MINUTES OF THE
39TH MEETING OF THE
TOBACCO SETTLEMENT FINANCING CORPORATION
AUDIT COMMITTEE
HELD ON TUESDAY, DECEMBER 9, 2014 AT 9:00 A.M.
AT ITS OFFICES AT 9:00 A.M.
641 LEXINGTON AVENUE
NEW YORK, NY 10022

MEMBERS AND DESIGNEES

PRESENT:

Kenneth M. Bialo	Committee Chairman
Andrew A. SanFilippo	Member (via video conference)
Elaine McCann	New York State Division of the Budget, Representing Robert Megna, Member (via videoconference)

Mr. Bialo presided over the meeting.

Mr. C. Jason Kim, Senior Vice President and Counsel to the Agencies, acted as Secretary. He noted that Ms. Elaine McCann, representing Budget Director, Robert Megna, and Christopher Curtis in his role as designee of Commissioner Mattox, New York State Department of Taxation and Finance were attending the Audit Committee meeting via video conference from the New York State Division of Budget conference center at the Capitol Building, Room 131 in Albany; Mr. Andrew A. SanFilippo was attending the meetings from the Agencies' Buffalo Regional Office at Electric Tower, 535 Washington Street, Suite 105. A public notice was given of the time and location of the venues in accordance with the New York State Open Meetings Law.

Mr. Kim asked for motions and seconds to call the Audit Committee meetings to order of the New York State Housing Finance Agency (HFA); the New York State Affordable Housing Corporation (AHC); the State of New York Mortgage Agency (SONYMA); the State of New York Municipal Bond Bank Agency (MBBA) and the Tobacco Settlement Financing Corporation (TSFC). Commissioner Towns moved to call the HFA and AHC meetings to order; Ms. McCann seconded the motion. Ms. McCann moved to call the SONYMA meeting to order; Commissioner Towns seconded the motion. Mr. Bialo moved to call the MBBA and TSFC meetings to order; Mr. SanFilippo seconded the motion.

Mr. Kim stated that as items are presented to each Committee throughout the meetings, these motions and seconds, will be used, unless specific items call for a different vote, or unless any Committee Member wishes to record his or her vote differently.

The meetings of the Audit Committees of the affiliated agencies were opened in joint session for the consideration of various matters of shared importance. These minutes reflect only those items being considered by the Members of the Tobacco Settlement Financing Corporation (TSFC). The record of items considered by the Audit Committees of the other affiliated agencies is contained in the minutes of each Committee respectively.

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Mr. Kim stated that Kenneth M. Bialo is the Audit Committee Chairman for MBBA and TSFC; and that Commissioner Darryl C. Towns is the Audit Committee Acting Chairman for HFA and AHC and that he will also be the Audit Committee Acting Chairman for SONYMA in the absence of Mr. Anthony Bergamo, SONYMA Audit Committee Chairman

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Mr. Kim stated that for purposes of convenience and to make sure the meetings of the respective agencies go smoothly, items shared by one or more of the Agencies will be presented by Mr. Kenneth M. Bialo, Audit Committee Chairman for MBBA and TSFC.

The first item on the agenda was the adoption of the minutes of the 38th TSFC Audit Committee meeting held on September 9, 2014. Absent comments or corrections from the Members, the minutes were deemed approved.

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The next item on the agenda was a resolution reviewing and approving Internal Audit Staff Functions. Mr. Stephen B. Chopey, Vice President, Internal Audit discussed the Internal Audit Function and reviewed the request for authorization to approve the internal audit staff functions by highlighting the first paragraph of his report, which addressed: (a) purpose and authority, (b) annual audit plan, budget and staffing, (c) the appointment and compensation of the Agencies' Vice President in charge of internal audit; (d) reports from the internal audit staff and the Agencies' Vice President in charge of internal audit directly to the Audit Committees, and (e) procedures for implementing accepted recommendations of the Independent Auditor.

Mr. Chopey reported that the internal audit group prepares an annual audit plan for the twelve-month period ending March 31st. He stated that the audit plan for the period April 1, 2014 to March 31, 2015 was approved by the Audit Committees at their respective meetings held on April 8, 2014. He stated that on a quarterly basis, the Vice President of Internal Audit prepares a report addressed to the respective Chairpersons of the Audit Committees, and the Members and Directors updating the Committees on the audit reports issued, audits in progress, any special projects and a summary of audit responses. Mr. Chopey also stated that on a regular basis, audit reports and management's responses are presented to the Audit Committees for acceptance and approval. He said that in addition, an annual report is prepared highlighting any unresolved audit findings, which are monitored by audit staff until their final resolution.

Mr. Chopey stated that the department has four (4) staff members and three (3) associate auditors. MBBA/TSFC Director/Member, Mr. SanFilippo asked if Mr. Chopey's department is sufficiently staffed. Mr. Chopey responded in the affirmative noting that one staff member will be going on

maternity leave. Commissioner Mattox observed that temporary support may be necessary. Mr. Chopey agreed, noting that succession planning is also being considered.

Considering the first and second motions previously entered, the motions were carried, and the following resolution was unanimously adopted:

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY STATE OF NEW YORK MORTGAGE AGENCY NEW YORK STATE AFFORDABLE HOUSING CORPORATION STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION AUDIT COMMITTEES REVIEWING AND APPROVAL INTERNAL AUDIT STAFF FUNCTIONS

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The next item on the agenda was a resolution approving Internal Audit's Information Technology ("IT") Audit Report. Mr. Chopey reported that an examination of the data center operations and system of internal control for the Agencies' Information Technology Department was conducted effective January 31, 2014. He reported that since the last IT Audit, significant changes have occurred with the Agencies' IT Department as follows:

1) The former Chief Information Officer's ("CIO") responsibilities were reassigned, and that individual was replaced with an Acting CIO.
2) The software application development and programming functions have been reassigned back to the Agencies from DHCR.

Mr. Chopey stated that the IT Department currently consists of seven (7) staff members, comprising management and technical support. He stated that there are four (4) programming consultants and two (2) consultants working in technical support. He stated that the overall responsibility of the department is to ensure the operational efficiency of the Agencies' computer hardware system and software applications, including the personal computer functions. He said it is also responsible for physical security, system development, program enhancements, maintenance of documentation, interaction with vendors for external governmental-related projects, and disaster recovery planning. He said that in summary, the audit included a review of the department structure and a review of the software applications.

Mr. Chopey noted the result of the audit was that the objectives were met and internal controls are in place. He referred to the seven (7) items of recommendations and management responses.

MBBA/TSFC Committee Chairman, Mr. Bialo asked Mr. Chopey if he was comfortable with the responses. Mr. Chopey responded in the affirmative. MBBA/TSFC Director/Member, Mr. SanFilippo asked if some of the recommendations were implemented. Mr. Chopey stated that a number have been implemented. Mr. Chopey noted that there has been reestablishment of a security committee and strengthening of security access controls by performing penetration tests on the firewall configuration that protects the infrastructure technology data and that this two-year test is performed to determine how secure the firewall is against attacks that are likely to be launched by network intruders, etc. He also said that the Business Continuity Committee has been created and the Information Technology Steering Committee has been reinstated.

Ms. McCann asked about the status of hiring a full-time CIO. It was explained that Ken Kramer the Agencies' full-time CIO has been hired, and that he started in late July 2014. Mr. Kramer then addressed the Membrs' questions.

HFA/AHC Committee Member, Commissioner Mattox inquired about the adoption of standardization of email platforms and whether there has been an effort to research statewide opportunities that provide savings.

Mr. Kramer explained that the Agencies have been working closely with other State Agencies and has begun a data system migration process that appears to be running smoothly. He also stated that domain controls are being set up and the hardware is being upgraded.

Mr. Bialo asked about disaster recovery and the inclusion of pandemic recovery. It was explained that the Agency is in the process of moving forward on that plan and that pandemic testing was done during the April to May, 2014 period. Mr. Chopey reported that IT management plans to strengthen its internal controls by updating the Disaster Recovery/Business Continuity/Pandemic Plan manual. He said that overall, there are a number of policies and policy manuals and procedures that are being continually updated as deemed necessary.

HFA/AHC Committee Member, Commissioner Mattox noted his experience in this area, and offered the expertise of his internal IT to confer with if helpful. Ms. Sharon Devine, President, Office of Professional Services, assured everyone that joint efforts are being made in this regard.

Considering the first and second motions previously entered, the motions were carried, and the following resolution was unanimously adopted:

A RESOLUTION OF THE AUDIT COMMITTEES OF THE NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION, REVIEWING AND APPROVING INTERNAL AUDIT'S INFORMATION TECHNOLOGY AUDIT REPORT

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The next item on the agenda was a resolution approving the Audit Committees' Action Plan for 2015. Mr. Gary Weinstock, Vice President/Comptroller, presented the 2015 Action Plan for the Committees. He first reported on what the Committees had accomplished in 2014. He reported that the Members/Directors of the Audit Committees: (i) reviewed and approved the follow-up audit of 2012 audit reports, (ii) recommended approval of the Fiscal year 2013 (2014 for AHC) Audited Financial Statements for all of the Agencies, (iii) recommended approval of the Fiscal year November 1, 2014 to October 31, 2015 Administrative budget and each Agency's Financial Plan, (iv) reviewed and approved various Internal Audit group audit reports, (v) approved the annual Internal Audit Work Plan, (vi) received information on various items including the Independent Auditor's Report to Management, (vii) recommended approval of the Independent Auditor's Report relating to the

Schedule of Expenditures of Federal Awards for HFA and SONYMA; and received presentations from the Comptroller on accounting policy.

He said that the Membrs are requested to approve the 2015 Action Plan for the period from January 1, 2015 through December 31, 2015.

Mr. Chopey noted that Ernst & Young's contract will expire and another Request for Proposal will be issued. MBBA/TSFC Committee Chairman, Mr. Bialo asked if there was a difference between the 2014 and 2015 schedules. He also inquired about the status of a particular software vendor that the Agency has done business with but has been problematic. Mr. Kramer explained that the Agency is in the process of upgrading the system with emphasis on a lot more security among passwords which is slated to be completed by early January 2015. With regards to the vendor's performance, Mr. Kramer stated that the operational issues with the vendor had been resolved, but noted that the overall plan is to replace all of the systems. Commissioner Mattox, explained that his Agency has gone through the revamping process and the Agencies can take advantage of, if it so chooses, of the experience gained from that exercise.

Considering the first and second motions previously entered, the motions were carried, and the following resolution was unanimously adopted:

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY NEW YORK STATE AFFORDABLE HOUSING CORPORATION STATE OF NEW YORK MORTGAGE AGENCY STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION AUDIT COMMITTEES APPROVING AN ACTION PLAN FOR THE PERIOD FROM JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

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There being no unfinished business, Ms. McCann moved to adjourn; Mr. Bialo seconded the motion and the meeting was adjourned at 9:40 a.m.

Mr. Kim announced that the next Audit Committee meeting would be held on Tuesday, January 27, 2015 at 9:00 a.m.

C. Jason Kim, Secretary