

MINUTES OF THE ONE HUNDRED SIXTEENTH MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON APRIL 23, 2013

Pursuant to notice dated April 2, 2013 and revised notice dated April 23, 2013, the one hundred sixteenth (116th) 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 Tuesday, April 23, 2013, 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 Albany Office at 17 Columbia Circle, Albany, New York, and by video conference in the Authority’s Buffalo Office at 726 Exchange Street, Suite 821, Buffalo, New York.

The following members of the Committee were present in New York City, unless otherwise indicated:

Robert B. Catell, Chair

George F. Akel, Jr. (by video conference from Albany)

David D. Elliman

Also present were Francis J. Murray, Jr., 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; Ken Deon and Gary Miller from KPMG, LLP; and various other staff of the Authority.

Mr. Catell called the meeting to order and noted the presence of a quorum. The first item on the agenda concerned the approval of the minutes of the one hundred fifteenth (115th) meeting of the Committee held on January 28, 2013.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the one hundred fifteenth (115th) meeting of the Committee held on January 28, 2013, were approved.

Mr. Catell said that the next item on the agenda concerned the independent audit of the Authority's financial statements for fiscal year 2012-13. Mr. Pitkin stated that, pursuant to Section 2802 of the Public Authorities Law, the Authority's independent auditor is required to report to the Committee on a timely basis: all critical accounting policies and practices to be used in conducting the independent audit; all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management; and other material written communications between the auditors and management. Consistent with these requirements, Ken Deon, Audit Engagement Partner, and Gary Miller, also from KPMG, LLP, addressed the Committee.

Mr. Deon discussed the timeline and the focus of the audit and gave a description of the accounting standards to be used. The independent auditors will review the Authority's financial statements for fiscal year 2012-2013, as well as the Authority's post-employment health insurance benefit trust. The independent audit will begin at the end of April 2013 and will be completed by the middle of May 2013. The audit will follow both Generally Accepted Auditing Standards and Governmental Auditing Standards promulgated by the Comptroller General of the United States. The audit will assess and test controls over investments, payroll procedures, procurement procedures, and disbursements relating to contracts; review revenues, receivables, and expenditures allocation by program; assess accrued liabilities; review cash and investments; and review financial reporting.

Mr. Catell indicated that the next item on the agenda was a report from the Authority's Internal Control Officer to consider proposed amendments to the Authority's Internal Control Manual. Mr. Pitkin explained that the proposed amendments include adding policies addressing Project Sunlight and the Authority's use of discretionary funds, and various updating, editorial, and clarifying changes.

The Internal Control Manual sets forth the Authority's policies and procedures for ensuring an effective system of internal controls. The Board is responsible for approving all modifications to the Internal Control Manual.

The Internal Control Manual is being amended to reflect new government transparency requirements imposed by Project Sunlight, which was established as part of the Public Integrity Reform Act of 2011. The requirements of Project Sunlight were discussed with the Members at the January 2013 Board meeting.

The Internal Control Manual is also being amended to establish a policy for determining the appropriate use of the Authority's discretionary funds, based upon guidance issued by the Authorities Budget Office ("ABO"). The ABO guidance explicitly requires all public authority boards to adopt written policies that specifically delineate the proper use of an authority's discretionary funds. In addition to providing specific examples of inappropriate uses of discretionary funds, the new section states that the use of discretionary funds must advance the mission of the Authority and may not be used to support the private or personal interests of the Authority's Members, Officers, or employees. The amendments to the Internal Control Manual provide additional clarification to the Authority's already existing policies regarding the expenditure of discretionary funds.

Mr. Pitkin concluded his report by explaining that consistent with requirements of the Internal Control Manual, as Internal Control Officer he will be convening a multi-disciplinary staff working group to review the Authority's policies and procedures to ensure that they reflect current practices, that they provide appropriate and effective internal controls, and to incorporate any necessary editorial or clarifying changes. This comprehensive and formal review of the Authority's internal control systems supplements the ongoing assessments which occur on a regular basis. Any additional proposed changes to the Internal Control Manual resulting from this review will be presented at a future meeting.

Mr. Elliman and Mr. Akel indicated that the Governance Committee discussed whether the Members have a process and opportunity to adequately review staff compensation as

required by the Authority's Internal Control Manual. Mr. Pitkin indicated that he would provide the Members with a report on Authority compensation at the next meeting.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 389

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the resolution submitted to the Committee (attached as Exhibit A), approving and adopting the Internal Control Manual (April 2013), substantially in the form submitted to the Committee.

Mr. Catell then called upon Mark Mitchell, Director of Internal Audit, to provide the Committee with a report on his recent activities. Mr. Mitchell reported that the Authority just completed its fiscal year on March 31, 2013. He indicated that Internal Audit had a good year, and he will provide the Annual Internal Audit Report during the next Committee meeting, in June 2013.

Mr. Mitchell explained that Internal Audit has three audits and one other matter in progress.

First, the audit field work for the data quality audit of the Existing Facilities Program has been completed, and a preliminary draft was provided to Program management and certain administrative staff for review and comment. Because of the complexity and length of the audit, a revised preliminary draft has just been sent out for any final comments. The revisions did not have a significant effect on the recommendations; therefore, a final draft report should be issued to the Members before the June 2013 Committee meeting.

Next, Mr. Mitchell reported that the audit field work for the audit of the FlexTech Program's internal controls is just being completed, and Internal Audit is already drafting the preliminary audit report. Mr. Mitchell anticipates issuing a final report by July 2013.

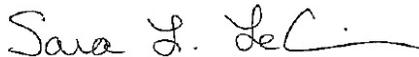
Mr. Mitchell stated that the field work for the third audit, a review of the Authority's recoupment process, is now complete. The preliminary draft report is being drafted, and Mr. Mitchell anticipates issuing a final report by late July 2013.

Mr. Mitchell indicated that once the FlexTech and recoupment process audits are complete, Internal Audit staff will begin two more audits that were approved by the Members in June 2012 as part of the Internal Audit Plan for Fiscal year 2012-2013. Both are audits of large contracts the Authority has for implementation services.

Lastly, Mr. Mitchell indicated that the other matter in progress is the handling of a complaint referred to the Authority by the Office of the Inspector General. The Committee received a report on this matter during the January 2013 Committee meeting. Some initial work had been performed on this matter before having to place resources on the data quality audit. Now that the data quality audit is in its final stages, Mr. Mitchell has resumed the work on this complaint. Accounting for the availability of staff and gathering of additional facts, Mr. Mitchell anticipates completing the field work in the next three weeks and completing the report shortly afterwards. Therefore, Mr. Mitchell plans to provide a final report on the results of the investigation during the June 2013 Committee meeting.

Mr. Catell stated that the last agenda item concerned other business. There being no further business, upon motion duly made and seconded, and by unanimous voice vote, the meeting was adjourned.

Respectfully submitted,



Sara L. LeCain
Secretary to the Committee

REVISED NOTICE OF MEETING AND AGENDA

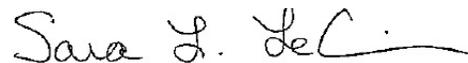
April 23, 2013

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one-hundred sixteenth (116th) meeting of the AUDIT AND FINANCE COMMITTEE of the New York State Energy Research and Development Authority (“Authority”) will be held 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 Albany Office at 17 Columbia Circle, Albany, New York, and by video conference in the Authority’s Buffalo Office at 726 Exchange Street, Suite 821, Buffalo, New York, on Tuesday, April 23, 2013, commencing at 11:00 a.m., for the following purposes:

1. To consider the Minutes of the 115th meeting held on January 28, 2013.
2. To discuss the independent audit of the Authority’s financial statements and the Authority’s OPEB Trust for fiscal year 2012-13.
3. To receive a report from the Internal Control Officer and to consider and act upon a resolution approving amendments to the Internal Control Manual.
4. To receive a report from the Director of Internal Audit on recent internal audit activities.
5. 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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NOTICE OF MEETING AND AGENDA

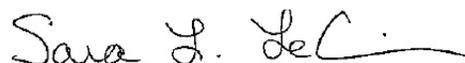
April 9, 2013

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Sara L. LeCain
Secretary to the Committee

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Exhibit A

Resolution No. ____

RESOLVED, that the amendments to the Internal Control Manual, as submitted at this April 23, 2013 meeting, are hereby approved and adopted.