

MINUTES OF THE ONE HUNDRED FIFTEENTH MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON JANUARY 28, 2013

Pursuant to notice dated January 11, 2013, a copy of which is annexed hereto, the one hundred fifteenth (115th) meeting of the Audit and Finance Committee (“Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (“Authority”) was convened at 11:00 a.m. on Monday, January 28, 2013, in the Authority’s Albany office at 17 Columbia Circle, Albany, New York; and by video conference in the Authority’s New York City office at 485 Seventh Avenue, 10th floor, New York, New York; and by video conference in the Authority’s West Valley Office at 9030-B Route 219, West Valley, New York.

The following members of the Committee were present in Albany, unless otherwise indicated:

Robert B. Catell, *Chair* (by video conference in New York City)

George F. Akel, Jr.

David D. Elliman (by video conference in New York City)

Also present were Authority Members Elizabeth W. Thorndike, Ph.D. and Kevin Burke; Francis J. Murray, Jr., President and CEO; Thomas Barone, Acting Vice President for Operations and Energy Services; Janet Joseph, Vice President for Technology and Strategic Planning; Jeffrey J. Pitkin, Treasurer; Hal Brodie, Esq., Secretary and General Counsel; Sara L. LeCain, Esq., Senior Counsel and Secretary to the Audit and Finance Committee; Mark B. Mitchell, Director of Internal Audit; C. Vane Lashua, New York State Bridge Authority; and various other members of the staff of the Authority.

Mr. Catell called the meeting to order and noted the presence of a quorum. He stated that the meeting notice and agenda were mailed to the Committee members and press on January 11, 2013.

Mr. Catell indicated that the first item on the agenda concerned the approval of the minutes of the one hundred fourteenth (114th) meeting of the Committee held on September 24, 2012.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the minutes of the one hundred fourteenth meeting of the Committee held on September 24, 2012, were approved.

Mr. Catell indicated that the next item on the agenda was a report on various audits and investigations of the Authority. First, the Authority's Treasurer, Jeffrey J. Pitkin, discussed two audits by the Office of the State Comptroller ("OSC").

The first is an audit of discretionary spending. On July 31, 2012, the Authority was notified by OSC that it intended to schedule a series of audits focused on the operation of the State's public authorities. OSC requested that each public authority provide an electronic data file with two years' worth of paid expenditure transactions, corporate credit card transactions, travel expenditure payments, and other information. The Authority responded to this informational request on September 1, 2012.

On September 28, 2012, the Authority was informed by OSC that it was scheduling an audit of the Authority's discretionary expenses, including, but not limited to, conferences, training, credit card purchases, and travel and entertainment. Authority staff had an opening conference meeting with OSC staff on October 10, 2012, and learned that based on the previously submitted transactional detail files, OSC had scheduled follow-up audits for eight authorities, including the Authority. OSC staff indicated that they hoped to complete the audit by the end of 2012.

The audit field work commenced on October 16, 2012, and work still continues. This audit has been carried out a little differently than prior OSC audits. Rather than testing general controls over expenditures, OSC staff are testing a rather large number of transactions which

were judgmentally selected. OSC staff have raised questions about certain transactions and certain categories of expenditures. The Authority is awaiting a closing conference to discuss the audit findings and recommendations. Once the draft report is received and management has provided a response, the result will be shared with the Members.

Next, Mr. Pitkin discussed the second audit, which is an audit of the achievement of energy efficiency goals under Executive Order No. 111. The Authority was notified by OSC of the audit on November 7, 2012. An opening conference meeting with staff was held on November 26, 2012, and audit field work started shortly thereafter. The audit is expected to last about three months.

In response to an inquiry from Mr. Catell, Mr. Murray indicated that the Authority has amended its policies and practices based upon guidance issued by the Authorities Budget Office. Mr. Pitkin explained that the OSC audit focuses on the Authority's discretionary spending and whether that spending accomplishes the Authority's Mission.

Next, Hal Brodie, the Authority's General Counsel, explained that the Inspector General's ("IG") office is looking into two matters at the Authority.

With respect to one of those matters, the IG's office sent the Authority a letter containing allegations received by the IG in an anonymous e-mail complaint. The complaint alleges that Mr. Murray, Mr. Pitkin, and Mr. Brodie, along with several Authority staff members, have abused the Authority's funding by hiring contractors, temporary personnel, and interns to "conduct day-to-day operations". In addition, the complaint alleged that the Authority was overpaying these contractors and temporary personnel. The complaint further alleges that these individuals have improper access to certain information on the Authority's computer systems. Finally, the complaint alleges that the Authority plans to replace the computer financial system it installed a few years ago, further wasting the Authority's funding.

The IG referred the matter to the Authority for review and appropriate action. Once complete, the Authority will advise the IG of the results.

Authority management does not believe that any improper actions were taken in these areas, but given that Mr. Murray, Mr. Pitkin, and Mr. Brodie are individually named in the complaint, they have recused themselves from the internal review. Mark Mitchell, the Authority's Director of Internal Audit, is reviewing the allegations. He will respond to the IG's office and report back to the Committee when that review is complete.

With respect to the other matter, the IG's office has not provided the Authority with a copy of any complaint. The Authority has not been informed by the IG's office of the precise nature of the concerns. However, based upon the document requests staff have received from the IG, as well as the questions that have been asked by the IG investigator, staff believes that the IG is looking into procurements relating to a certain contractor and whether any favoritism was shown to that contractor or whether that contractor had any unfair advantage in procuring three Authority contracts in the last ten years. Staff is cooperating fully with the investigation. After a thorough review, it is management's opinion that all of the Authority's contracts with this contractor were proper and complied with the Authority's procurement guidelines.

Management is not sure of the IG's schedule for completing its review of this matter, but if and when the IG provides the Authority with the results, they will be provided to the Committee.

Mr. Catell indicated that the next item on the agenda was a report from Mark Mitchell, the Director of Internal Audit. Mr. Mitchell discussed the results of the audit of GMMB Inc.'s ("GMMB") agreement with the Authority. Through this agreement, GMMB designed and implemented a multi-year, multifaceted, statewide outreach and education program in support of the New York State Public Service Commission's Energy Efficiency Portfolio Standard ("EEPS") initiative and other energy-related issues.

The Authority administers the agreement by performing procurement and billing payment functions. The Department of Public Service's ("DPS") Office of Consumer Policy provides program oversight, as well as invoice review and approval.

The audit was comprised of two significant components: an evaluation of GMMB's performance and compliance with the agreement's billing terms and conditions; and an internal controls review, which evaluated the effectiveness of program staff's oversight of the agreement.

The period evaluated was from inception of this agreement, November 4, 2009, through April 30, 2012. During the period audited, the Authority made payments of approximately \$12 million.

The audit found that management and staff from DPS are doing a commendable job of managing and monitoring the activities of GMMB, as well as carefully reviewing and approving invoices. Authority staff are conscientiously performing billing review and payment functions.

In addition, the audit found that GMMB has good internal controls over its billing practices. Direct expenses were reasonable and supported. Hourly rates were correct, and, not only were the amount of hours billed adequately supported by GMMB's recordkeeping, but GMMB had regularly reviewed and reduced the hours they billed compared to the actual hours GMMB staff had indicated they had worked. For example, adjustments were made to reduce hours billed by a new employee if a task took the employee longer than GMMB's management thought was reasonable.

Mr. Mitchell explained that in order to handle the outreach and consulting tasks associated with this agreement, GMMB, with concurrence from DPS, hired field organizers, who were responsible for things such as recruiting and engaging community and grassroots organizations, connecting community based organizations with energy efficiency programs, planning and promoting energy efficiency awareness events. The field organizers were hired as subcontractors and received a monthly stipend for the work they performed. There was

sufficient evidence that stipends paid to field organizers were reasonable for the amount of work performed.

The audit concluded that DPS staff had implemented effective contract monitoring controls. Not only had project activities been adequately monitored, but direct expenses had been carefully reviewed and costs questioned when appropriate. There was ample evidence that the DPS management and staff conscientiously managed the activities and costs associated with the agreement.

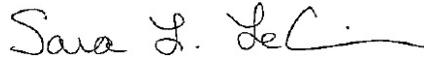
There are no questioned costs that resulted from this audit, and there were no significant exceptions. There were no recommendations, and management from both DPS and the Authority concurred with the report.

Next, Mr. Mitchell announced that Internal Audit has hired one additional internal auditor. The internal auditor formerly worked in internal audit at the New York Independent System Operator for a number of years. He is a certified public accountant with several years of experience working for Price Waterhouse Coopers LLP.

Mr. Mitchell concluded his report by indicating that in accordance with the Annual Audit Plan that was approved by the Members in April 2012, Internal Audit currently has three audits in progress. The first is a data quality audit, which is almost complete and should be provided to the Members before the next Committee meeting. The second audit is a review of the Authority's recoupment activities, which will assist in identifying the opportunities for making improvements to the current process. The final report should be complete and provided to the Committee prior to the June 2013 Committee meeting. The last audit is an audit of the Flex Tech Program, which Mr. Mitchell hopes to complete in time for the June 2013 Committee meeting.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Sara L. LeCain". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Sara L. LeCain
Secretary to the Committee

NOTICE OF MEETING AND AGENDA

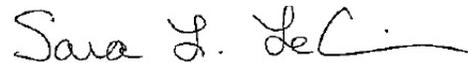
January 11, 2013

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundred fifteenth (115th) meeting of the AUDIT AND FINANCE COMMITTEE of the New York State Energy Research and Development Authority will be held in the Authority's Albany Office at 17 Columbia Circle, Albany, New York, and by video conference in the Authority's New York City Office at 485 Seventh Avenue, 10th Floor, New York, New York, and by video conference in the Authority's West Valley Office at 9030-B Route 219, West Valley, New York, on Monday, January 28, 2013, commencing at 11:00 a.m., for the following purposes:

1. To consider the Minutes of the 114th meeting held on September 24, 2012.
2. To receive a report on various audits and investigations of the Authority.
3. To receive a report from the Director of Internal Audit on recent internal audit activities.
4. 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 Audit and Finance Committee

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