

NYSERDA'S 156TH AUDIT AND FINANCE COMMITTEE MEETING
April 29, 2024
Clean Copy of Transcript

Doreen Harris:

Oh, bandwidth.

John Campagna:

I'm going to reconnect Albany to resolve that. I apologize.

Jay Koh:

I call this morning meeting to order a notice in the meeting and agenda was mailed to Committee Members on April 16, 2024, and to the press on April 17, 2024. 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 each of the Committee Members to introduce themselves. I will start. I'm Jay Koh, Chair of the Committee.

Sherburne Abbott:

Shere Abbott, Member of the Committee.

Richard Kauffman:

Richard Kauffman, Chair of the Authority.

Jay Koh:

Alright, thank you. The first item on the agenda is the approval of the minutes from the 155th Committee meeting held on January 24, 2024. Are there any comments on the minutes? Seeing none may have a motion approving the minutes.

Sherburne Abbott:

So moved.

Jay Koh:

A second?

Richard Kauffman:

Second.

Jay Koh:

All in favor?

Members of the Committee:

Aye.

Jay Koh:

Opposed? The minutes are approved. The next item on the agenda concerns in the Annual Internal Audit Report for fiscal year 2023-2024 and approval of the Internal Audit Plan for fiscal

year 2024 to 2025. The Authority's Director of Internal Audits Mary Peck will discuss this item. Mary.

Mary Peck:

Thank you, Jay. Good morning. The Members are being provided. The Members are being provided with the Annual Internal Audit Report for fiscal year 23-24, and the Internal Audit Plan for fiscal year 24-25. In addition to our recent audit activity, I'll discuss the annual report review the Internal Audit Plan with you and ask that you approve the 2024-25 Audit Plan with regard to the Internal Audit Report. The annual report is included in the meeting packet and summarizes the audits and consulting activities that were performed and completed during the fiscal year that ended on March 31, 2024. In addition to the audits that I've reported at previous meetings, I wanted to provide an update on the following items, Internal Audit 2223-02, an audit of the NY Green Bank's Anti-money Laundering Policy. The full copy of this report was emailed to the Members on March 18th of this year in 2020.

As part of its participation with the Paycheck protection program, the Investment Risk Committee approved on anti-money laundering policy that requires a biennial review from Internal Audit. This was the first review of the NY Green Bank's Anti-money Laundering program. Overall, we found that the Green Bank generally meets the basic tenants of an effective AML program. However, we noted some internal several opportunities for improvement to strengthen compliance. Our audit scope was to evaluate the policy and to assess the overall adequacy of the AML compliance in accordance with Public Service Commission Order 13-M-0412. While the activities of the Green Bank are not subject to federal and state banking regulations, it will apply best practice, best practice policies and procedures drawn from public and private sector financing entities. As the risk from an AML perspective is low based on its customers and transactions, we question whether it's necessary for the Green Bank to continue having a formal AML program as required for NY Green Bank to be a lender of the now defunct PPP program.

This opinion has been shared with the IRC and the NY Green Bank and NYSERDA leadership to their consideration. With regard to Consulting Activity 2324-01, the Continuous Monitoring associated with our Internal Control assessment, our final report was provided to the Internal Control Officer for her review prior to the President's review and approval and submission to the Office of the State prior to April 30, 2024. In accordance with the approved Annual Audit Plan, we continue to review a sample of invoices as a consulting activity on a quarterly basis to ensure that project managers and positions above are reviewing and approving invoices in compliance with NYSERDA's procedures. The testing performed for this activity will be used to help satisfy the upcoming annual OSC certification for our internal controls over the payment process, which is due tomorrow for 2024. The following is required, the voucher, authorization designation and certification review and certification of expense reports and the assessment of controls over grant contract payments With regard to Internal Audit 2223-01, an audit of system accents for the NYSERDA Enterprise Information System or NEIS.

The full copy of this report was emailed to the Members on April 9, 2024. This review was done in consideration of the State Controllars expanding focus on financial system access controls and also to ensure that the Authority's financial system is being reviewed with the same rigor. We

contracted with a specialist IT firm to assist with auditing this system access, focusing on certain higher risk roles and on separation of duty considerations. This focus is reflected in the findings of the final report, specifically to review access for all users in the system and to make changes to its internal processes regarding how privileges are assigned to users. Most of the issues identified can be resolved by improving user access controls. The external report is rather lengthy, but we've summarized the findings into a higher level cover report with specific corrective actions that management is addressing. It should also be noted that the Authority has started a project to replace the needs system prior to its 2030 sun setting, but we are also committed to continuing to strengthen and improve the system in the interim.

Finally, with regard to Consulting Activity 2324-02 Large Scale Renewables, specifically the 2022 Res and OREC, the review of the 2022 RES RFP process is near in completion. There are still a few items that need to be addressed, of which our third party technical support contractor is assisting the LSR team with resolving those issues. The 2023 RES and ORECS RFPs are included in the 2024-25 Audit Plan, and we will continue to keep you updated. So the Internal Audit Plan for fiscal year 2024-25, included in the meeting packet was a memorandum that asked the Committee to approve an Internal Audit Plan for fiscal year 24-25 if approved by the Members. The Internal Audit Plan includes working with management on completing both consulting activities and audits. These activities include an audit of the employee onboarding process. NYSERDA is anticipating increase in hiring and staffing levels. This audit will review existing procedures for efficiency and effectiveness.

We'll measure compliance as well as identify opportunities for improvement. The scope for this audit will also include the NY Green Bank IT policies and Inventory Control. This audit will review NYSERDA policies and procedures with New York State requirements and provide assurance regarding equipment deployment and inventory controls. A consulting activity as mentioned just a minute ago, the 2023 large scale renewables, LSR. Our plan is to review the LSR proposal evaluation and award process for the 2023 renewable energy standard or RES and offshore wind, renewable energy credit, OREC RFPs. This is a consulting engagement to examine if relevant evaluation and award processes and criteria are addressed in the request for proposals in the scoring Committee guidance and other documentation were appropriately followed and that the selection process was adequate and appropriate based on the scores and ranking. Another consulting activity, continuing to assist management with its internal control assessment.

This is an insurance, pardon me, assurance and consulting activity to perform a continuous monitoring review of transactions to be reported on the annual certifications. The scope and procedures are defined in consultation with the Authority's and Internal Control Officer. We're also going to be updating the Internal Audit risk assessment in coordination with the Chief Financial Officer and the Vice President for Operations. We'll continue our efforts to refine the ongoing enterprise risk assessment and the Authority's Internal Control Manual Internal Audit will then update and reissue its Internal Audit universe and the rotational plan before drafting the 2025-2026 Audit Plan. Finally, we will beginning our Internal Audit self-assessment. We've reached the midpoint in our five-year external quality assurance review cycle per our internal policies and procedures. We'll be starting a full self-assessment review of our audit practices and all audits issued after March 31, 2022. The review will also involve updating existing procedures

to bring them into alignment with the new global auditing standards that were issued in January of 2024.

Internal Audit is also required to perform additional activities to conform to Internal Auditing standards. These additional activities include participating in continuous professional development training, 40 hours per auditor per year, maintaining a quality assurance and improvement program, having a follow-up practice to monitor the implementation of recommendations that have been communicated to the Authority in its Internal Audit Reports. Finally, the standards required that I make an Annual Statement of Independence to the Members of the Board. My staff and I have reviewed the existing standards and we have no concerns regarding any impairments. This review and our formal individual attestation statements have been documented in our QAR files at this point. I'd be happy to answer any questions on anything discussed.

Jay Koh:

Thank you, Mary. Are there any questions for Mary?

Richard Kauffman:

I had question. So Mary, there are a number of consulting projects that are underway and I just want to understand the origin of these projects. Are they originated by you? Are they originated by management? Are they originated in consultation between you and management? Is your work to evaluate the effectiveness of the consulting assignments or are the consulting assignments essentially a way for Internal Audit to extend its capabilities?

Mary Peck:

It's definitely in consultation with management. We don't undertake any consulting activities without either management asking us or us approaching management to see if we could be of assistance to them. Certain consulting activities we do because we're trying to make sure that what the Authority is certifying to outside parties is appropriate. We're providing a level of assurance to that. Generally the difference for us is that in a true Internal Audit, we're not participating with management in decision-making and on the consulting activities we have a much more liberal stake. So when we're doing the internal control self-assessment, I can give the Authority's Internal Control Officer some more specific guidance with regard to how the Authority can improve its practices and be more of a partner with them as opposed to an auditor coming in, maintaining our independence and simply giving them our recommendations and then management moves forward with any decisions regarding how to correct them. We definitely have more this year than we've had in previous years. That is the result of mostly an external audit where the Authority's leadership decided that in order to make sure that we were in the best possible position going forward, that Internal Audit help oversee an external contractor to make sure that our RFP process was appropriate and that the Authority would have no further problems from an external audit perspective.

Richard Kauffman:

Okay, thank you. I have one other question if that's okay? Sure. So on the AML, so I understand the history of it and that the paycheck protection program's gone

Mary Peck:

Yes.

Richard Kauffman:

But your point about how the PSC really wants the Green Bank to operate using best practices, financial institutions. Financial institutions do have AML, and so that's why I just want to be sure that I understood what your perspective was on the continuation of AML.

Mary Peck:

Absolutely. I'm actually really glad that you asked this question. So having a formal AML policy puts the Green Bank and the Authority in the business of specifically addressing very specific requirements. The reality is the Green Bank has incorporated a lot of the AML tenants into its basic customer review and processes. So they've taken the parts of the AML program that were really effective for the Green Bank's customer review, but by having a formal policy, they're doing some things that are adding a layer of work and review that don't add any value to what they're doing. So our discussions with Andrew Kessler and Anthony Fiore and the rest of the leadership was that the Green Bank could continue to embrace the policies that are really effective in working for them without having the restrictive nature of having to follow some tenets of AML that don't add value. So they're not just going to not do it, they're simply going to do it in a way that's more part of their general ops and procedures, as opposed to having a formal AML policy that requires more training, quite frankly than they are required and the Biennial Internal Audit review, we would simply add it to our normal Internal Audit universe and review it on a risk-based rotation.

Jay Koh:

Very good, thank you. Would it be okay to suggest that we have a periodic review of that AML substantive function? Just because practices may change, we may have

Mary Peck:

Yes.

Jay Koh:

Changes in the underlying client or counterparty base of the Green Bank where this might come back into play. I mean, there may be a bunch of international EML components that are not relevant to today's Green Bank counterparties, but that could obviously change. So it's great to hear that we're not abandoning AMLs this for substantive strategy.

Mary Peck:

And as a reminder, with the support of the Board and the Authority, I have two certifications specific to AML now. So I am required to keep abreast of those changes and to get the necessary training and recertification requirements. So that should be something that we're well protected with.

Jay Koh:

Okay. And in terms of just one other question about the access control review. So there's processes in place now with the substantive suggestions the external consultant are being implemented. Is that right? But there's no serial noncompliance issue or noncompliance business best practice.

Mary Peck:

There were some part of our problem is a strong word. Part of our issues was that we have very broad user buckets, for lack of a better term in NEIS. And I do see Wendy McPherson in the Albany Conference room, so she may be able to address this better. But one of our problems with NEIS, quite frankly is that it's an older system and we have been adding things onto it, but certain base structure elements of it are outside of our control. So some of the separation of duties issues, it would be very difficult for us to really correct those. But everyone's aware of them, they're monitoring them. So it's definitely not something that I have immediate concern for and it's something that we are actively discussing in the steering Committee for what our future financial system will look like. So we're definitely taking what we've learned in the NEIS audit forward with us in the new search for where we're going to be when NEIS sunsets.

Jay Koh:

That's great. Any other questions for Mary at this point? Alright, may I have a motion approving the Internal Audit Plan for fiscal year 2024 to 25?

Richard Kauffman:

So moved. Second.

Jay Koh:

All in favor?

Members of the Committee:

Aye. Sorry.

Richard Kauffman:

Aye.

Jay Koh:

Internal Audit Plan for fiscal year 2024-25 is approved. Thank you, Mary.

Mary Peck:

Thank you.

Jay Koh:

The next item on the agenda is proposed financing of the Authority's Green Jobs Green New York program. The Authority CFO, Pam Poisson will discuss this item. Pam,

Pam Poisson:

Good morning. So the Members are requested to adopt a resolution authorizing the issuance of our residential clean energy and energy efficiency financing, Green Revenue Bonds Series 2024 A in aggregate principal amount that will not exceed \$50 million. This bond issuance allows continued financing of residential energy efficiency and clean energy loans that are issued through the Green Jobs Green New York program. An approval motion and supporting materials were included in the advanced Board materials. Just as a quick context, the Green Jobs Green New York program, I think as most of provides New Yorkers with access to energy assessments, installation services and low interest financing primarily for energy efficiency improvements and clean energy installations. The Green Jobs Green New York Act of 2009 and subsequent related amendments directed the Authority to establish a revolving loan fund that would provide loans for such improvement homes, multifamily buildings, small business facilities, not-for-profit corporations.

The ACT initially funded the program with \$112 million in proceeds from the RGGI initiative. Over time, it's been further supported with new funding from those allowance proceeds and also by recycling capital to leverage that initial funding. One way of such recycling that we found to be cost effective is to issue bonds collateralized with the loan repayments. To that end, NYSERDA proposes to continue its regular roughly annual practice upon financing with the bond issuance at some point in the upcoming 12 months, that is going to be determined based in consultation with financial advisors and also our underwriter Ramirez, considering market conditions that right now we are planning for a mid-summer issuance, but that may shift depending on inflation for great friends other market.

I would note that the past two bond issuances have incorporated loans for heat pumps as part of the collateral as a compliment to the energy efficiency measures in solar pd. That update has been generally positively received by the markets. You may recall last year's bond issuance was oversubscribed. So we plan to continue that practice and we've actually increased this year the share of Green Job Green New York loans that will support heat pump installations such that it will now comprise about 25% of the bond issuance total. That upcoming issuance is of course going to be anchored by high credit quality loans. They're structured to provide a viable path to a fully subscribed market competitive offering. In particular, as we look to these proceeds to really replenish the revolving loan fund, we want to ensure that they are recognized for what they support. So they will be issued as a green bond labeled verified through a second party opinion.

The principal amount is known before will not exceed \$50 million. More likely than not, it will come in slightly below that. The maximum maturity is 20 years and the bonds are fixed rate federally taxable New York State, but federally taxable as they have been in the past. And based on the interest rate of the underlying loans, we'll have a weighted average interest rate not to exceed 7.5%. We will continue to structure the bond to the single A rating category and again, underwritten by Ramirez & Co. competitively selected and approved to provide underwriting services as a final control. You'll recall that these are limited obligations of the Authority. So they are payable solely from the pledged loan payments process-wise, they require the approval of the Public Authority's Control Board subsequent to this Committee and Board approval and certain aspects will require approval by the State Comptroller's Office and the Department of Taxation and Finance. You'll see that the motion includes the flexibility to issue as late as April

29th of next year. So that we do have some flexibility given the current market environment, but we do anticipate working toward an earlier closing likely in the summer or late summer. Pause there. That ends my report. What questions can I help answer for you Questions?

Richard Kauffman:

Yeah, so this is a governance matter. So we're delegating to management the Authority to issue these bonds subject to certain constraints that you've provided. Okay. So 7%,

Jay Koh:

7.5%

Richard Kauffman:

7 maximum. But given the rating, what would you expect given current marketing conditions, where would you expect the bonds to be priced?

Jay Koh:

Singly rated up to 20 year duration.

Richard Kauffman:

But the average life of those are much shorter than 20 years. Yeah, must be like a six less than five year. Right.

Pam Poisson:

And I don't know if this is where you're headed with the question, Richard, but as we think about the advance rate, last year our advanced rate was about 58%, just under 60 right now treasury is about a percent higher than we were at the Times led market last year. So I'm not expecting at the moment, unless we wait until after purchase interest rate cuts that we will be getting advanced rates in that neighborhood. So we are looking at the timing dimension here very carefully, and Luis Aguirre-Torres and Heather Clark, who head of the team on this one are looking at various mechanisms to manage liquidity so that we can make sure that we get the advanced rate that is desired on this.

Jay Koh:

So what we gotten guidance from third parties like Ramirez & Co. on potential where they think the potential pricing may actually end up penciling in.

Pam Poisson:

I don't have that with me, but I will be happy to get that back.

Richard Kauffman:

Okay. Well maybe we can maybe will do authorization, but we we'll have that follow up conversation. Are there any other structural changes that the advisors have said would be in this issuance relative to the past?

Pam Poisson:

There are two things that we are considering as possible alternatives or slight shifts right at the moment we're planning for it as it has been issued in the past. One component that we are reflecting on is whether it makes sense to continue to include the OBR loans, the on bill recovery loans. Because of some of the challenges the utilities experienced with billing, that has not necessarily reflected as positively as it might own the credit history. So we're having the financial advisors work with underwriters to model that out and see if it would significantly improve the situation. The other piece is that we are looking at the potential of expanding to some high net worth individuals with very sophisticated customers. The structure of these right now is in increments that would allow that. In the past when we've really marketed this primarily to large institutions, it has been a narrower range of interested parties.

Richard Kauffman:

Can I just have that real quick? Yes. So the advance rate you say is going to be about the same as in the past, do you think?

Pam Poisson:

I think it will be in the past or slightly lower.

Richard Kauffman:

Okay. That's what I want to talk about, which is, so what has been the, that implies that the payment history of the residuals hasn't gone as well as we might've hoped, right?

Pam Poisson:

I would say two dimensions. I think what you're saying is accurate. Also just simply the rates on the underlying collateral relative to the market rates. So of course these are generally concessionary capital in large part, we are actually taking a look at the overall structure of the loan programs, but I don't want to get ahead of that. So there's some opportunity over time potentially to update those. But at the present time, most of the underlying loans are in the three and a half to 4% range. So essentially to get the credit rating and the interest rate that we're looking at, they will have to be fairly significantly over collateralized.

Richard Kauffman:

Okay. Understand. And the green bond premium now is shrunk to what? Two basis points? Something like that?

Pam Poisson:

I'm not sure. I'm sorry, I don't know Luis, if you have that information. I don't have the current handy.

Richard Kauffman:

Okay. Are there meaningful costs to get a green bond or not? I mean, is it still worth doing or?

Peter Costello:

I think it is still worth doing, yeah.

Richard Kauffman:

Okay.

Jay Koh:

And then last year's max interest rate, was. The last issuance that we did.

Pam Poisson:

Last issuance was about 6.99%. We are currently looking at a maximum year. Seven half. Seven half. Oh, sorry, that's for the coupon. Sorry. So last year the coupon maximum that we went forward with was 7%. We have recommended here in this motion increase to seven and a half.

Richard Kauffman:

And last year, the time for the approval. This seems like a very long period of time. You said it's going to be until April of 2025?

Pam Poisson:

Yeah, I think we've consistently done that the past few years. I can't speak earlier, but yeah, we one year duration, we generally do a one year duration.

Richard Kauffman:

Okay. And Pete?

Peter Costello

I don't know, just on probation.

Richard Kauffman:

No, no. I mean I think the question that I have just from a governance standpoint is I understand the idea of delegating something to management, but for a year that seems like a long time, but maybe that's okay.

Peter Costello:

That's been a historic practice is that it has.

Richard Kauffman:

Okay.

Jay Koh:

It's been also interest rate environment has changed since the last 18 years.

Peter Costello:

Right. So the maximums meant to be a guardrail against that. So if that's not something you're comfortable with, then

Richard Kauffman:

truly I'm taking the advice of counsel here.

Peter Costello:

I think the maximum provides adequate guardrails. If interest rates go drastically different, you're not going to exceed that ceiling. So

Richard Kauffman:

no, I'm talking about the time of the year. Yeah, no, I understand. Alright.

Peter Costello:

Right. So what I'm saying is over time, right, there could be volatility in which that could become very concerning. So the maximum should protect against that.

Richard Kauffman:

Okay. Further questions,

Peter Costello:

we can also check in curiosity as well, but that's uncomfortable.

Jay Koh:

One thing I think would be worth inquiring about is whether delegations of authority for this kind of bond issuance at similar New York agencies, they are of a one year duration or people have shortened that given that recent more volatile interest rate environment over.

Peter Costello:

Yeah, we can certainly look at it.

Sara LeCain:

Could partially answer that. Typically the rest of the Authority's have been doing the same thing. I haven't noticed a change. I can track it P, because they all include the same duration in their PACB approvals.

Richard Kauffman:

Okay. I didn't mean to jump over you. I didn't know that this was your, I never know which lawyer worries about which topic, so I apologize.

Jay Koh:

Well, I think that would be an interesting point of inquiry for the next, just evaluate whether or not this kind duration of authorization is continuing to be, seems to be pr given the fact that we're now moving to what might be a different, just keeping track of that. Right. So in the 15, 18 year period where interest rates were incredibly flat and almost not at all compared to 600 basis point move in less than 18 months, not in a different environment to consider duration, simply transactions may simply not clear anything about an interest rate. And then the question is make sure that we're thoughtful about taking prudent decisions in a different department where things start to shift. Yeah, makes sense. So we'll come back next time that Thank you. May I have a motion recommending approval of the financing and the Green Jobs Green New York program?

Richard Kauffman:

So moved.

Jay Koh:

Second. All in favor?

Members of the Committee:

Aye.

Jay Koh:

Opposed? The financing of the Green Jobs Green New York program is recommended for approval. Thank you, Pam. The next item concerns a presentation from our independent auditors on the audit of the Authority's financial statements and the NY Green Bank financial statements for fiscal year 2023 to 24 Dean Geesler Lead Audit Partner from KPMG will present this item. Dean?

Dean Geesler:

Hi everybody. Can you hear me okay?

Members of the Committee:

Yes. Yes.

Dean Geesler:

Excellent. So good morning, as I believe you have our presentation, so I'm not going to go over every page, but I do have some things that I need to make sure that you're aware of and happy to answer any questions as we go through it. So the overall plan is based on a couple of things. One is our historical understanding of NYSERDA, and the second piece is our meetings with management to date. And as you probably know, we do keep up to speed on what's happening by reviewing the quarterly financial statements that management puts together, that gives us a good basis for understanding changes in the organization as well as anything that needs to be addressed within our own audit plan to make sure that we are addressing the risks of material misstatement of the financial statements. So it looks like somebody's brought the presentation up. If we can skip ahead to page three.

Yep. That's page four. No, you were right. That's the right page. Sorry. Looks like it's one off from mine. So the key themes that we do have addressed within our presentation includes some of the modernization of our audit, and that includes using technology, making sure that we're focused on the overall experience of management as well as this Committee during the audit process, the scope of the audit, other required communications, and then some insights and key risks within our audit plan itself. So we can go to the next page. So the next two pages actually include information on how we are making a multi-year investment, improving our digital capabilities, making sure our people are trained, and also embedding advanced technology within our audits that in some cases include some AI tools as well as other data and analytics tools that we use. Now what we're trying to get to is the standardization automation and the centralization of the approach that uses some of these technology tools as well as enhanced skill sets from our audit teams with a goal of getting to enhance audit quality, increase efficiency and exceptional

experiences. So we are investing in our own technology tools, we're investing in our people, investing in making sure that we've got the right processes in place as we go through all of our audits. And some of the benefit of that, it's enhanced with, I'll call it depending the nature of each client, the nature, size and complexity of each client, as well as the complexity and availability of their own IT systems. So if we can go to the next page.

So here are some of the categories of how we're continuing to embed increased use of audit technology into our audits. Some of it is within the analytics category. So we can take your data, look through it better, find high risk transactions, better match transactions, I'll call it from one place to another to ensure consistency and really just being able to use that data to either visualize, better identify some of the risks through visualization techniques or through automated routines that we can use. There are also some automation tools. So confirmation used to be confirmation.com. External confirmations are often handled through this automated tool, data snipper or something we use with our Excel files to be able to bring in files from other sources and include them and embed them within the Excel files. And then from a collaboration and workflow tools, these are more internal management won't necessarily see them, but we do have other tools that kind of automate our own processes internally to ensure that we're consistent and that we don't miss things that easily can be repurposed within our audit to prevent duplicate duplicative documentation.

So we can skip ahead two pages. There's a list of required communications, which we go over on an annual basis. So we've got further slides on most of these. There are no significant findings or issues that we've discussed with management that really changes anything. On the left hand side of the slide. We do talk about our overall audit scope and same audit scope. As usual, we plan to issue an opinion on NYSERDA overall financial statements as well as the standalone financial statements of the NY Green Bank. As part of that, we will apply the government auditing standards to our audit and make sure that we are compliant with that separately. We will also perform our annual examination of the Authority's compliance with the investment policies of the state of New York. So we do issue a separate standalone agreed upon procedures compliance report related to the compliance of the investment process and the investment portfolio so we can move forward.

Next page is a picture of our team. For the most part, the team is repeating from prior years. A couple of folks that are new are in that middle box there, Lisa Pagliaro and Jen Roberts who are both on the meeting today. I'm going to do all of the presenting, but they're here. They're replacing Jeff Mabb, who was on the NYSERDA for a number of years, a few weeks ago. He has left the firm, so we did have to replace him. Lisa and Jen come to the engagement team, having served other pieces of New York state, they have a lot of experience in the government, local government space and working with Authority's of New York, including Jen, who's been part of the overall New York State Financial Statement Audit prior to this for several years. So they come with some good experience and will be good additions to the team. On the bottom of the slide, you also see some of our WMBE resources. They're actually very much consistent with past years, which again helps us from a continuity standpoint, having people that understand NYSERDA and the risks involved in this audit.

So we can go to the next page briefly. Materiality is something that we consider for every audit as part of our planning, we consider the size of the financial statements, we consider who uses them, and we basically try to identify at what threshold, if you will, will a user's decision making related to the financial statements change because of an error, what is considered to be material. So we do determine that as part of every audit, generally based on the size, the amount of assets, if you will, of an Authority such as NYSERDA. That number changes every year depending on growth, depending on our perceptions of what's going on. And we will be determining that as part of our overall Audit Planning in the coming weeks.

Next page includes our timeline. This is very much consistent with the past years with the thought that we will be done in time to be able to present to this audit Committee in June and issue the opinions that are required by the end of the June timeframe consistent with prior years. So no real changes to our overall schedule or timeline. So then the next couple of slides talk about risks slide. This slide here talks about our significant risks. And this is a reminder that we do consider management override of controls to be a significant risk in every audit. It is not NYSERDA specific, but it is an audit standard requirement that we consider and perform special procedures related to the risk of management override. So what we do here is make sure and the overall financial reporting processes understand what it takes to book a journal entry. For instance, consider the segregations of duties or lack thereof, and how we design our audit procedures and then identify any high risk journal entries, test those journal entries to ensure that they are appropriate and gather enough evidence to be able to conclude that the risk of management override has been addressed sufficiently through management's controls and processes. So again, nothing specific to the NYSERDA audit. We have not had any issues come up in past years, but it is something that we are required to look at as a significant risk.

So moving to the next slide, we have other areas of audit focus. So these areas, I won't go over them all individually, but we don't just audit the significant risks. We audit other things that could be considered to be risks of material misstatement within the financial statement. So we do a lot of sampling. We do a lot of analytic procedures to ensure that the balances are appropriately stated within the financial statements. There are certain estimates in the middle column where we will perform specific procedures around those risks, including involving specialists where necessary and ensuring that management is consistently applying their approaches to these estimates. And so those estimates focus on the NY Green Bank loans and ensuring that if a reserve is needed because of delinquent or late nonpayment, that that reserve is appropriate. And then on the liability side, there are accrued liabilities and contingencies as well as the OPEC liability where there was a significant amount of judgment on behalf of management in determining some of the assumptions and inputs. And then on the right hand side of the page, I already mentioned the investment compliance report, obviously something that we need to focus on during the performance of our audit.

So next slide. It includes a slide detailing involvement of others within our audit. We do include a couple of specialists related to the actuarially determined liabilities associated with the EP and pension liability. We also have tax specialists who ensure that there aren't any matters that would impact the Authority's exempt status, if you will, as a governmental entity. Then I mentioned earlier already the WMBE participation. We do have a couple of firms here that we have used extensively in the past that help us to meet our requirements on there. And again, those folks are

very much the experience with the NYSERDA audit as well as other New York State audit components.

Moving on to page, the next page, we do have a list of newly effective accounting standards coming up over the next three years. One or two of these have already been adopted by NYSERDA to be in line with New York State's overall adoption schedule, but there are a couple of others coming in the following years. We've talked about these with management. Don't expect any of them to have a material impact on the Authority's financial statements and therefore won't have a material impact on what we need to do from an audit perspective. So the next couple of slides deal with some other compliance areas, independence, as well as detailing the responsibilities of the audit, who does what. And there are no changes related to any of these areas. We monitor independence carefully. We make sure that we don't violate any of the boundaries related to the audit management, prepares the financial statements and we audit them.

Make sure that we're reporting the appropriate items to this Committee as part of that audit. And then if we go ahead, two slides, there are a list of inquiries here. I'm not going to go over them in detail. These are things that we discuss with management and certainly if the Committee Members have any concerns about any topic on this slide, we would be willing to talk about it either as part of this meeting or separately. So the only other thing I'll note is that within the appendices, there are a few slides that deal with some of our audit quality, transparency and impact reports. Those are available to you to review at your leisure if you so choose. And then there are a couple of slides related to trends that we're seeing impacting audit Committees, those things that audit Committees are discussing, whether it's related to ESG and some of the requirements around those reporting aspects that are changing either at the SEC level or certain states or Europe.

For instance, California has a well discussed ESG requirement reporting requirement that is impacting some of the entities that do business there, as well as an audit Committee list, if you will, of 10 areas of focus that we're seeing Committees discuss. And then lastly, there's a slide, or there are a couple of slides. One is on AI and how we're seeing it impacting not only our business but other businesses and some information and a link to a survey that we've done related to AI and related to how it's impacting financial reporting and audits. So we welcome you to check that out. Then cybersecurity obviously remains a focus of ours and a focus of many audit Committees because of the pervasiveness of the risk and the fact that there are issues happening all the time related to some of our clients. And some of these issues have been within the news cycle, if you will, and it's something that we want to make sure everybody understands is not going away. And we all need to be very diligent in addressing the risk of cybersecurity. So I went through that quickly. I understand, but happy to answer any questions that you have on either the Audit Plan itself or some of the other areas that we provided some insights on.

Jay Koh:

Are there any questions for the external auditors, Richard?

Richard Kauffman:

Yes. So this is certainly not my area of expertise at all, so I'm not going to answer the question very well. So in talking about ai, my understanding is that there's a capability that I understand,

it's called RAG, which is a capability which companies have to invest in for a extracting all the data and having it be in a machine readable form so that it can connect to GPT so that in order to take advantage of all the data from a business perspective and from an efficiency standpoint. So maybe I've got that wrong in case if I've got it wrong, tell me I've got it wrong. But if I'm sort of right, is this the capability that we need to develop and how does it connect to what you would do? And are you building something that would connect to what we need to do? Or are you going to build something that is separate? So that's to say I sort of stumbled my way into that question.

Dean Geesler:

Well, no, I think I understand it. And then generally you have, right? As far as where things are headed. Now, NYSERDA is not required to do anything by any means. We are certainly developing our own tools and for instance, we've got licenses that allow us to use certain chat tools and our teams are using those things to do some research. For instance, it could be as simple as doing a chat prompting the AI tool that we have and saying, how does an Authority of government accounting client account for a certain transaction? And obviously it's not going to give you a hundred percent accurate answer and we've got to do other research. But what we're finding is that our tools and certainly other tools that are out there, are able to point us in the right direction, sometimes nail it, sometimes not. You have to be careful of different issues and inaccuracies that might come up.

But it's certainly adding to the efficiency and enabling our people to come up with alcohol, a general answer a lot quicker. And so we do have these tools. We do internally developed tools as well as licenses with companies such as Microsoft, where we are allowed to capitalize on some of their tools already. For instance, we do have copilot available other areas where we're using it. For instance, if we use Microsoft teams as our meeting tool, our virtual meeting tool, and we have the capability of implementing copilot on that. So we could have a meeting with a client without a client, the copilot will take notes, great notes, summarize the meeting, summarize the takeaways from the meeting, basically do a better job than most people would do with those kinds of things. So there are a lot of opportunities now. Those opportunities are elective at the moment and certainly something that every organization needs to consider. And as opposed to, I'll call it doing things piecemeal and saying, oh, we're going to do X, Y, or Z. Our recommendation is always to develop an overall program, develop boundaries, if you will, develop an approach to being able to use that and then talking with people throughout your organization to ensure that you're doing it in the right way. A way that you can benefit from as an organization, but also do that in a safe way that doesn't jeopardize the information that you have.

Jay Koh:

Maybe I may ask two questions. One is to sort of think through the audit function versus recommendations or best practices that you're observing and process interaction with their clients. So in this case, thinking through this question of AI's implications in terms of what's recommended or what assets the agency may label we have from an intellectual property standpoint that could train, for example, different large language models. We have a huge amount of research and analysis within the agency that could be the much more valuable in that context that's not currently being monetized or valued or accounted for in that basis. So I think

separate from the audit itself, it would be helpful subsequently to be pointed to other resources that KPMG has as a third party counterpart to the agency that refer to how other entities are approaching this from a process standpoint or from a valuation standpoint.

Dean Geesler:

We have a lot of discussions with our clients. We've got a group internally that helps audit clients and not audit clients depending on restrictions and goals of an engagement. But they're able to, from a far kind of look at an organization and come up with a list of possible opportunities, possible partners and third parties that can help with technology tools. It's an interesting process.

Jay Koh:

Yeah, so I'd say maybe separately from the audit function, it would be helpful to have that as a follow up. Just we keep track of where other similar situated entities are approaching this kind of question. The second point is just a slight point of clarification, you mentioned in the context of the NY Green Bank valuation of loans, something about the appropriate reserves that are taken. I'm not sure if that's, I just want to make a technical clarification for anyone that may be reviewing this discussion to note that we don't in advance of actual impairments or actual financial impact, as far as I understand, take or set up reserves as a matter of the accounting recommendations that historically have been audited by the external auditors in the event of valuation changes on the actual value of the loans themselves, which is what will be the subject of the review here. And we may take charges or change the valuations or refer to that. But just to clarify that, is that your understanding as well that we do not in advance of actual changes in economic value?

Dean Geesler:

That's correct. You, your loans are recorded at amortized cost, if you will. So the original value of the loan, less any payments received. And unless there is something that is impacting that counterparty's ability to repay a loan, you do not have any reserves. So your reserves are specific to your, the borrower's inability to possibly repay the whole loan.

Jay Koh:

Right. And that is in accordance with the system recommendation, subsequent audit review of KBMG. That's fair to say.

Dean Geesler:

Yeah, that's right. It's something we talked to Mike and the folks at Near Green Bank about every year.

Jay Koh:

Yep. Okay. Good. And then the last question here is just a matter of emphasis more than anything else. It's great to see that there is a mention and a specific comment on the cybersecurity side of things. This has been a historic issue of concern and prioritization for the Board as a whole. So you would appreciate any recommendations that come forward separate from the audit process itself, keeping abreast of best practices in that

Dean Geesler:

We do some inquiries every year regarding cybersecurity, not just what happened or what didn't happen, but also tell us how you're setting yourself up for in order to limit any potential cyber issues, prevent or contain, if you will. If there were any issues or are any issues. We will include that in our final reporting.

Jay Koh:

Thank you. Are there any other questions for our external auditors? No formal action is required by Committee Members on this item. Thank you very much, Dean and team, really appreciate it. Look forward to constructive engagement. The next item on the agenda is other business. Are there any other matters the Members wish to discuss? No. You sure I have a motion to adjourn?

Richard Kauffman:

Yes.

Jay Koh:

Second, I'll, all in favor?

Members of the Committee:

Aye. Opposed? The reading is adjourned. Thank you very much.