

NYSERDA'S 154th AUDIT AND FINANCE COMMITTEE MEETING

October 4, 2023

Clean Copy of Transcript

Chair Kauffman:

Notice of the meeting and an agenda was forwarded to the Committee Members on September 21, 2023, and to the Press on September 25, 2023. This meeting is being conducted in person and by video conference the Authority will post a video and a transcript of this meeting on the web. I'm Richard Kauffman, Chair of the Authority. The Committee's Chair, Jay Koh was unable to attend today, so therefore I will lead the meeting. Now I'd like to ask each of the Committee Members to introduce themselves.

Sadie McKeown:

Sadie McKeown, Member of the Committee, Member of the Board.

Frances Resheske:

Frances Resheske, Member of the Committee, Member of the Board.

Chair Kauffman:

Thank you very much. The first item on the agenda is the approval of the minutes of the 153rd Committee meeting held on June 26, 2023. Are there any comments on the minutes there being none? May I have a motion approving the minutes?

Sadie McKeown:

So moved.

Sherburne Abbott:

Second.

Chair Kauffman:

All in favor?

Members of the Committee:

Aye.

Chair Kauffman:

The minutes have been approved. Thank you. The next item on the agenda is consideration of the proposed amendments to the Authority's Internal Control Manual. Pam Poisson, the Authority's Chief Financial Officer, will present this item. Pam.

Pam Poisson:

Thank you. Chair Kauffman. The Public Authority's Law, Article 9, Title 8, Section 2931. To be specific requires that NYSERDA establish a system of internal controls, defined as a process that integrates the activities, plans, attitudes, policies, systems, resources and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission. NYSERDA has defined the core of its internal control system

in its Internal Control Manual for ICM. The ICM is posted on NYSERDA external website for transparency and all NYSERDA Board Members and employees are expected to understand and abide by the provisions with it. Staff review and update the manual on a regular rolling basis to ensure it stays up to date and the Board is asked to approve the ICM, however updates are made. We recently conducted just such a review and update process guided by an advisory team that consisted of Senior Legal Counsel, the Director of Internal Audit, the VP of Operations, and me, and then included a review by the other Officers.

We used this update process this time around to significantly refresh and simplify the structure of the ICM. The goal was to make the manual not just more current, but also much more understandable and digestible. Staff anticipates that this refresh will make the content much easier to digest and retain and thus ultimately be more likely to be effectively utilized and internally applied by those who are bound to those controls. You have the full updated manual in your Board materials along with details on the updates made. Let me highlight just a few top improvements. First, we inserted a new introductory section with clear articulation of the key components of our controls environment and foundational controls principles. These feed ongoing annual training to make the second nature with the intent to permeate. All we do as Serta, we updated the content, especially focusing on three items, entity level controls that are now in place such as strategic planning, financial planning, integrated goal setting, performance management, and a recently improved decision framework.

We addressed policy development functions given an expanding role in that regard and clarified NYSERDA's role in CLCPA implementation. And we removed duplicative content where it's already addressed separately and thoroughly in supporting internal manuals such as the personnel handbook. We believe we've also made the document more relevant and were evergreen organizing material in a cost bidding cross cutting functional manner rather than by departmental unit and adding links to supporting documents to ensure consistent access to the latest version. With the refresh now complete, the Members are requested to adopt a resolution approving the updated Internal Control Manual. If adopted. This updated version will be socialized internally through various mechanisms including newsletters, webinars, and training sessions, and integrated into regular Onboarding practices for all new hires. This concludes my report.

Chair Kauffman:

Are there questions, Pam? I do have one question, which is how was this review benchmarked against other organizations?

Pam Poisson:

Yes, fantastic questions. So we reviewed the similar manuals of several other comparable care organizations such as DASNY and ESD. We also got input from our outside auditors as to the level of information they typically see and we have crosschecked it to the underpinning statutory requirements.

Chair Kauffman:

Okay, very good. Alright, well if there are no other questions for Pam, we have a motion recommending approval of the amendments to the Internal Control Manual.

Sadie McKeown:

Second.

Chair Kauffman:

Okay, very good. All in favor?

Members of the Committee:

Aye.

Chair Kauffman:

Any opposed? The amendments to the Internal Control Manual have been recommended for approval. The next item to be considered is proposed amendments to the Authority's Investment Guidelines. Pam, you're up to discuss this item too?

Pam Poisson:

Yes. Thank you. And I do want to acknowledge the contributions here of Controller and Assistant Treasurer Peter Mahar, who's been very engaged in this. The Members are requested to adopt a resolution approving two amendments to the investment policy Statement. The first proposed amendment is to expand the list of permitted investments to allow for diversification of holdings within the NYSERDA portfolios in an effort to improve expected returns without taking on additional risk. As reported previously to the Board, we have been working with an investment advisor to conduct a comprehensive review of our investment portfolio and investment policy statement for NYSERDA inclusive of NY Green Bank and to consider that advisor's recommendations for updates to improve returns while keeping to our current conservative risk profile. This analysis included three key steps. First, we've reviewed the investment policy statements and permitted investments of several State agencies and Authorities viewed as a reasonable peer group such as the New York State Department of Tax and Finance, the New York Power Authority, Long Island Power Authority, Dormitory Authority, and Empire State Development Corporation.

Second, we consulted with our fiscal agent, the New York State Department of Tax and Finance to understand the full array of permitted investments that can be supported using our current cash management investment platform. And third aforementioned investment advisor performed an asset allocation study to model a set of risks and returns that are looking at various asset pool and maturities to provide an optimized risk adjusted return. And that was drawing exclusively from the list of assets that are permitted under Department of Tax and Finance. The advisors recommended portfolio mix when benchmarked against our current asset mix would've yielded slightly higher returns. Historical data suggests about 10 to 25 basis points higher while staying within our current risk tolerance. So as a result of this review, the investment policy Statement is proposed to be updated to allow the following three investment types as additions to the current roster.

First federally guaranteed obligations beyond the general treasury obligation. So those would be things such as Ginnie Mae Instruments. Secondly, a commercial paper issued by New York State or its political subdivisions or any New York State Agency rated in the highest short-term rated by at least two nationally recognized statistical rating organizations. And finally, supernational

organizations such as those that are part of the World Bank umbrella. Again, similarly rated in the highest category for at least two nationally recognized rating organizations. If approved, we would propose to include specific investment allocations recommended as support for the investment income assumptions in the fiscal year 2025 budget for additional visibility to this Committee. The second proposed amendment finally is to provide the Controller and Assistant Treasurer authorization to execute investment management operational functions. If so, delegated by the CFO as opposed to as it's currently stated only in the CFO's absence. It is staff's belief this will improve business continuity and allow for further separation of duties improving overall controls. This gives my report and have an answer. Questions. Questions.

Chair Kauffman:

Alright, I got a question. So on the second one about the commercial paper issued by New York State or entity. So I have two questions. One is, who actually would make the decision to make those investments?

Pam Poisson:

So it would be a two step crisis. So we would recommend in our upcoming budget for the coming year, the specific allocation among different instrument types based on recommendations of the investment advisor. And then we provide directions to tax and finance within those parameters. And I've seen Peter nodding to the affirmative, so I think he is also in agreement, but Peter, you've worked with us for many more years. If certainly, please amend that Statement if I'm incorrect.

Peter Mahar:

Yes. I think the second point Pam would be, will be working with our fiscal agent, identifying on their radar these types of investments and they're going to also help us look out and to see what type of investment products including this commercial paper for New York City municipalities and they'll provide advice back to us whether or not they see that as a good option for us as well. So we'll be working in partnership with them throughout the course of the year as well based on our cashflow needs.

Chair Kauffman:

Are there limitations in each of these asset categories?

Pam Poisson:

That is what we would be recommending as the underpinning to the budget for the coming year. That is something that I am not sure has happened in the past and we'd like to be more specific and provide that back to the Committee. Okay.

Chair Kauffman:

Alright. Then the second question, and I believe I know the answer to it, but I just for avoidance of doubt, when we talk about the highest short-term rating, we're talking about that being in absolute terms like an A one P one as opposed to the highest of the available New York State entities.

Pam Poisson:

That is my interpretation.

Chair Kauffman:

Peter, do you know?

Peter Mahar:

Yes, I would agree to that as well. We will make sure that that's a stipulation as well.

Chair Kauffman:

Okay. Alright, great. Thank you.

Pam Poisson:

Yeah, and that is actually as it is phrased on the specific listing of available investments from Department of Tax and Finance, but I would, the language clarification.

Chair Kauffman:

Well, I think the language is ambiguous.

Pam Poisson:

We will follow up on that point.

Chair Kauffman:

Thank you. Okay. Alright, so if there are no more questions for Pam, may I have a motion recommending approval of the amendments to the investment guidance?

Frances Resheske:

So moved.

Chair Kauffman:

Good. Thank you. All in favor?

Members of the Committee:

Aye. Any opposed? All right. The Investment Guidelines have been recommended for approval. The next item on the agenda is a report on the recent activities of Internal Audit from its Director Mary Peck. Mary.

Mary Peck:

Good morning and thank you. With regard to our recent activities, we recently have consulting activity, ongoing CA-2324-01. It's part of our continuous monitoring project. Regarding this activity, a sample of payments were selected for review for compliance with NYSERDA invoice review and approval. Process to date review has been completed for quarter one April to June of 2023. No significant issues were found. NYSERDA internal controls over the payment process are generally working as intended. The review also included sampling employee expense reports, all of which were travel related and included executive staff. I'd also like to note that NYSERDA President has requested that her travel be audited for compliance and assurance, and we continue

to do so on a regular basis. The testing performed for this activity will also be used to help satisfy the requirements for the April 2024 Office of the State Controller Certification of Internal Controls over the payment process.

Also, with regard to NYSERDA whistleblower hotline, we've recently updated and renewed the Authority's external fraud and abuse hotline for a three-year period as directed by the Internal Control Manual. All reports are directed to both the Authority's, General Counsel and the Director of Internal Audit for review and follow-up. An article was included in a recent Authority newsletter and posters have been located in all locations with regard to our current activities that are ongoing IA2223-01, the audit of system access for NYSERDA Enterprise Information System. As part of its Annual Internal Control Assessment, the Authority considers system access and user role security with regard to the statewide financial system SFS. This review will be done in consideration of the State Controllers expanding focus in this area to ensure that the Authority's financial system is reviewed with the same rigor. To date, we've contracted with a firm to assist internal audit by auditing the system and its access.

This audit requires use of specialized IT skills to examine needs by having them audit specific users roles and access. The contractor staff possess the skills necessary to examine our PeopleSoft application. Outsourcing the needs system audit is an effective and efficient way to supplement internal audit and provide the key technical knowledge and skills necessary to competently perform this audit. The project is comprised of two efforts. The first effort involves the validation of NYSERDA's internal user role and access matrix to ensure that the concept of minimal necessary access is followed while supporting the actual business needs by the users.

There's a focus specifically with regard to separation of duty considerations With regard to the roles, the first effort is currently underway and we're working with the vendor on their prepared testing plan. This effort will be followed by security testing of the applications to ensure that permissions are enforced as expected without the ability for privilege escalation due to any configuration logic or coding error. Also, with regard to IA-2223-02, an ongoing audit of the NY Green Bank's anti-money laundering policy monitoring in 2020, the IRC approved and anti-money laundering policy that requires a biennial review from internal audit. This will be the first review of this area. To date, we've assessed the required pillars of compliance for an effective AML program. As the NY Green Bank was approved as a small business administration loan lender to offer eligible applicant's loans up to \$50 million under the paycheck protection program.

As part of the Coronavirus Relief Act, we are also reviewing three loans that were issued during that period for AML compliance. We plan to examine current details in the coming weeks and anticipate completing the field work for draft report by the end of this month, October, 2023. We also have an ongoing review in the planning process, IA-2324-01, an audit of the employee onboarding process. This audit will review existing employee onboarding policies and procedures for efficiency and effectiveness. We'll measure compliance as well as identify opportunities for improvement. The scope will also include the NY Green Bank. We've started the initial scoping and background work with this audit and we'll continue to keep the Committee apprised of its At this point, I'd be happy to answer any questions.

Chair Kauffman:

Okay. Well, I have a couple I'm afraid. So nothing serious. The word generally working in terms of internal controls, overpayment processes are generally working. So I just want to understand that word generally,

Mary Peck:

And I know that I am actively trying to think of a better way to phrase that because I know that that's not a term that you like. There's always room for improvement in our processes. So nothing is ever a hundred percent perfect. That's how we learn and improve. So a lot of times it's never been anything more than a minor improvement. So the generally accepted term is generally it's generally compliant. Okay.

Chair Kauffman:

So that's a technical term. Okay. Correct. So nonmaterial.

Mary Peck:

No, I have no concerns at this time with NYSERDA payment.

Chair Kauffman:

Process. So then the other thing is on the whistleblower hotline. Yes. What is this issue about renewing it every three years?

Mary Peck:

So we have outsourced that function.

Chair Kauffman:

Okay.

Mary Peck:

So we use a CPA firm that specializes in a whistleblower reporting so that as part of our independence of the process as well, employees can always report problems internally. And we make that very clear in the Internal Control Manual and in the posters. But we also give the option of them reporting it externally if they have any concerns.

Chair Kauffman:

Okay. I understand. And we've never gotten any report at the Board on any matters that have come in through that hotline.

Mary Peck:

Nothing. We do routinely receive things that Peter's staff will assess and decide how best to move forward. None of them have ever proceeded to a point where we felt it rose to the level of notifying the Board. If that's something that you would like a routine report on those at the quarterly meetings, I'd be happy to put that together. I will also say that any complaints we've received have not been internal and have not been major.

Peter Costello:

Agreed.

Sadie McKeown:

What determines whether it's major enough to come to the Board? Give me an example of where you might bring it forward.

Peter Costello:

I think perhaps if it needs to go at the Inspector General's office or Comp, there's an external sort of factor with respect to this, then we would definitely bring it to the Board.

Mary Peck:

We have a triage in place. So Peter will usually assign someone in council's office to do an initial assessment. And since I've been here in 2018, nothing has really progressed beyond that.

Peter Costello:

That person is Janice Dean.

Mary Peck:

Janice Dean.

Chair Kauffman:

How many eyes look at those reports?

Peter Costello:

So it's usually myself, Dean, Mary, and I'll often talk to Doreen about if it's major through our hotline, we've really not received anything I would consider.

Mary Peck:

Agreed.

Peter Costello:

And oftentimes it'll have to do with maybe a homeowner has a contractor complaints, for instance, would be an example.

Chair Kauffman:

That's an excellent example. That's mostly what I see. Okay. Well, I guess this is a process matter. I guess I'd like more than one set of eyes to look at the

Peter Costello:

Disposition,

Chair Kauffman:

Not the disposition of, I don't know what somebody, what do you call it? What somebody would call in a report.

Mary Peck:

Like an intake and assessment?

Chair Kauffman:

Yeah. So that we know that.

Peter Costello:

So right now we have that in place with Mary and myself.

Chair Kauffman:

Okay, yeah, then that's fine.

Peter Costello:

Yeah.

Chair Kauffman:

Perfect. Okay. Any other questions for Mary? Okay, thank you Mary. This was an informational item only. Are there any additional items the Committee Members wish to discuss? And that case may have a motion to adjourn. thank you.