

**New York State Energy Research and Development Authority (NYSERDA)
FY 2016-17 Internal Control Assessment**

This report summarizes NYSERDA's assessment of its internal control structure and procedures, as required by Section 2800(a) of the Public Authorities Law, and its compliance with requirements of the New York State Internal Control Act.

This statement certifies that NYSERDA followed a process that assessed and documented the adequacy of its internal control structure and policies for the year ending March 31, 2017. To the extent that deficiencies were identified, NYSERDA has developed corrective action plans to reduce any corresponding risk.

A. Establish and maintain guidelines for a system of internal controls for the authority.

Internal control guidelines communicate an organization's management and programmatic objectives to its employees and provide the methods and procedures used to assess the effectiveness of its internal controls in supporting those objectives. Internal control guidelines should:

1. State the agency head's support of internal controls to provide staff with an understanding of the benefits of effective controls;
2. Identify the agency's primary responsibilities and the objectives;
3. Explain how internal controls are organized and managed;
4. Define responsibilities of agency management and supervisors and agency staff;
5. Acknowledge that internal controls adhere to accepted standards; and,
6. Describe the organization's process for evaluating internal controls.

For this requirement, NYSERDA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions NYSERDA has taken to comply with this requirement.

The Authority maintains an Internal Control Manual, provided to all staff and available on its intranet site, which summarizes internal control policies and procedures, including those for internal control review. The Manual was last modified, and approved by the Board in September 2016. In addition, other Board-approved policies are also provided to staff and available through its public website and its internal intranet site including: Code of Conduct, Code of Conduct for NYSERDA Contractors, Procurement Guidelines, Guidelines for Property Disposal, Prompt Payment Policy, and Financial Services Firms Guidelines.

In addition to these Board-approved policies, more detailed policy and procedure manuals are provided to staff and available through its intranet site including: Personnel Handbook, Operations and Procedures Manual, Accounting Policies and Procedures Manual, and Information Security Policies and Procedures Manual.

The President and CEO reinforces the importance of the internal control program by sending a written communication to all staff stating: the purpose and importance of the

Authority's internal control program; the expectation for each employee's understanding, participation and compliance with the program; and the expectation that employee's remain alert for possible violations of law, policy or public trust within NYSERDA and to promptly report such violations to appropriate internal management personnel or to the Authority's independently operated and confidential Fraud and Abuse Hotline.

The importance of internal control activities is also communicated to management and staff throughout the year in many formal and informal manners. The Board regularly comments in its public meetings its appreciation for staff's efforts and accomplishments, and reiterates the importance of its programs, and the need to continue to provide a high degree of accountability and transparency. These same themes permeate through formal and informal meetings that management have with staff on a regular basis.

B. Establish and maintain a system of internal controls and a program of internal control review for the agency or authority.

The system of internal control should be developed using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) conceptual framework adopted in the *Standards for Internal Controls in New York State Government*, and should incorporate COSO's five basic components of internal control: control environment, risk assessment, control activities, information and communication and monitoring.

The program of internal control review shall be a structured, continuing and well documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the agency's or authority's internal controls.

Organizations can adopt a system of internal control review tailored to their needs, size and degree of centralization. The procedures for evaluating the adequacy of that system also vary, but at a minimum should:

1. Identify and clearly document the primary operating responsibilities (functions) of the agency or authority;
2. Define the objectives of these functions so they are easily understood by staff accountable for carrying out the functions;
3. Identify/document the policies and procedures used to execute functions;
4. Identify the major functions of each of the agency's assessable units;
5. Develop a process or cycle to assess risk and test controls for major functions;
6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions;
7. Test controls to ensure they are working as intended (see the "Manager's Testing Guide" which can be downloaded from BPRM Item B-350);
8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions.

For this requirement, NYSERDA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions NYSERDA has taken to comply with this requirement.

NYSERDA regularly reviews its internal control system and its policies and procedures. These reviews occur through an ongoing process of reviewing existing policies and procedures to ensure that the Authority's programs and support functions operate as efficiently as possible, while still maintaining appropriate safeguards. These reviews also occur as a result of reviewing new programs and initiatives.

Exceptions to the system of internal controls are generally identified to the Internal Control Officer who works with a representative from Counsel's Office, involved program or administrative staff to review the exception or deficiency, determine its cause, consider what changes in control systems are necessary for preventing future exceptions (or improving such deficiency), and then documents the analysis in writing, a copy of which is retained by the Internal Control Officer. Recommendations for changes to policies are also reviewed with the Director of Internal Audit. No significant deficiencies were identified during the year which required corrective action.

NYSERDA keeps its manuals on-line in its networked computer system and through an internally-accessible intranet site and to assist in searching relevant sections. The manuals are protected to enable staff to read and print materials as needed, but to prevent inadvertent changes or deletions.

Consistent with its internal control requirements, NYSERDA conducts periodic compliance testing to determine the extent to which staff follows prescribed policies and procedures. In conjunction with the Internal Control Officer, the testing program is planned and implemented. Transactions to be tested are identified, and key controls which support the controls, key controls and the testing method are identified. Any deficiencies are noted to determine the cause and effect of any noncompliance, and appropriate changes are recommended and implemented.

NYSERDA provides its Internal Control Manual and Code of Ethics, which summarize the Authority system of internal controls and establish expectations for employee conduct, to all new employees as part of orientation training. E-mail communications are sent to staff periodically reminding employees of the system of internal controls, their obligations to adhere to the Code of Conduct, and advising them that they must report any suspected fraud or abuse of policies to the Authority's independently-operated fraud and abuse hotline service. All changes to NYSERDA's policy and procedure manuals are communicated to staff.

Evaluation and monitoring is an activity which receives considerable attention at the Authority, particularly for the Authority's energy efficiency, renewable energy development, and research and development activities, which comprise the majority of the Authority's operations. The Authority uses a comprehensive program evaluation process which includes independent evaluation contractors who review programs to ensure they are appropriately designed and monitor reported achievements, and also perform project verification on a statistical sampling basis to review project reported benefits. The results of these evaluation and monitoring efforts are reported to stakeholders and the public.

Strategic planning activities are conducted annually as part of the Authority's program planning efforts, which are annually presented to and approved by the Board and its Program Planning Committee through a multi-year strategic program plan. These efforts also address requirements under the Public Authorities Law for public authority missions and outcomes reporting.

The Authority's internal audit activities continue to play an important role in the Authority's internal control program. The Director of Internal Audit works with executive management and the Audit and Finance Committee to establish an annual audit plan. Audit results are then reported to the Audit and Finance Committee and senior management.

NYSERDA uses a variety of communication activities to support its internal controls, including but not limited to:

- Senior management team meetings (generally at least once a month) and management team meetings (generally about once every two months) to discuss cross-cutting issues and initiatives and weekly meetings of the Authority's Officers.
- Departmental staff meetings and supervisor-staff meetings where department managers review activities and monitor status.
- Ad-hoc email communications which discuss initiatives and activities and allow communication, both between internal staff and outside stakeholders, among involved participants.
- Regular meetings with stakeholders and regulators (principally West Valley) to review status of NYSERDA activities.
- Program evaluation reporting provided to stakeholders and the public which summarizes program achievements and progress.

C. Make available to each officer and employee of the agency or authority a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of such agency or authority shall be expected to comply along with detailed policies and procedures the employees are expected to adhere to in completing their work. The statement should set the tone at the top. It should be issued periodically and emphasize the importance of effective internal controls to the agency or authority and the responsibility of each officer and employee for effective internal controls.

Managerial policies and procedures for the performance of specific functions are articulated in administrative manuals, employee handbooks, job descriptions and

applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

For this requirement, NYSERDA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions NYSERDA has taken to comply with this requirement.

As previously described, all of the Authority policy and procedure manuals, guides and handbooks are posted on an intranet site available to all staff. New staff are also provided with a training manual which summarizes general internal control principles which they are required to review and certify completion of upon hire.

D. Designate an Internal Control Officer (ICO), who shall report to the head of the agency or authority or to their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item. The designation of the ICO should be communicated to all employees.

The ICO works with appropriate personnel within the agency or authority to coordinate the internal control activities and to help ensure that the internal control program meets applicable requirements. Although the ICO evaluates the adequacy of the internal control reviews performed by agency or authority staff, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and analyzing and improving control systems. The ICO should be an individual with sufficient authority to act on behalf of the agency head in implementing and reviewing the agency's internal control program. This individual should have a broad knowledge of agency operations, personnel and policy objectives.

For this requirement, NYSERDA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions NYSERDA has taken to comply with this requirement.

The Board appointed Jeff Pitkin as Internal Control Officer in June 2001. Jeff also serves as Treasurer and Chief Financial Officer, providing sufficient authority to appropriately implement internal control responsibilities within the organizations.

E. Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Authorities should identify staff requiring internal control training and the depth and content of that training. Such education and training should be on-going with specific courses directed at line staff, middle managers and executive management. For organizations that have established internal audit functions,

training and education should be offered on the appropriate role of the internal auditor within the organization's internal control system.

For this requirement, NYSERDA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions NYSERDA has taken to comply with this requirement.

All Authority staff are provided the Authority's Internal Control Manual (which includes the State Internal Control Standards as an Appendix), Code of Conduct, and Conflict of Interest Guidelines, as well as providing access to all other policy and procedure manuals. These policy manuals provide a foundation for all employees to ensure that they are familiar with internal control concepts and the Authority's internal control-related programs, policies and procedures.

The State on-line internal control training program is required for all staff to complete annually.

F. Periodically evaluate the need for an internal audit (IA) function. If an IA function exists, it should be maintained in compliance with generally accepted professional auditing standards. Agencies on the Division of the Budget's list of agencies required to establish IA functions – and those choosing to have an IA function – are required to comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (see BPRM Item B-350 Section III "IA Responsibilities").

An internal audit unit should comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Therefore, IA units should comply with the guidance outlined below regarding organizational placement, independence and reporting.

1. Directors of Internal Audit (DIA) should report functionally to the agency head or audit committee and may report administratively to the designated executive deputy (or equivalent position). If the executive deputy has line or staff duties, the DIA should report directly to the agency head.
2. A current organizational chart should be available that identifies the placement of the IA unit, the individual that has responsibility for overseeing the internal audit activity and other organizations/activities under its purview.
3. The IA function should be independent of the ICO, but should work closely with the ICO. Limitations should be established on IC activities where those duties overlap. Agencies should identify impairments to the independence of the DIA that may be created where the DIA is performing the ICO function. Furthermore, IA units should not assume operating responsibilities, perform management functions, make management decisions or assume other monitoring roles (e.g., Information Security Officer).
4. Internal audit staff should complete an annual independence statement identifying actual/potential impairments to independence, if they exist, and notifying the DIA whenever a new actual/potential impairment arises.
5. At a minimum, DIAs should hold quarterly meetings with agency executive management and the audit committee, where applicable, to report on audit

- results. Final reports should be distributed to the agency head, executive deputy, auditee, ICO and the audit committee.
6. The DIA should assure that agency audit staff have the skills, knowledge and ability to perform the audit work required and that the size of the audit staff is appropriate given the size and complexity of the organization.
 7. A units should take steps to ensure sufficient audit resources are available given the size and complexity of the organization. This can be accomplished by exploring in-sourcing, outsourcing and sharing audit services.

For this requirement, NYSERDA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions NYSERDA has taken to comply with this requirement:

In September 2004, the Board appointed Mark Mitchell as Director of Internal Audit after a competitive recruitment. Mr. Mitchell reports directly to the Audit and Finance Committee of the Board for work activities, but reports to the President and CEO for administrative matters. The Internal Audit department also has two staff positions. The Internal Audit function has no duties which compromise its independence

Mr. Mitchell has a Bachelor's of Business Administration in Accounting and an MBA in Finance and Investments from George Washington University and has over 24 years of financial and accounting work experience, and is a Certified Internal Auditor (CIA). Mr. Mitchell meets continuing professional education by attending and occasionally presenting training.

The Authority completed a quality assurance review of Internal Audit activities by an external reviewer during FY 2016-17, consistent with requirements in internal auditing standards to be performed at least once every five years.

Following is a summary of the audits completed during FY 2016-17, consistent with the Audit Plan approved by the Audit and Finance Committee of the Board:

<i>Report Date</i>	<i>Name of Audit</i>	<i>Results Summary</i>
April 2016	Audit of NYSERDA's Contracting and Payment Process	Internal controls were effectively designed and implemented. Eleven opportunities for improvement were identified.
September 2016	Audit of NYSERDA's Solicitation Process	Controls for procurements are effective. One opportunity for improvement recommended.
December 2016	Follow up Review on NYSERDA's Recoupment Process	Recommendation in original report had been satisfactorily addressed.
January 2017	IT Equipment Audit	Internal controls were effective. Three opportunities for improvement were recommended.

January 2017	Information Security and Cyber Security Controls Review	Detailed, results were reported in executive session, but the Audit and Finance Committee reported that it was satisfied with the results of the review and that it demonstrated the strengths of NYSERDA's information security controls
March 2017	Audit of NYSERDA Contract Procedures	Internal controls were effective. Three opportunities for improvement were recommended.
March 2017	Quality Assessment Review of NYSERDA's Internal Audit Activity	The Internal Audit Activity "Generally Conforms" with auditing standards. (Highest Rating). Several recommendations and opportunities for improvement identified.

For each of the above completed audits, the Director of Internal Audit provided a report to the Audit and Finance Committee summarizing the results of the audit. Completed audits result in a written audit report, which includes a written response from management addressing any recommendations identified in the audit report. Recommendations contained in audits during FY 2016-17 have been implemented, or are in the process of being implemented. Management has agreed to implement all recommendations contained in the audit reports issued.