimate as of March 31. That might be something, for example, a loan that's outstanding or a receivable balance that's outstanding and there's a judgment that's necessary to prepare the financials in valuing that receivable as of March 31 that because it's an estimate. The information that comes up after the reporting period, in say April or May can help support that balance or can help demonstrate that there's, other facts that are out there that were present as of March 31 that could affect that balance, that typically would be taken into consideration. And it's part of our audit process, what it's important for us to do is to make sure that we're understanding and distinguishing between what's an event that would have occurred at or prior to March 31 versus events that happen after that point in time or estimates where the events after year end helped shed better light on the balances at March 31 that could therefore impact the value of a balance or change what's reported in the financials. Certainly, footnote disclosures are a great example of information that would be updated based on subsequent events.

Does that help kind of clarify the use of judgment and how the effects of events after March 31, but if, for example, the present situation, you know, the COVID-19 matters could play into an account balance?

Richard Kauffman:
Yes, it does. Conceptually, I understand. So obviously as you go through this presentation, if there are things that you do feel have been relevant given current circumstances, we'd like to know about those things.

Martin Dunbar:
Sure, sure. And if we were to go back one slide [Pause] to the summary of account balances. Well, for example, some of the accounts that really comes to mind when thinking about that is the loans and the valuation of that in any necessary reserves or adjustments, you know, management is continually looking at that throughout the year. And certainly, you know, the current situation, you know, is something that, you know, they're already going through. So as part of our audit process, we would like to understand what management is using, what information they're looking at, but I would say that that's probably the most significant estimate in the books right now at March 31 that would have, you know, probably that having an effect, as you're pointing out, in something that we really want to make sure that we're addressing as part of our audit procedures.

Another example of various, with different actuarial estimates, there are certain assumptions that are applied and certainly account balances that are utilized as of a point in time. So, making sure that those are appropriate. Again, many of the way that the GASB and some of the accounting standards have set up some of the actuarial estimates, that those amounts are kind of set in stone at the beginning of the year so, that might not be affected very much by the present circumstances. But I would say that generally speaking, the receivables, the loans, the loan and signing team receivables that are outstanding would probably be the more significant areas where we want to make sure we thoroughly walked through the outstanding balances and understand whether or not there are exposures that are properly addressed when coming up with the value in the financial statements.

Jeff Pitkin:
Marty, this is Jeff.

I wonder perhaps if it might be helpful just for me to offer a quick thought here and it may help to address Richard's question because I agree with you. I think even for our presentation of the financial statements, let alone KPMG's auditing considerations, that we'll have is, you know, the fair value of the reporting of both the Green Bank's loans and financing receivables and those are the Green Jobs-Green New York portfolio. So, we'll take them one at a time.

And the Green Bank, you'll recall, we don't create a generalized reserve. We've had our accounting approach is if we identify that a particular transaction has been impaired because it's past due on payments, then we give consideration to recording a reserve for that transaction. So, Richard, I'm happy to report, you know, as of March 31st, I don't believe there are any transactions in the Green Bank portfolio where any payments were missed. But to be honest with you, the COVID situation happened 15 days before the fiscal year ended, right? And so we can look for evidence of situations that may occur after March 31st to give us, to allow us to consider whether there might be any adjustments that may need to be reflected to assure, you know, fair presentation of the balances and the financial statements as of March 31st.

And I think there's a similar concept for our Green Jobs - Green New York residential loan portfolio. Traditionally be record an allowance or reserve for all loans that are more than 120 days past due. We're continuing to monitor delinquency levels in that portfolio on a weekly basis since March 1st and we're comparing those to historical results to allow us to consider whether that approach is still appropriate for the fair value presentation as of March 31st or whether we should give consideration to some other adjustment or mechanism to provide for an adjustment.

So, Richard, I don't know if that helps in addressing how even we will be monitoring situations that may occur after March 31st to help inform us on whether adjustments should be made for the amounts reported as of March 31st.

Richard Kauffman:
That's very helpful. So that, you know, so you're using a lot of ING verbs. So, I guess the question is, you know, what's the Audit Committee's role here once you come to, you and the auditors come to, your final answer on these things?

Jeff Pitkin:
So, two parts. One is management's presentation of the financial statements to the Committee will note on whether we've made any changes to our accounting policy or accounting approach, and then I think KPMG as part of its regular reporting in executive session provides a summary of any significant accounting adjustments or accounting policies, you know, that have been considered as part of the financials. So, I think you'll hear it, you can expect to hear it both from management and you can expect to hear it from the independent auditors as well.

Richard Kauffman:
Today?

Jeff Pitkin:
I can't tell you that today because it's April 28th and as I said, you know, we're continuing to monitor, you know, both of these portfolios we're monitoring to see events that may have occurred after March 31st to help inform us. We haven't yet finalized adjustments, you know, for the year-end financials. And that will be information that we'll review with KPMG when they commence their audit. And then we'll have to make a call, you know, when the financial statements get finalized, which is typically in early June, you know, in preparation for the June meeting.

Richard Kauffman:
Okay. That's fine. Thank you.

Jay Koh:
Just Jeff and Martin, have we gotten any affirmative guidance directing a different approach in terms of marking for a value here or looking at these? I mean I think; you know, we are in an interestingly volatile financial and economic period. I mean I look at the OPEB Trust liability as well, I assume that there has been a pretty severe impact on the equity holdings of that vehicle and potentially additional liabilities on the healthcare benefits side if I'm not mistaken. So, there may be, you know, a look back analysis there. It ought to have been marked at the time the finalization of the period cause it will, you know, objective balances that can be marked as of specific dates, but I'm just, you know, this is a period that there may be some adjustments in approaches to the accounting for these things given the current situation. I have not yet any evidence of a market interruption that makes it difficult to accept what are generally accepted for value indications on listed equities and fixed income securities, for example, as we saw in the 2009 period when it disappeared for about a week. But I'm just wondering if you've had any affirmative guidance so far in this period.

Jeff Pitkin:
Jay it’s Jeff.
Our actuary who performs the actuarial liability for the OPEB Trust has provided us their recommendations or their analysis on long-term return consideration. So, you may recall that the OPEB Trust has historically been using a 6.5% discount rate and that's based upon, you know, an assumed long-term rate of return. Not surprisingly, they've lowered that. So, that won't be, that will not be reflected in the financials for the year that we're going to be reporting on. It's more of a forward-looking consideration for something that would be used in resetting the actuarial liabilities for next year, or I should say the year that we are in now, after March 31st of 2020. And we'll be reviewing that information with KPMG, and KPMG will look at that to determine whether that discount rate and long-term rate of return assumption is appropriate. So, that's one thing just to respond to your specific questions on OPEB.

But other than that, you know, we've not seen anything that gives us a suggestion that the approach that we're taking, you know, for example, again, for the Green Bank portfolio or the Green Jobs - Green New York loan portfolio that there's any specific guidance that we should be considering as to any adjustments that may need to be made for those two loan and financing receivable portfolios.

Jay Koh:
That's great. Thank you.

Martin Dunbar:
Right. And I would agree with Jeff's comments and I would add that there haven't been any changes to accounting regulations with respect to any of the present matters. And as a firm we receive, I'd say weekly would be an understatement, but regular updates on audit related considerations and financial reporting related considerations that really revolve around exactly what we're talking about right now. You know, making sure that if there's accounts that are sensitive to estimates or what have you, that you're using all the current information and also, as Jeff pointed out, information after the period end that can help come up with the ultimate amount that's reported in the financials. So, it's really more reminders of what to do. There haven't been any specific changes or guidance, you know, that has changed practices in any way at this present time.

Jay Koh:
Thank you.

Ken Daly:
So, Martin and Jeff, just a quick question as a follow up to Richard and Jay's questions. For the year that just closed, I know we traditionally have not used a general reserve. If our testing of the individual accounts doesn't show any specific reserve requirements, or even if they do, are we considering using a general reserve given the broader, you know, economic challenge that some entities may be experiencing? I know, you know, regular banks are seeing obviously a very high nonpayment, some because they're allowed to others because they can't meet the payment requirements right now. So, just curious, are we looking at that as a possibility?

Jeff Pitkin:
Ken, it's Jeff.

We, you know, we aren't looking at making that change in our accounting policy approach, but again, we are going to continue to look at the transactions in the portfolio after March 31st and look at those events to help inform us whether or not that should give, that should result in us making any type of an adjustment. I think that, again, to date, I think we anticipate that some of the transactions in the Green Bank portfolio may be approaching us with requests for modifications of those provisions. And I think we've had some discussions and Alfred and his team have given thought to how they may approach that on a transaction by transaction basis to enter into kind of modification arrangements. But those would be modifications. Those will be, we can think of those as like deferrals, you know, as, as accommodations to help counterparties. But I don't know that that necessarily, again, gives rise to us changing our accounting policy or accounting approach for the Green Bank portfolio.

And then again for the Green Jobs – Green New York portfolio, as I said before, you know, we'll continue to monitor delinquency and default trends that happen after March 31st to inform us on whether we think that should change our approach for the year-end reporting. At the moment we haven't, we haven't thought that it should unless we see a material increase, you know, in default or delinquency levels that occur after March 31st.

Ken Daly:
Okay, thanks. That's very helpful. And I would agree wherever you have specific data, especially as you get beyond 15 days, you know, after year-end like you are now and going forward use that. My only question would be if you don't have enough specific data given the macro impacts to take a good hard look at whether or not any other reserves are required? So, you don't leave it to the team as time progressed, I would say where you don't have data then you know, take a conservative lens and see if there's a general view that should be applied.

Martin Dunbar:
Yep. And this is Marty.

I think one thing that is worth adding to go along with what Jeff said, is that the policies leading up to this year have, in the last two years, certainly last year as well, have been, you know, reviewed as we're discussing and part of it has contemplated this sort of event to some degree. So, it will be, I think that some of the things that Jeff spoke to certainly will be beneficial.

One of the key takeaways though, when, especially when it comes to Green Jobs, I'm sorry, excuse me, the Green Bank, the broad portfolio itself because it covers a few different industries, if you will, but the sheer volume isn't that large as compared to what you might see in a traditional bank or other lender where they have large portfolios and can systemically incorporate what is referred to as a general reserve in a macro sense. It's a bit more challenging when you have a smaller portfolio to incorporate that and really by, as a result you're really in that kind of, that specific identification and therefore it really comes into what are the assumptions you're using for each of those specific loans and is making sure that you have a level of conservatism when you're evaluating those specific loans is really the way that you kind of get that conservatism in there in the absence of a general reserve that you might have in a larger portfolio.

Jay Koh:
[Crosstalk] Just ask two clarifying questions and then I think we should just proceed through the outline of the audit offsets here cause I think, it's important to understand the operating conditions we're under. Nothing stops us if, is it fair to say that nothing stops us at this point from using the current approach, from an accounting for additional scrutiny of these transactions, consistent with our evaluation of these credits and the potential impact on it from the current situation or from revisiting our operating cash position as an agency writ large in thinking through how constraints in the economic environment, in the State budget, and [crosstalk] factors might affect it, right? So that doesn't necessarily mean we need to adjust our accounting approach or policies per se. We still can take substantive actions and just set our position differently, assuming a different level of risk, at the recommendations of management based on a reasonable set of considerations. Is that a fair way of saying that?

Martin Dunbar:
Yeah, I think so.

Jeff Pitkin:
I would agree.

Jay Koh:
I think, you know, I think a sense outside of the context of this kind of audit scope process, that might be useful to take away, Jeff and others on the management team, is that it would be helpful to take a sense of the Committee that there's an interest in continuing to use our current processes, but adding additional effort to remain prudent and additional scrutiny if necessary. And also, to consider things like our operating cash balances and other things that might be affected by volatility in the current environment without necessarily having to affect the scope of the audit process or our accounting policies. And certainly in the course of that analysis, if there are artifacts of the current approach that we have from an accounting standpoint on the policy side or the audit process reveals structural issues with the way that we're analyzing or processing these things separate from whether we're doing in accordance with our own policies, then we'd love for you to bring that to the attention of this Committee.

But beyond that, why don't we proceed through the analysis here on the audit process and interested to hear on the operational impact of the COVID environment will affect how this goes forward. I mean, you know, I note also, just for the Committee's recollection that we have a pretty unbroken chain of unqualified audit opinions from our external auditors on a controlled basis and on an overall financial statements basis and we'd love to continue to maintain that record.

[Pause]. Martin do you want to [Pause].

Martin Dunbar:
Yep, yep. Sure.

So, if we go to the next page. The presentation, as some folks in management and on the Committee might recall, in all of our audits under professional standards, we're required to assess the risk of fraud. And there is a presumption in all audits that there's a risk of management override of internal controls. So, what we kind of summarized here with some pictures and words are the procedures and that we will be performing with respect to that risk and report back to you the results of these procedures at the end of the audit.

Moving on to the next page.

Sherburne Abbott:
Marty, can I ask you a quick question? Is there any difference in this risk between NYSERDA programs and the Green Bank? And also, is there any difference in risk from management being online, onsite or offsite?

Martin Dunbar:
Good question. At a broad view, I think the answer would be no. But when we evaluate risk, this isn't necessarily a NYSERDA specific, this is more standards, you know, we are supposed to

consider, you know, the different, items that can affect fraud. That's opportunities, pressures, and other factors that can lead to that. And certainly, having an alternative environment could potentially impact that, but I think that, you know, the internal controls that are in place would certainly prevent that from happening. So, I don't think that it would increase that risk given the present situation. Um, based on, you know, our understanding of the facts right now. For certain clients and certain industries that have more pressure to hit a specific number for say stockholders, that could increase the risk of say management override in an estimate and that would be taken into consideration in those particular audits. But I think that when you kind of walk through the different considerations we're required to under the standards, it doesn't necessarily increase the risk. But I think it's a great question to ask because that is something that we'll take into consideration. Are there reasons why there would be an incentive to, you know, account for something more aggressively versus conservatively versus the past? Those are things that we do take into consideration certainly. And you know, going back to echo what Jay said a second ago, we haven't identified or seen anything along those lines in any of our past audits here at NYSERDA.

Jay Koh:
One other question there following on the question there is, which is, you know, there are two things that have changed in the environment and this is, again, just only a slight overlap with the March 31 period terminating period, are that obviously the operational environment of an agency overall moving to remote work, a lot of video conferencing, remote engagement, you know, I feel quite pleased that at least we did a very thorough cybersecurity analysis that was completed and reported out on earlier since that is now a critical dependency of the operations of the agency physically and otherwise. So, I think the operating environment itself has changed for the agency overall. That creates a different set of potential risks. I would suggest strongly that, you know, the agency management can continue to pay a lot of attention to how those changes may create more vulnerabilities, but we can rely on the fact, to some degree, that we have gone through and anticipated the need for these kinds of security procedures. But I think it's very important to be vigilant about that.

And second, also that there has been a fair amount of report in the press about financial entities receiving additional cyber-attacks, whether it's in the form of phishing or fraud attempts, in this new operating environment where people are not as used to the current set of conditions. So, it's a higher threat environment. It's also a different operating environment. I don't think that either of those has a likelihood to have a dramatic effect on the, you know, month or so of the period that terminated March 31. I would suspect that our audit for next year would review a lot of how this process and procedure was executed and implemented, but certainly we should pay attention to both of those factors in the current ongoing operations of the agency.

But turning back to the audit process, I think, you know, some of that we reviewed having only a month or so of exposure and how we followed procedures and moving to this environment and I also note that there's a higher level of threat out there.

But if we can proceed through the rest of the discussion, I think it will be useful to make sure that we conclude on this point. And then get to the internal audit components as well, unless there are other specific questions from the Committee.

Richard Kauffman:
I do have one question about this page. Is this a NYSERDA specific page based upon things that we have you have identified or is this a kind of general page that you would have for any number of clients?

Martin Dunbar:
This is a general sort of page that we would have for any number of clients.

Richard Kauffman:
Okay. Thank you.

Martin Dunbar:
Yeah, no problem. And again, it's because it's a required step under professional standards for us to execute these procedures with respect to the risk of fraud.

And then if we move over to the next slide. We included a, I guess, somewhat short list, but a kind of a list that is maybe a little bit of, you know, broader considerations that, you know, might not necessarily be NYSERDA specific, that we've seen elsewhere, but that could resonate, you know, at NYSERDA. And I probably should qualify it by saying this. That we've already had two telephone calls with management and, to walk through some of the logistics. So, there aren't any concerns that we have, but here briefly. As you can imagine, what the current working situation, it does, it could present challenges. Us auditors are pretty familiar with working remotely, not in our home office or like our normal office, business residence. Instead we're always going out to clients or working remotely on audits. It's, so that our clients are working remotely, and it does take a lot of extra steps to make sure that we're coordinated and all on the same sheet of music so that there aren't any balls dropped. There aren't any, you know, overlooked areas or surprises, et cetera, and keep everything efficient and effective.

So, we've already discussed with management, we'll have regular update meetings that we've typically had in the past and some cases it's pretty, it could be informal when you're in a conference room down the hall from your finance folks. Now it just requires us to have a formal calendar to have those meetings on a periodic basis through the audit engagement to make sure that there aren't any issues.

In terms of the question as to how do you get your hands-on paper documents when you're far away? I don't, historically, I don't think there's been, at least in recent years, a lot of paper documents that we're relying upon. And certainly, when there are, I think that there's alternative methods to make sure that we are able to access that information, assuming that we continue to work in a virtual way over the balance of the audit. And if we're able to begin physically working onsite or however that would be a bonus. But we're going to go along with the idea that we will be working remotely through the balance of the audit. And we don't anticipate any issues logistically in terms of getting our hands-on information that we would need to conduct our audit procedures. And certainly, if there are, we'll work on alternative procedures or methods to get comfortable with the account balances that we're testing.

And then finally, just in terms of, in many of these things we've already touched upon, as you can see, that we just listed off some things that sometimes do become, you know, important in these situations when there is volatility in the market. There are changes in the underlying, you know, business structure of some of your, you know, lender, lendee relationships, et cetera, that, you know, could have an accounting effect.

So, we listed off a few here and towards the end there in the middle, I think we just touched upon business processes a few minutes ago as well. Jay, you did. You know, there are processes that inevitably will change because people aren't physically in the same place. And one thing that we will, you know, make sure that we keep our eyes open for are any instances where, you know, there's a control breakdown as a result of that, which, you know, is natural. Sometimes that does happen, you know, and it's, you need to learn for the future in case this happens. And in many cases, we find that a lot of the processes are already built out very well and there aren't any control breakdowns. So that's something we'll certainly keep our eyes open for as part of our work. And that also can happen when you have outsource relationships as we kind of highlighted here because they have, they're going through the same issues.

So, those are things we'll keep our eyes open for as well as the items that you see over the balance of the, those bullet points there, which I think we've touched upon reasonably well so far.

And then to I guess conclude with the slides that we sent in advance, on the next page is, again, just a kind of, a pictorial, some of the things that we as a firm are, you know, got our minds on as it relates to the present situation. And I think the key takeaway is we've been, this is now essentially our, almost our second month of working remotely as teams and as a firm. As I've mentioned before, we've been dealing with this going back into the earlier months of the winter because we've seen it come from overseas on some of our international engagements and we've been able to make the appropriate preparations for engagements that haven't started yet and take some lessons learned. So, we expect this to be a smooth audit overall. And certainly, as information comes out that we either discover or that is worth sharing with management and folks on the Committee, we certainly will. And look forward to visiting in the nicer weather of June to provide you with our audit opinion and results of the audit. And, you know, if there's anything that comes up in the meantime, we'll certainly be in touch.

That I think concludes, what we were intending to go through as part of our prepared remarks. I don't know if there's any specific other questions that we can help answer.

Jay Koh:
Are there any other questions from members of the Committee? [Pause].

Martin and Jeff and others, we appreciate the briefing on the process that you intend to go through here, as well as, answering the other substantive questions along the way.

No formal action is required by the Committee Members on this item.

So, we'll move on to the next one, which, the next item on the agenda concerns the Annual Internal Audit Report and approval of the Internal Audit Plan for fiscal year 2020 to 2021. The Authority's Director of Internal Audit Mary Peck will describe, will discuss this item. Mary?

Mary Peck:
Thank you, Jay. Can everyone hear me?

Jay Koh:
Yes.

Mary Peck:
Wonderful. Good afternoon.

I'd like to first start off with the Annual Internal Audit Report. Specifically, the Members have been provided the Annual Internal Audit Report for fiscal year 2019-2020 and the Internal Audit Plan for fiscal year 2020-2021, in addition to our recent audit activity. I'd like to discuss the [crosstalk] and review the Internal Audit Plan with you and ask that you approve the 2020-2021 Audit Plan.

With regard to the Annual Internal Audit Report, it's included in your meeting packet and summarizes the results and consulting activities that were performed and completed during the fiscal year that ended March 31, 2022. Two written reports were provided to the Members of the Audit and Finance Committee and discussed at the October and January board meetings.

Additionally, we have one audit completing field work currently, and two more ongoing and/or being launched in March and April of 2020.

Internal Audit 1920-04: Integrity of Solicitations. This audit has about 95% completed field work. It's been rather challenging, but I have to extend my thanks to the Contracts Unit. They've been extremely helpful.

Internal Audit 1920-03: Business Continuity and Disaster Recovery. We've been scoping and planning the audit program for this review. We've also conducted the preliminary meetings and the process with the process owners including documenting a recent tabletop exercise. More importantly, given the current COVID-19 health crisis, we've had the opportunity to watch the Authority respond to a real threat to its continuity. From my own experience, I was able to perform my regular duties remotely without any significant problems and in my opinion, management was able to successfully assess, manage and communicate its response activities to all employees, its sister agencies, and shareholders, stakeholders.

With regard to the Internal Audit Plan for fiscal year 2020-2021, included in the meeting packet was a memorandum that asked the Committee to approve an Annual Internal Audit Plan. If approved by the Members, the Internal Audit Plan includes working with management on completing two consulting activities, two audits, and a complete self-assessment of the Internal Audit Unit as required by its professional standards. These activities include an audit of the Authority's compliance with website accessibility standards as set forth by the Americans with

Disabilities Act of 1990 and the New York State website accessibility requirements; an audit of the Authority's business continuity and disaster recovery plans and preparedness; an assurance and consulting activity to assist counsel's office with a review of a contractor's recruitment reporting and payment obligations; a required self-assessment review of the internal audit activities, policies and procedures in accordance with the quality review standards; and an assurance consulting activity to assist management with its annual internal control reviews.

Two of these audits were originally approved as part of the Internal Audit Plan for the previous fiscal year, but were postponed after discussions with process owners to allow for relevant updates to related New York State policies.

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 that are communicated in all audit reports.

We will also be reviewing the rotational audit plan to ensure it remains in 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.

The anticipated timing of the planned audits is included on page four of the memo.

Finally, the standards require that I make an annual statement to the independence, pardon me, an annual statement of independence to the Members of the Board. My staff and I have reviewed the standards and we have no concerns regarding any impairments. This review in our formal individual attestations will be documented in our QAR files.

At this point, I'd be happy to answer any questions.

Jay Koh:
Right. If I may, I'm just wondering if you've given some consideration or if you can let us know whether the plan for 2020-2021 is taking account of the current operating environment and the potential for additional operational disruption or adjustment that's going to be required given the current situation. And just to make sure that we set out a strategy that ends up creating operational challenges just by the very nature of the situation that we're in right now.

Mary Peck:
Yes, I have. In terms of Internal Audit, the plan for 2020-2021 is what I would consider light to allow us to change as we're moving forward. Certainly a lot of the things that KPMG discussed on their COVID-19 consideration slides are things that we as Internal Audit should be prepared to look at in the interim because that would be in the next year's review by KPMG and it's really something that we should take a look at before that. So, our plan is to try to be as fast and flexible as we can to help management return to its normal operating procedures. So, it's intentionally light.

Jay Koh:
Thank you very much and obviously we're concerned about the safety and wellbeing of all the employees and stakeholders of the Authority. So just making sure that that's been addressed. It's good to hear and, as well as, the comments on the business continuity disaster recovery plan.

Are there any other questions for Mary from Members of the Committee?

Ken Daly:
Yeah, Jay, Ken.

Just one follow up. First of all, Mary, thank you. It sounds like an excellent plan, which is similar question to Jay's. Do we have a one in our audit plan planning out to do a lessons learned from the first round of our response to COVID? So, it sounds like, you know, the Authority has done an excellent job of responding, but there's always opportunities to learn and do things different and better. Just curious before we get into a potential second wave, as Jay noted, are we going to stop and take a look at what's worked and what hasn't worked and what modifications we can make?

Mary Peck:
Absolutely. I couldn't have planned a better time for us to have a business continuity audit in the schedule already. As an auditor it's been, you know, the best audit test I could have asked for. I have been in discussions with the people that are managing the COOP Plan, and there is a plan to have an after-action report. And it's something that we're going to be looking at in terms of, you know, how did we respond to it from a technology standpoint? Did we have to lessen any controls to make sure that things were still operating and moving? And I do have to say, as the auditor, I really at this point don't have any serious concerns with how the Authority has handled things, but we are going to take a hard look at, you know, were there any hiccups along the way? But living through it, I can say it's been very smooth.

Ken Daly:
Great. Thank you.

Mary Peck:
You're welcome, Ken.

Richard Kauffman:
Mary, I have a kind of naive question, so you'll forgive me. So, cause you, how long, you've been in the job for two years? A year?

Mary Peck:
In this job, it's exactly two years. Two years in June.

Richard Kauffman:
Yeah. That's what I thought. Okay. So, I guess what I'm trying to wrestle with is that in listening to you, there are some things in the Internal Audit as you do the Audit Plan that are, I don't know, required either by statute or by regulation or by best practices or something that you

select based upon things that you would consider to be important from a business standpoint. Correct?

Mary Peck:
Yes.

Richard Kauffman:
So, what I'm trying to understand is when we take into account the first bucket of things, how much is really left over for the second category of things? That's the first part. My first question. And then the second question is that with respect to the second kinds of things, how, how much, how much time goes by before we can go back to those things that you considered to be really business critical, you know, or are, is it, you know, are we kind of painting the Golden Gate Bridge? We're never really, you know, we're, you know, by the time we get done, we got to start all over again or does it ever even get to that point?

Mary Peck:
I think part of that, what you're asking is a staffing and resources question, which is something that, you know, I had initially planned on discussing at the June meeting, but things are changing on a daily basis here, certainly with regard to the State Budget. There are only two FTEs in the Internal Audit shop here. So, there's, we'll never have the opportunity to, you know, get that bridge painted and then move on to another project. And in a lot of ways, most internal audit shops are the same way because if we do an audit plan and it's, you know, three years out, the Authority, three years from now could be a completely different entity with regard to the environment. So, we'd have to start all over and keep our plan current. I do have to say that, you know, with working with the internal control side of the Authority, which is Jeff Pitkin, we do have a very open dialogue and I think if things were changing and we had to scrap the plan and go towards something that was an emerging risk that we didn't consider when we put this plan to you in the April meeting, that's something that we have that flexibility to do. It'll never be a perfect plan. We're just kind of trying to balance it with those housekeeping type initiatives that we talked about. We do have to maintain standard with regard to training and the QAR that's both a State standard and the standards for the international practice of internal audit. And it is a constant balance.

Richard Kauffman:
Okay. Thank you.

Jay Koh:
Are there any other questions for Mary at this time?

I just wanted to note two things. Richard's question. I mean, look, you, I think it is a Golden Gate Bridge problem. Like, I think we had enough of the ability to have resources to focus on cybersecurity and the last go around is part of our analysis. And I think we feel pretty good that we had the timing of that in a way that's going to be helpful to ensuring the kind of the current set of operations without being stress tested. But I think the overall point is one where we're gonna keep coming back around to try and see how execution of these processes is occurring over time.

The other thing I just wanted to note is with regard to the business continuity disaster recovery question and the broader expansion of the agency's focus to the resilience area prevents us from having a second major business continuity disaster recovery event from occurring this summer or over the course of this concurrent set of situations. We're expecting an above average hurricane season. And you know, Craig Fugate, the former head of FEMA, and others have commented, including myself, that the double whammy problem of having a major extreme weather event affecting the energy sector here or anything else in the middle of this operational set of considerations or the economic fragility that we're going to be facing going forward would be dramatic. And so I would just emphasize that while we've done this stress test with regard to this particular continuity problem, the probability of increased impact from these kinds of events on the weather side alone, I'm sure Ken and others are focusing on this daily, is going up not down as a result of climate change. So, you know, continue to be vigilant about it and think through the processes if we have compounding sets of risks.

Are there any other questions from Members of the Committee?

May I have a motion recommending approval of the internal audit plan for fiscal year 2020 to 2021?

Kate Fish:
So, moved.

Sherburne Abbott:
I was stuck on mute.

Jay Koh:
Second?

Sherburne Abbott:
Second.

Jay Koh:
When Sara calls your name, please indicate whether you are in favor by stating “Aye” or opposing saying “No”.

I vote “Aye”.

Sara LeCain:
Okay. When I call each name, please indicate your vote. I already have Jay's “Aye”.

Authority Chair Richard Kauffman.

Richard Kauffman:
Aye.

Sara LeCain:
Shere Abbott.

Sherburne Abbott:
Aye.

Sara LeCain:
Ken Daly.

Ken Daly:
Aye.

Sara LeCain:
Kate Fish.

Kate Fish:
Aye.

Sara LeCain:
Okay. The Internal Audit Plan has been approved.

Jay Koh:
Thank you, Mary and Sara.

The next item on the agenda is other business. Are there any other matters which Members wish to discuss?

Seeing none. May I have a motion to adjourn.

Sherburne Abbott:
So, moved.

Jay Koh:
The second?

Kate Fish:
Second.

Jay Koh:
All in favor?

Group:
Aye.

Jay Koh:
This meeting is adjourned. Thank you very much.

Sara LeCain:
And if everyone could just click to the second link to join the Board meeting when you're ready.

Richard Kauffman:
Okay. Thank you.

Alicia Barton:
Thank you. See you in a moment.