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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 5, 2015

Mr. Richard L. Kauffman
Chairman
NYS Energy Research and Development Authority
17 Columbia Circle
Albany, NY 12203

Re: Accounts Receivable Collection and
Reporting
Report 2015-S-35

Dear Chairman Kauffman:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law, we audited the NYS Energy Research and Development Authority's (Authority) accounts receivable collection and reporting activities for the period January 1, 2012 through June 30, 2015.

Background

The Authority's mission is to advance innovative energy solutions in ways that improve New York's economy and environment by promoting energy efficiency and the use of renewable energy sources. These efforts are key to developing a less polluting and more reliable and affordable energy system for all New Yorkers. Collectively, the Authority's efforts aim to reduce greenhouse gas emissions, accelerate economic growth, and reduce customer energy bills. Governed by a 13-member Board, the Authority has sought to provide objective information and analysis, technical expertise, and support in New York State since 1975.

The Authority is advancing a comprehensive clean energy program portfolio that seeks to develop and deploy new and innovative technologies to help New York State meet its energy needs. Its programs are organized into five portfolios, each representing a complementary group of offerings with common areas of energy-related focus and similar objectives:

- Energy Efficiency and Renewable Energy Deployment
- Energy Technology Innovation and Business Development
- Energy Education and Workforce Development
- Energy and the Environment
- Energy Data, Planning, and Policy

The Authority recently experienced one of the largest increases in accounts receivable balances of any State public authority. Between fiscal years 2011-12 and 2013-14, the Authority's financial statements showed an increase in accounts receivable from third-party billings from \$22.1 million to \$135.6 million. We therefore audited the Authority's accounts receivable collection and reporting activities to determine if they were in compliance with applicable laws and regulations.

Results of Audit

We concluded that the temporary rise in the Authority's accounts receivable balance was attributable to a deferred two-year collection schedule established in October 2011 by the Public Service Commission for utility charges associated with its newly enacted Energy Efficiency Portfolio Standard 2. Accounts receivable balances have since returned to more traditional levels. We also found that the Authority's accounts receivable collection and reporting practices are in compliance with applicable laws and regulations. As required, the Authority documented its multiple efforts to collect any past due accounts, and referred to the Office of the Attorney General the accounts more than 120 days past due that it was unable to collect.

Accounts Receivable Increase

The Authority's accounts receivable policies and procedures conform to the requirements of Chapter 55 of the Laws of 1992, concerning requirements to enhance the collection of non-tax debt, and the Guidelines for Accounts Receivable Management and Collection contained in the Division of the Budget's *Budget Policy and Reporting Manual*.

The Authority has experienced one of the largest increases in third-party billing accounts receivable balances of any State public authority, increasing from \$22.1 million to \$135.6 million between fiscal years 2011-12 and 2013-14. We found a large percentage of this increase was due to a \$111.7 million receivable recorded for the Energy Efficiency Portfolio Standard 2 (EEPS2) program over the two years.

The EEPS2 portfolio represents an extension of funding authorized by the Public Service Commission (PSC) for the period January 1, 2012 to December 31, 2015, which is collected via the System Benefits Charge levied on customers of investor-owned utilities in New York State. The Authority uses the revenue to administer various electric and gas energy efficiency programs to help New York State achieve its aggressive energy efficiency goals, including programs to motivate increased efficiency in energy consumption by consumers (residential, commercial, municipal, institutional, industrial, and transportation) and to support market transformation.

To control the timing and collection of revenues from the EEPS2 program, the PSC issued an Order on October 25, 2011. This Order set up a deferred collection schedule both to keep the Authority's excess cash levels low and to mitigate collection levels for the organizations responsible for paying the Authority. However, the Authority actually incurred more expenses than the amount of revenue it had collected as of March 31, 2013 because of the deferred collection schedule. Consequently, after making an assessment of authoritative accounting standards and

consulting with its external financial statement auditors, the Authority decided to record the \$111.7 million receivable.

As of March 31, 2015, the final \$19.9 million of this receivable was collected. In the interim, since total collections have exceeded expenses by approximately \$25.1 million, there has been no need to record additional receivables for uncollected revenues. As a result, the Authority's accounts receivable balance returned to a more traditional level of \$21.7 million as of March 31, 2015.

Compliance Testing

As of March 31, 2015, the Authority had a total of 184 billed receivables outstanding, including both current and past due accounts. We judgmentally sampled five receivables referred to the Office of the Attorney General, five receivables past due and outstanding, and five receivables that subsequently had been paid. These 15 accounts receivable accounted for \$11.6 million (53.5 percent) of the \$21.7 million total accounts receivable amount. We found that the Authority generally complies with the applicable laws and regulations. As required, the Authority documented its multiple efforts to collect any past due accounts, and referred to the Office of the Attorney General the accounts more than 120 days past due that it was unable to collect.

Audit Scope, Objective, and Methodology

We audited the Authority's accounts receivable collection and reporting activities to determine if they were in compliance with applicable laws and regulations for the period January 1, 2012 through June 30, 2015. To achieve our objective, we interviewed Authority officials and reviewed laws and Division of the Budget regulations related to accounts receivable. Additionally, we tested individual accounts receivable records to determine whether the Authority's practices comply with applicable laws and regulations. The scope of our audit work on internal controls focused on those controls over the accounts receivable processes.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

We discussed the results of our audit and shared a preliminary version of this report with Authority officials, who agreed with our conclusions and declined the opportunity to provide formal written comments to be included in this final report.

Major contributors to this report include Brian Reilly, Todd Seeberger, Mike Cantwell, Matt Luther, and Andrew Philpott.

We wish to thank the Authority's management and staff for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

John Buyce, CPA, CIA, CFE, CGFM
Audit Director

cc: Jeffrey Pitkin, Treasurer, NYSERDA
Division of the Budget