

MINUTES OF THE ONE HUNDRED EIGHTEENTH MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON SEPTEMBER 30, 2013

Pursuant to notice dated September 17, 2013, a copy of which is annexed hereto, the one hundred eighteenth (118th) meeting of the Audit and Finance Committee (“Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (“Authority”) was convened at 11:00 a.m. on Monday, September 30, 2013, 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 Kauffman, *ex officio*

George F. Akel, Jr.

David D. Elliman

In addition, 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; and various other members of the staff of the Authority were present.

Mr. Catell called the meeting to order and noted the presence of a quorum. He stated that the meeting notice and agenda were mailed to the Committee members and press on September 17, 2013.

Mr. Catell began the meeting by stating that the Committee's agenda includes a report on two audits conducted by the Director of Internal Audit, a report on the actions taken in response to the data quality audit that the Director of Internal Audit reported on at the last meeting, and a report on the status of audits being conducted by the Office of the State Comptroller ("OSC"). In response to recent stories in the press, Mr. Catell clarified that the agenda was in keeping with the expected and usual business of the Committee. OSC regularly audits the activities of public authorities and the Authority has generally done quite well in those audits. He further explained that the Committee created the internal audit function for the purpose of reviewing the Authority's contracts and operations in order to learn where there are vulnerabilities and to improve. He also expressed his belief that the internal audit function is serving its intended purpose.

Mr. Rhodes added that he was briefed and had looked into the matters included in the reports that Mr. Catell referenced. As a matter of philosophy and conviction, he believes deeply in the value of both external oversight and internal audits. This internal audit function represents best clinical practice – especially when it is set up with independence, reporting directly to the Committee, assuring its integrity and seriousness of purpose.

Mr. Catell concurred stating that the internal audit process serves a very useful purpose for the Authority.

Mr. Catell indicated that the first item on the agenda concerned the approval of the minutes of the one hundred seventeenth (117th) meeting of the Committee held on June 17, 2013.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the one hundred seventeenth (117th) meeting of the Committee held on June 17, 2013, were approved.

Mr. Catell indicated that the next item was a report from the Authority's Treasurer, Jeffrey J. Pitkin, on the status of the Green Jobs - Green New York ("GJGNY") financing program. Mr. Pitkin indicated that as of August 13, 2013, the Authority issued the Residential

Energy Efficiency Financing Revenue Bonds Series 2013A (the “Bonds”) for \$24.3 million. The Bonds are guaranteed by the New York State Environmental Facilities Corporation (“EFC”) through its State Revolving Fund Program allowing the Bonds to achieve a AAA rating from Standard and Poor’s Financial Services, LLC and Moody’s Analytics, Inc.

Mr. Pitkin further explained that the Bonds were structured with serial maturities from 1 to 10 years for a total of \$18.5 million and with a term bond maturing in 15 years of about \$5.8 million which is callable after 10 years. The resultant average term of the bonds was about 6.9 years with an average interest rate of about 3.2%.

Next, Mr. Pitkin explained that the Qualified Energy Conservation Bond (“QECCB”) interest subsidies were subject to the 2013 fiscal year federal budget sequester and were reduced by 8.7% with the hope that future subsidies will also be reduced. After taking into consideration the QECCB interest subsidies, the net interest cost on the Bonds was about .48%.

In addition the Bonds are secured by loan repayments from 3,263 Tier 1 residential energy efficiency loans with an aggregate principal amount of approximately \$29.2 million issued in the GJGNY Program, and by a pledge of QECCB interest subsidies. Any available funds in the GJGNY revolving loan fund must be used to meet any shortfalls for payment of principal and interest on the Bonds before drawing upon the EFC Guaranty. The debt service coverage ratio provided by the loan repayments and QECCB interest subsidies is 126%. The minimum coverage ratio of the Bonds is 110% of maximum annual debt service in each bond year and allows substitution of loans or pledging additional loans to meet this test.

In response to an inquiry from Mr. Kauffman, Mr. Pitkin explained that the Bonds were created to respond to barriers and under development in the secondary market. To achieve the creative structure of the Bonds, the Authority took advantage of partnerships with EFC. Mr. Pitkin further indicated he has received positive feedback from officials in other states. He and James Levine, EFC’s General Counsel, have participated in a few national webinars on the topic. In addition, Mr. Pitkin stated that he is also advising officials from New Jersey who have

expressed interest in structuring a bond issuance using very similar financing methods as the Bonds.

In response to an inquiry from Mr. Elliman, Mr. Pitkin indicated that the Authority is collecting data in house to assist in rating future bond issuances. In addition, the Authority is also collaborating with two national projects that are currently gathering data from multiple states. The Authority used this bond structure because of the limited amount of history available. However, he expects that the structure will be amended in future issuances.

In response to an inquiry from Mr. Catell, Mr. Pitkin indicated that the Authority's loan portfolio is doing well. Both delinquencies and default rates are low with delinquency rates at about one to two percent and the aggregate default rate at about .5%.

Mr. Catell indicated that the next item on the agenda was a report on the recent activities of Internal Audit from Mark Mitchell, the Director of Internal Audit. Mr. Mitchell explained that two final audit reports were sent to the Committee members since the previous Committee meeting.

The first audit reviewed the adequacy of internal controls over project management activities and program reporting of performance results from January 2011 through December 2012 for the FlexTech Program within the Energy Efficiency Services ("EES") Department. The audit report provided a detailed description of the observations and recommendations to improve the process for reporting estimated energy savings. Mr. Mitchell indicated that management has responded indicating that it concurs with the recommendations.

In response to an inquiry from Mr. Kauffman, Mr. Mitchell indicated that management has the responsibility to implement the recommendations. Internal audit has the responsibility to follow up within a year and to provide an update to the Committee about the status of the implementation process.

In response to an inquiry from Mr. Kauffman, Mr. Catell indicated that the Committee would expect to see Mr. Mitchell's report on management's endeavors to implement the recommendations. Mr. Mitchell indicated that he would provide the Committee with an interim report at the Committee's next meeting.

In response to an inquiry from Mr. Elliman, Mr. Mitchell indicated that the recommendations focused mainly on the improvement of performance reporting systems. Mr. Mitchell stated that internal audit revealed opportunities to improve data controls and data quality by supplementing some of the Authority's current procedures.

In response to an inquiry from Mr. Elliman, Mr. Mitchell stated that more can be done to improve the current underlying structure of the Authority's databases. Mr. Barone clarified that the FlexTech Program is part of the Authority's formal database system.

Mr. Mitchell continued his report by providing a summary of the second audit which was a review of two agreements between the Authority and TRC Engineers, Inc. ("TRC") for implementation services for the Multifamily Building Performance Program. The audit was designed to determine whether TRC had complied with contract provisions and that the Authority's program staff had effective controls over invoice review and processing.

In response to an inquiry from Mr. Kauffman, Mr. Mitchell stated that internal audit recommended the creation of procedures to maintain an inventory of certain assets. Internal audit also recommended that project managers emphasize to contractors the importance of adhering to federal travel policy requirements.

Mr. Catell indicated that areas identified in the audit report that require urgent attention will be taken care of immediately. However, he cautioned that it will take time to address areas that require the creation of a new set of procedures. Mr. Mitchell further explained that the discrepancies that internal audit discovered affected only \$38,000, a small amount of the total cost of the contracts. He also stated that project management would not have been able to detect

the discrepancies. The discrepancies were the result of an accidental oversight on the part of TRC.

Mr. Mitchell then provided the Committee with an update on the other activities he has been involved in since the last Committee meeting. First, he has participated in a number of meetings regarding the Fuel NY Gas Station Back-up Power Program (“Gas Station Program”), which was launched by Governor Cuomo in response to Superstorm Sandy. The Gas Station Program is being audited by a team from Price Waterhouse Coopers. Mr. Mitchell has provided advice to ensure that controls have been pro-actively designed and has facilitated discussions on the risks of operating the Gas Station Program.

As part of this effort, the Authority has been involved in developing a roadmap for the development and implementation of a Policy that will deal with the securing and handling of personal, private, and sensitive information. Mr. Mitchell stated that he provided advice about dealing with any known vulnerabilities and is periodically monitoring the development of a data warehouse at the Authority. Mr. Mitchell has been tasked with providing quality assurance in the development of this data warehouse.

Next, Mr. Mitchell provided the Committee with an update on a complaint referred to the Authority by the New York State Office of the Inspector General in September 2012 and discussed at the January 2013 Committee meeting by Mr. Brodie. The Authority was advised by the Inspector General that it had received an anonymous email containing allegations of abuse of tax payer funds, and concerns about protecting information in the Authority’s financial system. Mr. Mitchell conducted a thorough investigation and found no instances of an abuse of funds; however a few vulnerabilities were uncovered. Mr. Mitchell stated that he is satisfied with management’s response to the investigation as they have already revised policies and practices to further limit the handling and communication of personal, private and sensitive information.

In response to an inquiry from Mr. Kauffman, Mr. Mitchell indicated that the investigation took place over a period of time and included interviews with several individuals. Mr. Mitchell stated that the investigation had begun at the beginning of the year, but that due to

additional effort necessary to complete the data quality audit he decided to delay the investigation. Now that he has completed the data quality audits, he will devote more time and resources to this investigation.

Mr. Catell indicated that the next item on the agenda was a report on the status of the Authority's response to the internal data quality audit from Thomas Barone, Acting Vice President for Operations and Energy Services.

Mr. Barone explained that the audit focused on assessing data quality and controls within the Buildings Portal database. While there were no financial errors, numerous recommendations were suggested to improve data quality controls, and to make staff more aware of the importance of good data quality and internal controls. Both staff and the Officers understand the importance of implementing the recommendations in the audit and significant inroads have been made in the execution of the recommendations.

Substantial human resource time and effort has been used to lay the ground work for a new generation of data management and accountability. The system is consistent with the governor's goals for all agencies and authorities.

Mr. Barone indicated that this effort has been furthered by the creation of the new Performance Management and Evaluation Systems Department ("PMES"). PMES has developed a framework for data governance and identified specific individuals that will be responsible and accountable for achieving the data governance objectives.

The first series of policies and procedures to support data governance developed by PMES has been submitted to a senior management for review and approval.

One of the policies is the continuous training of all Authority staff. PMES hired a contractor who has already conducted a 90-minute introductory training that described and illustrated the basic concepts of data governance, data quality, and internal controls. This training, which is mandatory for all staff, has already been attended by 339 people. PMES will

work with Human Resources to train and introduce the material during new employee orientation and as policies and procedures are developed, there will be a general training of staff with designated data governance roles.

Mr. Barone explained that a new data management system is under development to improve the Authority's ability to manage its data.

With respect to the other recommendations from the audit, Mr. Barone indicated that some of the recommendations will require longer implementation periods and may be dependent on other tasks or the new data management system being implemented. For those, staff is implementing short-term improvements, consistent with our objectives, to ensure continuous improvement in our data management. Progress has been made on a vast majority of items and a management working group has been created to track each of the recommendations of the audit.

Mr. Barone then highlighted two key Information Technology projects that are already underway. The first project is a data warehouse that will be built as a corporate solution for reporting and data quality. This system will ultimately communicate with each of the Authority's project databases and will be responsible for storing key data elements, but only after the data passes through a series of rigorous data quality tests.

The second project is the Buildings Portal, which is the database that houses the Existing Facilities Program. It will be significantly upgraded to add controls, robust security measures, the ability to permanently record data changes, and enhanced controls of sensitive documents and data elements.

There were four items called out in the audit as requiring immediate attention. Significant interim steps were immediately taken on these items with some occurring before the completion of the audit. For example, changes to data within the Existing Facilities Program module of the Buildings Portal can now only be made with formal written approval. That written approval is then being stored within project files to create an audit trail, and the changes

are being tracked by the department's five member, cross-functional, data quality team. These procedures have been written into a standard operating procedures manual.

Mr. Barone concluded his report by stating that the Authority has taken many significant steps towards best practices in data quality and controls and it will continue to provide the highest levels of data quality. The Authority's controls are an important part of its daily activities and its processes and procedures are what make the programs it offers the nationally recognized programs they are. Management takes this audit very seriously and will provide the highest quality of information to the Authority's stakeholders.

Mr. Kauffman indicated that the audit seemed to have identified three areas where management needs to develop better controls: training, policies, and systems. Mr. Barone concurred and indicated that management will provide an update on the implementation of the recommendations in each of these areas at each Committee meeting until all recommendations have been implemented.

In response to an inquiry from Mr. Elliman, Mr. Barone stated that there is no fixed timeline for implementation because management is still developing a schedule for the longer term system projects. However, of the 61 recommendations that were included in the audit report more than half are already underway. The remaining recommendations are long-term projects that may take a year or more to implement.

Mr. Catell indicated that the next item on the agenda was to receive a report on various audits of the Authority by OSC. First, Mr. Pitkin explained that on August 13, 2013, the Authority received a publicly issued audit report which was a follow-up audit for several audits conducted in 2008 of the Authority and 14 other agencies for compliance with renewable energy goals and practices under Executive Order 111. On September 12, 2013, the Authority responded to the audit report.

Next, Mr. Pitkin indicated that OSC commenced an audit in November 2012 on compliance with Executive Order 111 energy efficiency goals and practices. The closing

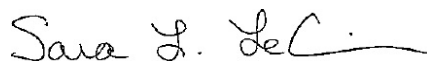
conference for the audit was held on February 13, 2013. On August 14, 2013, management received a draft audit report, which was not publicly issued. Management provided a written response to the draft audit report on September 12, 2013 and is awaiting receipt of the publicly issued final audit report. Upon receipt, the Authority will be required to respond within 90 days in accordance with the Executive Law. A copy of the audit report and management's response will be provided to the Committee once issued.

Mr. Pitkin continued his report by explaining that OSC also conducted an audit of the Authority's discretionary spending. As previously reported, the audit began in October 2012 and reviewed the Authority's discretionary expenditures, including travel, conferences, training, and other purchases. A closing conference was held on March 14, 2013 and management is awaiting receipt of a draft audit report. Once received, the Authority will be provided 30 days to comment on the draft audit report. OSC will then publicly issue its final audit report, and management will be required to respond within 90 days in accordance with the Executive Law. Mr. Pitkin indicated that the Authority was one of eight public authorities reviewed under this audit.

The final audit was on contract award and performance at the Authority. On August 27, 2013, OSC notified the Authority of its intention to conduct the audit. An opening conference was held on September 18, 2013. The audit is estimated to take approximately three months and Mr. Pitkin will provide the Committee with periodic status updates on the audit.

Mr. Catell indicated that the last item on the agenda was other business and asked if there were any other matters the Committee members wished to discuss. There being none, upon motion duly made and seconded, and by unanimous voice vote, the meeting was adjourned.

Respectfully submitted,



Sara L. LeCain
Secretary to the Committee

NOTICE OF MEETING AND AGENDA

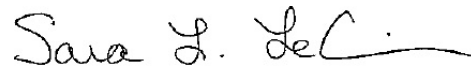
September 17, 2013

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundred eighteenth (118th) 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 Monday, September 30, 2013, commencing at 11:00 a.m., for the following purposes:

1. To consider the Minutes of the 117th meeting held on June 17, 2013.
2. To receive a report on the Green Jobs – Green New York Financing Program.
3. To receive a report on the recent activities of the Director of Internal Audit.
4. To receive a report on the status of the Authority's response to the internal Data Quality Audit.
5. To receive a report on various audits of the Authority by the Office of the State Comptroller.
6. 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.nyserda.ny.gov/en/About/Board-Governance/Board-and-Committee-Meetings.aspx>.



Sara L. LeCain
Secretary to the Committee

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